

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

or

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

For the transition period from _____ to _____

Commission File Number: **000-55136**

Skye Bioscience, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(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)

5910 Pacific Blvd, San Diego, CA 92121

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

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

Title of each class

None

Trading Symbol(s)

None

Name of each exchange
on which registered

None

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

Title of each class

Common Stock, par value \$0.001

Trading Symbol(s)

SKYE

Name of each exchange
on which registered

OTCQB

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 11, 2022, there were 912,195,626 shares of the issuer's \$0.001 par value common stock issued and outstanding.



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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q contain forward-looking statements that are based on management's current expectations and assumptions and information currently available to management and are subject to risks and uncertainties. If such risks or uncertainties materialize or such assumptions prove incorrect, our business, operating results, financial condition and stock price could be materially and negatively affected. In some cases, you can identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," "will," "would" or the negative of these terms or other comparable terminology. Factors that could cause actual results to differ materially from those currently anticipated include those set forth in the section below titled "Risk Factors," including, without limitation, risks relating to:

- the results of our research and development activities, including uncertainties relating to the discovery of potential product candidates and the preclinical and clinical testing of our product candidates;
- the early stage of our product candidates presently under development;
- our need for substantial additional funds in order to continue our operations, and the uncertainty of whether we will be able to obtain the funding we need;
- our ability to obtain and, if obtained, maintain regulatory approval of our current product candidates, and any of our other future product candidates, and any related restrictions, limitations, and/or warnings in the label of any approved product candidate;
- our ability to retain or hire key scientific or management personnel;
- our ability to protect our intellectual property rights that are valuable to our business, including patent and other intellectual property rights;
- our dependence on University of Mississippi, third party manufacturers, suppliers, research organizations, testing laboratories and other potential collaborators, 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 approved product candidates, and the rate and degree of market acceptance of any of our approved product candidates;
- competition in our industry;
- the residual impacts of the novel coronavirus ("COVID-19") pandemic, or responses to a future pandemic on our business, clinical trials or personnel;
- regulatory developments in the United States and foreign countries; and
- any other strategic and financial benefits in connection with the Arrangement Agreement (as defined below), including any anticipated future results and pro-forma financial information relating to the resulting issuer and the sale of the historical assets of EHT, including, the expected timing of the closing of the Verdélite SPA (as defined below) and the ultimate liquidation value of EHT.

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 residual impacts of the COVID-19 pandemic, the current global economic environment, including 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.

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2022 (Unaudited)	December 31, 2021 (Note 2)
ASSETS		
Current assets		
Cash	\$ 415,389	\$ 8,983,007
Restricted cash	4,574	4,571
Prepaid expenses	708,477	554,217
Prepaid expenses - related party	—	13,432
Deferred asset acquisition costs	1,388,444	—
Other current assets	143,859	56,870
Other current assets - related party	22,542	—
Total current assets	2,683,285	9,612,097
Property and equipment, net	86,163	87,710
Operating lease right-of-use asset	91,064	146,972
Other asset	8,309	8,309
Total assets	<u>\$ 2,868,821</u>	<u>\$ 9,855,088</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities		
Accounts payable	\$ 2,067,766	\$ 897,880
Accounts payable - related parties	120,216	2,130
Accrued interest - related party	305,734	174,911
Accrued payroll liabilities	443,983	344,450
Insurance premium loan payable	30,615	—
Other current liabilities	526,818	375,842
Other current liabilities - related parties	102,390	—
Derivative liability	326	59,732
Multi-draw credit agreement - related party	450,000	450,000
Convertible multi-draw credit agreement - related party, net of discount	2,005,371	1,524,905
Operating lease liability, current portion	92,356	82,372
Total current liabilities	6,145,575	3,912,222

Non-current liabilities

Operating lease liability, net of current portion	8,227	78,700
Total liabilities	<u>6,153,802</u>	<u>3,990,922</u>

Commitments and contingencies (Note 10)**Stockholders' (deficit) equity**

Preferred stock, \$0.001 par value; 50,000,000 shares authorized at September 30, 2022 and December 31, 2021; no shares issued and outstanding at September 30, 2022 and December 31, 2021	—	—
Common stock, \$0.001 par value; 5,000,000,000 shares authorized at September 30, 2022 and December 31, 2021; 495,925,112 and 476,108,445 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	495,925	476,108
Additional paid-in-capital	53,065,217	52,644,221
Accumulated deficit	(56,846,123)	(47,256,163)
Total stockholders' (deficit) equity	<u>(3,284,981)</u>	<u>5,864,166</u>
Total liabilities and stockholders' equity	<u>\$ 2,868,821</u>	<u>\$ 9,855,088</u>

See accompanying notes to the condensed consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating expenses				
Research and development	\$ 1,781,724	\$ 327,731	\$ 4,474,531	\$ 1,818,059
General and administrative	1,140,558	1,491,378	4,554,131	3,567,985
Total operating expenses	<u>2,922,282</u>	<u>1,819,109</u>	<u>9,028,662</u>	<u>5,386,044</u>
Operating loss	<u>(2,922,282)</u>	<u>(1,819,109)</u>	<u>(9,028,662)</u>	<u>(5,386,044)</u>
Other expense (income)				
Change in fair value of derivative liability	(6,228)	(189,649)	(59,406)	169,349
Interest expense	211,229	195,358	615,563	570,322
Gain on forgiveness of PPP loan	—	—	—	(117,953)
Total other expense, net	<u>205,001</u>	<u>5,709</u>	<u>556,157</u>	<u>621,718</u>
Loss before income taxes	<u>(3,127,283)</u>	<u>(1,824,818)</u>	<u>(9,584,819)</u>	<u>(6,007,762)</u>
Provision for income taxes	—	—	5,141	1,600
Net loss and comprehensive loss	<u>\$ (3,127,283)</u>	<u>\$ (1,824,818)</u>	<u>\$ (9,589,960)</u>	<u>\$ (6,009,362)</u>
Loss per common share:				
Basic	\$ (0.01)	\$ —	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.01)	\$ —	\$ (0.02)	\$ (0.02)
Weighted average shares of common stock outstanding used to compute earnings per share:				
Basic	495,925,112	413,489,603	495,891,596	376,547,498
Diluted	<u>495,925,112</u>	<u>414,461,032</u>	<u>495,891,596</u>	<u>376,547,498</u>

See accompanying notes to the condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (9,589,960)	\$ (6,009,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	83,466	9,412
Stock-based compensation expense	425,846	747,252
Change in fair value of derivative liabilities	(59,406)	169,349
Amortization of debt discount	480,466	439,053
Gain on forgiveness of PPP loan	—	(117,953)
Changes in assets and liabilities:		
Prepaid expenses	121,277	(131,088)
Prepaid expenses - related party	13,432	(18,125)
Other current asset	(86,989)	—
Other current assets - related party	(22,542)	—
Other asset	—	(8,309)
Accounts payable	370,136	(72,719)
Accounts payable - related parties	118,086	2,968
Accrued interest - related party	130,823	86,737
Accrued payroll liabilities	99,533	201,334
Operating lease liability	(60,489)	(6,442)
Other current liabilities	1,381	201,861
Other current liabilities - related party	102,390	—
Net cash used in operating activities	<u>(7,872,550)</u>	<u>(4,506,032)</u>
Cash flows from investing activities:		
Asset acquisition costs	(436,554)	—
Purchase of property and equipment	(15,556)	(36,828)
Net cash used in investing activities	<u>(452,110)</u>	<u>(36,828)</u>
Cash flows from financing activities:		
Proceeds from the sale of common stock and warrants – net of \$ 851,538 for the September 30, 2021 period	—	6,146,496
Proceeds from common stock warrant exercises	—	6,999,999
Proceeds from pre-funded warrant exercises	1,967	11,800
Proceeds from stock option exercises	—	4,783
Repayment of insurance premium loan payable	(244,922)	—
Net cash (used in) provided by financing activities	<u>(242,955)</u>	<u>13,163,078</u>
Net (decrease) increase in cash and restricted cash	(8,567,615)	8,620,218
Cash and restricted cash, beginning of period	\$ 8,987,578	\$ 2,473,976
Cash and restricted cash, end of period	\$ 419,963	\$ 11,094,194

<i>Supplemental disclosures of cash-flow information:</i>			
Reconciliation of cash and restricted cash:			
Cash	\$	415,389	\$ 11,089,624
Restricted cash		4,574	4,570
Total cash and restricted cash shown in the consolidated statements of cash flows	\$	419,963	\$ 11,094,194
Cash paid during the period for:			
Interest	\$	4,275	\$ 44,087
Income taxes		5,141	1,600
<i>Supplemental disclosures of non-cash financing activities:</i>			
Asset acquisition costs in other current liabilities and accounts payable	\$	951,890	\$ —
Financing of insurance premium		275,537	—
Release of share liability to additional paid-in-capital		13,000	—
Purchases of property and equipment in other current liabilities		10,455	39,607
Establishment of right-of-use asset		—	170,606
Accrued financing charges		—	83,722

See accompanying notes to the condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amounts			
Balance, January 1, 2022	<u>476,108,445</u>	<u>\$ 476,108</u>	<u>\$ 52,644,221</u>	<u>\$ (47,256,163)</u>	<u>\$ 5,864,166</u>
Stock-based compensation expense	150,000	150	150,208	—	150,358
Exercise of pre-funded warrants	19,666,667	19,667	(17,700)	—	1,967
Net loss for the three months ended March 31, 2022	—	—	—	(3,043,399)	(3,043,399)
Balance, March 31, 2022	<u>495,925,112</u>	<u>\$ 495,925</u>	<u>\$ 52,776,729</u>	<u>\$ (50,299,562)</u>	<u>\$ 2,973,092</u>
Stock-based compensation expense	—	—	144,364	—	144,364
Net loss for the three months ended June 30, 2022	—	—	—	(3,419,278)	(3,419,278)
Balance, June 30, 2022	<u>495,925,112</u>	<u>\$ 495,925</u>	<u>\$ 52,921,093</u>	<u>\$ (53,718,840)</u>	<u>\$ (301,822)</u>
Stock-based compensation expense	—	—	144,124	—	144,124
Net loss for the three months ended September 30, 2022	—	—	—	(3,127,283)	(3,127,283)
Balance, September 30, 2022	<u>495,925,112</u>	<u>\$ 495,925</u>	<u>\$ 53,065,217</u>	<u>\$ (56,846,123)</u>	<u>\$ (3,284,981)</u>

See accompanying notes to the condensed consolidated financial statements.

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amounts			
Balance, January 1, 2021	288,074,415	\$ 288,074	\$ 38,896,693	\$ (38,733,981)	\$ 450,786
Stock-based compensation expense	600,000	600	145,980	—	146,580
Exercise of common stock warrants	67,166,667	67,167	3,962,833	—	4,030,000
Exercise of pre-funded warrants	11,800,000	11,800	—	—	11,800
Net loss for the three months ended March 31, 2021	—	—	—	(2,160,517)	(2,160,517)
Balance, March 31, 2021	367,641,082	\$ 367,641	\$ 43,005,506	\$ (40,894,498)	\$ 2,478,649
Stock-based compensation expense	—	—	111,699	—	111,699
Exercise of common stock options	106,250	107	4,676	—	4,783
Exercise of common stock warrants	28,333,334	28,333	1,671,667	—	1,700,000
Net loss for the three months ended June 30, 2021	—	—	—	(2,024,027)	(2,024,027)
Balance, June 30, 2021	396,080,666	\$ 396,081	\$ 44,793,548	\$ (42,918,525)	\$ 2,271,104
Stock-based compensation expense	750,000	750	484,973	—	485,723
Common stock and warrants issued	58,111,112	58,111	6,004,663	—	6,062,774
Exercise of pre-funded warrants	21,166,667	21,166	1,248,833	—	1,269,999
Net loss for the three months ended September 30, 2021	—	—	—	(1,824,818)	(1,824,818)
Balance, September 30, 2021	476,108,445	\$ 476,108	\$ 52,532,017	\$ (44,743,343)	\$ 8,264,782

See accompanying notes to the condensed consolidated financial statements.

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

1. Nature of Operations and Business Activities

Nature of Operations

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

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

In August 2019, the Company formed a new subsidiary in Australia, SKYE Bioscience Pty Ltd. (formerly "EMBI Australia Pty Ltd."), an Australian proprietary limited company ("SKYE Bioscience Australia"), in order to qualify for the Australian government's research and development tax credit for research and development dollars spent in Australia. The primary purpose of SKYE Bioscience Australia is to conduct clinical trials for the Company's product candidates.

The Company is a preclinical pharmaceutical company located in San Diego, California that researches, develops and plans to commercialize cannabinoid derivatives through its own directed research efforts and through several license agreements with the University of Mississippi ("UM").

On May 11, 2022, the Company entered into an Arrangement Agreement, as amended on June 14, 2022, July 15, 2022 and October 14, 2022 (the "Arrangement Agreement") with Emerald Health Therapeutics, Inc., a corporation existing under the laws of the Province of British Columbia, Canada ("EHT"), pursuant to a plan of arrangement under the Business Corporations Act (British Columbia) (the "Acquisition") (Note 3). On November 10, 2022, the Company completed the Acquisition. Each share of EHT common stock outstanding immediately prior to the effective time of the Acquisition was transferred to the Company in exchange for 1.95 shares of Company common stock (the "Exchange Ratio"). As of September 30, 2022, the Acquisition had not yet been completed and as such, the financial statements do not reflect the effect of the transaction.

Also, on November 10, 2022, EHT and certain other parties entered into a share purchase agreement with a third party for the sale of EHT's subsidiaries, Verdélite Sciences, Inc. for an aggregate purchase price of approximately USD \$9,300,000, subject to certain adjustments. The sale of these subsidiaries will complete the divestiture of EHT's most significant cannabis production and cultivation assets (Note 11).

As of September 30, 2022, the Company has devoted substantially all its efforts to securing product licenses, carrying out its own research and development, building infrastructure and raising capital. The Company has not yet realized revenue from its planned principal operations and is a number of years away from potentially being able to do so.

Liquidity and Going Concern

The Company has incurred operating losses and negative cash flows from operations since inception and as of September 30, 2022, had a working capital deficit of \$,462,290 and an accumulated deficit of \$56,846,123. As of September 30, 2022, the Company had unrestricted cash in the amount of \$415,389. For the three and nine months ended September 30, 2022 and 2021, the Company incurred losses from operations of \$2,922,282 and \$1,819,109, and 9,028,662 and 5,386,044, respectively. For the three and nine months ended September 30, 2022 and 2021, the Company incurred net losses of \$3,127,283 and \$1,824,818, and \$9,589,960 and \$6,009,362, respectively. The Company expects to continue to incur significant losses through the end of 2022 and expects to incur significant losses and negative cash flows from operations in the future.

The Company's continued existence is dependent on its ability to raise sufficient additional funding to cover operating expenses and to carry out its research and development activities. As the Company approaches the initiation of its Phase 1 clinical trial, which is expected to occur in December 2022, it has increased research and development spending. During the nine months ended September 30, 2022, the Company expended significant resources on the Acquisition and experienced various transactional delays which resulted in the further extension of the outside date to close the transaction. Due to these delays, in October 2022 the Company entered into a working capital loan from EHT to provide funds to continue operations through the date of closing of the Acquisition (Note 11). These two factors, among others, have resulted in an overall increase in cash used in operating activities for the nine months ended September 30, 2022. Based on the Company's expected cash requirements, without obtaining additional funding by the second half of 2023, management believes that the Company will not have enough funds to continue clinical studies. These conditions give rise to substantial doubt as to the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Subsequent to September 30, 2022, the Acquisition was completed and the Company acquired the cash and other assets of EHT (Note 3). Management expects that the Acquisition will provide funding for the Company into at least the second quarter of 2023, which is expected to allow Skye to complete its Phase 1 clinical trial and commence its Phase 2 clinical trial.

During the third quarter of 2022, the Company met its operational funding requirements during the pre-closing period by, among other things, laying off two employees and entered into a \$700,000 working capital Loan Agreement from EHT (Note 11). In late 2022 and early 2023, the Company will continue with the liquidation of EHT's assets, including the closing of the Verdélite SPA, and explore additional financing options. However, the Company cannot provide any assurances that such additional funds will be available on reasonable terms, or at all. If the Company raises additional funds by issuing equity securities, dilution to existing stockholders would result.

On October 5, 2018, the Company entered into a Multi-Draw Credit Agreement (the "Credit Agreement") with Emerald Health Sciences ("Sciences"), a related party (Note 9). On April 29, 2020, the Company entered into an Amended and Restated Multi-Draw Credit Agreement (the "Amended Credit Agreement") with Sciences. As of September 30, 2022, the Company had an outstanding principal balance of \$2,464,500 under the Amended Credit Agreement. Effective September 15, 2021, the disbursement line under the Amended Credit Agreement was closed and it no longer serves as a potential source of liquidity to the Company. The outstanding advances plus accrued interest under the Amended Credit Agreement were due on October 5, 2022 and the Company is currently within the 30 business day grace period for repayment (Note 5).

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

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

It is possible that the Company may encounter other similar issues relating to supply chain issues, a lack of production or laboratory resources, global economic and political conditions, pandemics or cyberattacks that could cause business disruptions and clinical trial delays which will need to be managed in the future. The factors to take into account in going concern judgements and financial projections include travel bans, restrictions, government assistance and potential sources of replacement financing, financial health of service providers and the general economy.

The Company does not believe that inflation has had a material impact on its operating results during the periods presented. However, inflation, led by supply chain constraints, federal stimulus funding, increases to household savings, and the sudden macroeconomic shift in activity levels arising from the loosening or removal of many government restrictions and the broader availability of COVID-19 vaccines, has had, and may continue to have, an impact on general and administrative costs such as professional fees, employee costs and travel costs, and may in the future adversely affect the Company's operating results. In addition, increased inflation has had, and may continue to have, an effect on interest rates. Increased interest rates may adversely affect the terms under which we can obtain, any potential additional funding.

Notably, the Company relies on third party manufacturers to produce its product candidates. The manufacturing of SBI-100 OE is conducted in the United States and Europe. Formulation of the eye drop for testing is also performed in the United States but can rely on regulatory-accepted excipients that can be sourced from countries outside the United States. Since the COVID-19 pandemic, global supply chain disruptions have become more common and the Company may encounter future issues related to sourcing materials that are part of the eye drop formulation or manufacturing process, as well as impacting volunteer and/or patient recruitment in Australia for clinical studies. The location of the clinical trial site is in Australia and since the COVID-19 outbreak in that country, multiple cities have experienced health emergency lockdowns which have had a negative impact on the conduct and timelines of the clinical studies.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or any future periods. The Condensed Consolidated Balance Sheet as of December 31, 2021 was derived from the Company's audited financial statements as of December 31, 2021, which are included in the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2022. The Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, which includes a broader discussion of the Company's business and the risks inherent therein.

Principles of Consolidation

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

Use of Estimates

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates and judgements as to the appropriate carrying values of equity instruments, derivative liabilities, debt with embedded features, estimates related to the Company's estimation of the percentage of completion under its research and development contracts and the valuation of stock based compensation awards, which are not readily apparent from other sources.

Risks and Uncertainties

The Company's operations are subject to a number of risks and uncertainties, including but not limited to, changes in the general economy, the size and growth of the potential markets for any of the Company's product candidates, uncertainties related to the current global environment, including economic factors such as inflation, and risks related to the global supply chain disruptions (Note 1), risks related to operating primarily in a virtual environment, results of research and development activities, uncertainties surrounding regulatory developments in the United States, the European Union and Australia and the Company's ability to attract new funding.

Fair Value Measurements

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

- Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities or other inputs that are observable or can be corroborated by observable market data.

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

The carrying values of the Company's financial instruments, with the exception of the derivative liabilities, approximate their fair value due to their short maturities. The derivative liabilities are valued on a recurring basis utilizing Level 3 inputs (Note 4).

Convertible Instruments

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

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

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

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

Warrants Issued in Connection with Financings

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

Debt Issuance Costs and Interest

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

Research and Development Expenses and Licensed Technology

Research and development costs are expensed when incurred. These costs may consist of external research and development expenses incurred under agreements with third-party contract research organizations and investigative sites, third-party manufacturing organizations and consultants, license fees, employee-related expenses, which include salaries and benefits for the personnel involved in the Company's preclinical drug development activities, other expenses and equipment and laboratory supplies.

Costs incurred for the rights to use licensed technologies in the research and development process, including licensing fees and milestone payments, are charged to research and development expense as incurred in situations where the Company has not identified an alternative future use for the acquired rights, and are capitalized in situations where there is an identified alternative future use. None of the costs associated with the use of licensed technologies have been capitalized to date.

Stock-Based Compensation Expense

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

- Volatility - Expected volatility is estimated using the historical stock price performance over the expected term of the award.
- Expected term - The expected term is based on a simplified method which defines the life as the weighted average of the contractual term of the options and the vesting period for each award.
- Risk-free rate - The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. Treasury securities in effect during the period in which the awards were granted.
- Dividends - The dividend yield assumption is based on the Company's history and expectation of paying no dividends in the foreseeable future.

The Company accounts for liability-classified stock option awards ("liability options") under ASC 718 - *Compensation - Stock Compensation* ("ASC 718"), under which the Company accounts for its awards containing other conditions as liability classified instruments. Liability options are initially recognized at fair value in stock-compensation expense and subsequently re-measured to their fair values at each reporting date with changes in the fair value recognized in share-based compensation expense or additional paid-in capital upon settlement or cancellation.

Loss Per Common Share

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

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

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2022	2021	2022	2021
Basic net loss per share:				
Net loss	\$ (3,127,283)	\$ (1,824,818)	\$ (9,589,960)	\$ (6,009,362)
Weighted average common shares outstanding – diluted	495,925,112	413,489,603	495,891,596	376,547,498
Loss per share - basic	\$ (0.01)	\$ —	\$ (0.02)	\$ (0.02)
Diluted net loss per share:				
Net loss (as adjusted)	\$ (3,127,283)	\$ (1,704,980)	\$ (9,589,960)	\$ (6,009,362)
Weighted average common shares outstanding – diluted	495,925,112	414,461,032	495,891,596	376,547,498
Net loss per share - diluted	\$ (0.01)	\$ —	\$ (0.02)	\$ (0.02)

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

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2022	2021	2022	2021
Stock options	37,755,000	23,490,000	37,755,000	23,490,000
Common shares underlying convertible debt	5,661,025	5,303,591	5,661,025	5,303,591
Warrants	136,187,225	133,945,796	136,187,225	134,917,225
Unvested restricted stock units	4,000,000	—	4,000,000	—

Asset Acquisition

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

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

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

Government Assistance

The Company early adopted ASU 2021-10 *Government Assistance* on January 1, 2022. The Company accounts for the tax rebates received from the Australian Taxation Office ("ATO") under such guidance. The Company accounts for the rebates that it receives under the AusIndustry research and development tax incentive program under the income recognition model of IAS 20. Under this model, when there is reasonable assurance that the rebate will be received, the Company recognizes the income from the tax rebate as an offset to research and development expense during the period which the benefit applies to the research and development costs incurred. As of September 30, 2022 and December 31, 2021, the Company has recognized \$131,959 and \$44,616, respectively, in other current assets in its Condensed Consolidated Balance Sheets.

Subsequent Events

The Company has evaluated events that have occurred after the balance sheet date but before these condensed consolidated financial statements were issued. Based upon that evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements, except as disclosed in Note 11 - Subsequent Events.

Recent Accounting Pronouncements

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

3. Acquisition of Emerald Health Therapeutics, Inc.

On May 11, 2022, the Company entered into an Arrangement Agreement, as amended on June 14, 2022, July 15, 2022 and October 14, 2022 (the "Arrangement Agreement") with Emerald Health Therapeutics, Inc., a corporation existing under the laws of the Province of British Columbia, Canada ("EHT"), pursuant to a plan of arrangement under the Business Corporations Act (British Columbia) (the "Acquisition") (Note 3). The Acquisition was completed on November 10, 2022. As of September 30, 2022, the Acquisition had not yet been completed and as such, the financial statements do not reflect the effect of the transaction.

On July 11, 2022, the Company and EHT entered into a consulting agreement pursuant to which representatives of the Company will provide administrative assistance to EHT to assist EHT in satisfying its financial reporting, operational and regulatory obligations. EHT will pay the Company \$150 for each hour of services provided by the Company. The consulting agreement terminated on the date of the closing of the Acquisition (Note 11). The consulting agreement had an effective date of May 12, 2022 and as of September 30, 2022, the Company has recorded a receivable of \$22,542 in other current assets - related party in the Condensed Consolidated Balance Sheets.

Under the Arrangement Agreement, the Company issued each EHT shareholder (other than the shares held by EHT dissenting shareholders) 1.95 shares of Skye common stock, for each share of EHT common stock outstanding as of the closing date of the Acquisition. On November 10, 2022, the Company issued 416,270,514 shares of stock as consideration in the Acquisition and no fractional shares of Skye Common Stock were issued (Note 11). It is expected that, for U.S. and Canadian federal income tax purposes, the Acquisition constitutes a taxable exchange by the EHT shareholders of EHT Shares for Skye Common Stock. In addition, all outstanding stock options and warrants of EHT will be exchanged for replacement options and warrants of Skye on identical terms, as adjusted in accordance with the Exchange Ratio.

The Company has evaluated the expected accounting for the transaction and expects that the Acquisition will be accounted for as an asset acquisition due to the wind-down state of EHT (Note 1). The primary purpose of the Acquisition is to utilize EHT's remaining cash and cash equivalents and liquidate the primary real estate asset owned by EHT in order to fund the Company's operations. As of September 30, 2022, the realization process is in the advanced stages and EHT has laid off substantially its entire workforce and has no remaining revenue generating activities. In addition, EHT owns a vacant laboratory facility that is fully-licensed to handle controlled substances under Canadian regulations, which the Company is currently evaluating for research and development activities and to support certain manufacturing capabilities. In negotiating the Exchange Ratio, the Company performed a review of EHT's assets and the costs expected to wind down operations. However, there is inherent risk and uncertainty around what the ultimate liquidation value of EHT will be.

As of September 30, 2022, the Company deferred \$1,388,444 in asset acquisition costs.

Unaudited Pro Forma Condensed Combined Balance Sheet

The following unaudited pro forma condensed combined balance sheet and related notes give effect to the Acquisition involving the Company and EHT.

The unaudited pro forma condensed combined balance sheet as of September 30, 2022 combines the Company's and EHT's historical unaudited balance sheets as of September 30, 2022. The unaudited pro forma condensed combined balance sheet as of September 30, 2022 is presented as if the acquisition of EHT by the Company had occurred on September 30, 2022. The transaction accounting adjustments for the acquisition consist of those necessary to account for the acquisition. In the unaudited pro forma condensed combined balance sheet, the Acquisition is accounted for as an asset acquisition in accordance with FASB ASC 805, *Business Combinations*, as the Company is acquiring inputs with non-substantive processes, no outputs and no assembled workforce.

Given the shift in, and wind-down of, EHT's business as described above and in Note 3, the Company believes EHT's historical income statements are not reflective of what the Company's shareholders should expect from the Acquisition. Accordingly, the Company has excluded, pro forma income statements that otherwise would have been required.

Wind-down costs consist primarily of employee payroll and benefits, legal fees related to the liquidation of EHT's assets and closing of the transaction, other professional fees for accounting, tax and audit, tax payments, the advisory fee related to the sale of the primary real estate asset, insurance, contract terminations fees and operational costs through the cease operations date at each site.

The Company estimates that EHT will incur the following costs in the periods specified below to wind-down its operations:

Quarter ending:	(USD)*
December 31, 2022	\$ 970,000
March 31, 2023	140,000
Thereafter	40,000
Total future estimated costs:	<u>\$ 1,150,000</u>

**The timing and realization of the expected costs are based on management's estimates and are subject to change based on various factors, including but not limited to, the sale of EHT facilities at terms favorable to Skye, the timely termination of obsolete contracts, the implementation of cost-cutting measures necessary to maximize the remaining asset balance, the effective management of the termination of remaining personnel and related severance payments, the implementation of a successful transition plan, which includes the effective cessation of regulatory requirements related to operating in the cannabis industry and the successful migration of historical data.*

In addition, the Company expects to incur increased operating costs post closing as a result of the Acquisition which it does not consider to be "wind-down" costs of EHT. These costs are estimated to be between \$425,000 and \$475,000 annually. These costs relate to the expected hiring of two EHT employees, ongoing legal and professional fees related to the listing on the Canadian Stock Exchange, increased board fees, minimum operational costs to maintain the vacant lab facility, which is not currently held for sale, and other incidental costs.

The Company excluded costs related to compensation expense that is expected to be triggered upon the closing of the Acquisition, the estimated cost of the tail insurance policy, and direct costs expected to liquidate EHT's assets of \$599,507, \$193,548 and \$550,000, respectively, from the wind-down costs disclosed in the table above. Such costs are included in the pro forma condensed combined balance sheet as transaction accounting adjustments.

The Company expects to incur aggregate transaction costs of \$1,994,034 in connection with the Acquisition, of which \$339,590 were expensed, \$1,604,444 have been considered part of the transaction consideration and \$50,000, representing estimated equity issuance costs, have been included as an offset to equity.

The historical balance sheets of the Company and EHT have been adjusted in the accompanying unaudited pro forma condensed combined balance sheet to give effect to pro forma events that are transaction accounting adjustments that are necessary to account for the transaction. The pro forma adjustments are based upon available information and certain assumptions that the Company's management believes are reasonable. The assumptions underlying the pro forma adjustments in the accompanying notes are described in more detail in the notes below, which should be read in conjunction with this unaudited pro forma condensed combined balance sheet. These assumptions are based on preliminary estimates and information. Accordingly, the actual adjustments on the consolidated financial statements upon the completion of the transaction may materially differ from the pro forma adjustments.

The following unaudited pro forma condensed combined balance sheet and notes thereto is prepared for illustrative purposes only and are not necessarily indicative of or intended to represent the results that would have been achieved had the transaction been consummated as of the date indicated or that may be achieved in the future. It also may not be useful in predicting the future financial condition and results of operations of the combined company. Our actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

	SKYE	EHT (US GAAP) (CAD)	EHT (Converted to U.S. GAAP and translated to USD from CAD)	Transaction Accounting Adjustments	Pro Forma Combined
	Note A	Notes B, C	Note D	Note E	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 415,389	\$ 11,196,364	\$ 8,177,488	\$ —	\$ 8,592,877
Restricted cash	4,574	—	—	—	4,574
Accounts receivable	—	864,424	631,349	(52,210) (a)	579,139
Prepaid expenses	708,477	1,146,140	837,106	(837,106) (a)	708,477
Deferred asset acquisition costs	1,388,444	—	—	(1,388,444) (b)	—
Other current assets	143,859	—	—	—	143,859
Other current assets - related party	22,542	—	—	(22,542) (c)	—
Assets held for sale	—	12,465,122	9,104,151	(1,849,575) (d)	7,254,576
Total current assets	2,683,285	25,672,050	18,750,094	(4,149,877)	17,283,502
Property, plant and equipment, net	86,163	1,978,872	1,445,309	(1,445,086) (e)	86,386
Operating lease right-of-use asset	91,064	—	—	—	91,064
Promissory note receivable	—	479,745	350,391	(350,391) (f)	—
Other asset	8,309	—	—	—	8,309
Total assets	\$ 2,868,821	\$ 28,130,667	\$ 20,545,794	\$ (5,945,354)	\$ 17,469,261
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable	\$ 2,067,766	\$ 1,269,523	\$ 927,222	\$ (22,542) (e)	\$ 2,972,446
Accounts payable - related parties	120,216	12,355	9,024	—	129,240
Accrued interest due to related party	305,734	—	—	—	305,734
Accrued payroll liabilities	443,983	29,167	21,303	646,415 (g)	1,111,701
Insurance premium loan payable	30,615	253,785	185,357	—	215,972
Other current liabilities	526,818	1,890,173	1,380,526	459,548 (h)	2,366,892
Other current liabilities - related party	102,390	—	—	—	102,390
Derivative liability	326	—	—	—	326
Multi-draw credit agreement - related party	450,000	—	—	—	450,000
Convertible multi-draw credit agreement - related party, net of discount	2,005,371	—	—	—	2,005,371
Current liabilities held for sale	—	43,811	31,998	(31,998) (i)	—
Operating lease liability, current portion	92,356	—	—	—	92,356
Total current liabilities	6,145,575	3,498,814	2,555,430	1,051,423	9,752,428
Non-current liabilities					
Operating lease liability, net of current portion	8,227	—	—	—	8,227
Total liabilities	6,153,802	3,498,814	2,555,430	1,051,423	9,760,655
Stockholders' equity					
Common stock, \$0.001 par value; 5,000,000,000 shares authorized; 912,187,027 shares issued and outstanding at September 30, 2022	495,925	—	—	416,271 (j)	912,196
Additional paid-in-capital	53,065,217	281,379,472	205,511,125	(194,643,023) (k)	63,933,319
Accumulated other comprehensive income	—	114,115	83,346	(83,346) (l)	—
Accumulated deficit	(56,846,123)	(256,861,734)	(187,604,107)	187,313,321 (l)	(57,136,909)
Total stockholders' equity	(3,284,981)	24,631,853	17,990,364	(6,996,777)	7,708,606
Total liabilities and stockholders' equity	\$ 2,868,821	\$ 28,130,667	\$ 20,545,794	\$ (5,945,354)	\$ 17,469,261

See notes to the unaudited pro forma condensed combined balance sheet.

Notes to the Unaudited Pro Forma Condensed Combined Balance Sheet

Basis of Presentation

The unaudited pro forma condensed combined balance sheet as of September 30, 2022 assumes that the acquisition was completed on September 30, 2022.

The unaudited pro forma condensed combined balance sheet is presented for informational purposes only and is not necessarily indicative of the combined financial position had the acquisition occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position that the Resulting Issuer will experience after the completion of the acquisition.

EHT's unaudited condensed consolidated balance sheet was prepared in accordance with IFRS as issued by the IASB and is presented in Canadian dollars. Adjustments made to translate the historical condensed combined balance sheet of EHT from Canadian dollars ("CAD") to US dollars ("USD") and convert the historical condensed combined balance sheet of EHT from IFRS to GAAP, as issued by FASB, are discussed in greater detail in Note C.

Pro forma adjustments reflected in the unaudited pro forma condensed combined balance sheet are based on items that are factually supportable and directly attributable to the acquisition. The unaudited pro forma condensed combined balance sheet does not reflect the cost of any integration activities or benefits from the acquisition.

Pro Forma Adjustments

The following pro forma adjustments give effect to the acquisition.

Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2022

Note A	Derived from the unaudited condensed consolidated financial statements of Skye as of September 30, 2022, as contained in this Form 10-Q.
Note B	Derived from the unaudited condensed interim consolidated financial statements of EHT as of September 30, 2022.
Note C	Management determined that no adjustments were needed in order to convert the unaudited condensed interim consolidated financial statements of EHT as of September 30, 2022 from IFRS to US GAAP for the purpose of the pro forma financial information.

Note D	Derived from the unaudited condensed interim consolidated financial statements of EHT as of September 30, 2022 and translated from Canadian dollars (“C\$”) to USD. The indicated exchange rate used to translate C\$ to USD at September 30, 2022 was the rate of 0.73037 as set out in the table below.
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	EHT (Converted to U.S. GAAP) (CAD)	Exchange Rate 0.73037	EHT (Converted to U.S. GAAP) (USD)
ASSETS			
Current			
Cash and cash equivalents	\$ 11,196,364		\$ 8,177,488
Accounts receivable	864,424		631,349
Prepaid expenses	1,146,140		837,106
Assets held for sale	12,465,122		9,104,151
Total current assets	<u>25,672,050</u>		<u>18,750,094</u>
Property, Plant and equipment, net	1,978,872		1,445,309
Promissory note receivable	479,745		350,391
Total assets	<u>\$ 28,130,667</u>		<u>\$ 20,545,794</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	\$ 1,269,523		\$ 927,222
Accounts payable - related parties	12,355		9,024
Accrued payroll liabilities	29,167		21,303
Other current liabilities	1,890,173		1,380,526
Insurance premium loan payable	253,785		185,357
Current liabilities held for sale	43,811		31,998
Total current liabilities	<u>3,498,814</u>		<u>2,555,430</u>
SHAREHOLDERS' EQUITY			
Additional paid-in-capital	281,379,472		205,511,125
Accumulated other comprehensive income	114,115		83,346
Accumulated deficit	(256,861,734)		(187,604,107)
TOTAL SHAREHOLDERS' EQUITY	<u>24,631,853</u>		<u>17,990,364</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 28,130,667</u>		<u>\$ 20,545,794</u>

Note E	The transaction accounting adjustments are summarized as follows:
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- a. *Accounts receivable and prepaid expense*, are reduced to reflect adjustments to estimated fair value to Skye.
- b. *Deferred asset acquisition costs*, are reclassified to the assets acquired as part of the total purchase consideration.
- c. *Other current assets - related party*, from the consulting agreement entered into with EHT were eliminated against *Accounts payable*.
- d. *Assets held for sale*, is decreased by estimated direct costs to liquidate EHT's assets of \$550,000, including legal costs, advisory fees and other professional fees. In addition, assets held for sale were reduced by \$1,299,575 to reflect the fair value to Skye.
- e. *Property plant and equipment*, is adjusted based on a relative fair value allocation to reflect the amount of consideration attributable to the vacant lab facility which management of SKYE plans to evaluate and currently has no current plans to liquidate.
- f. *Promissory note receivable*, is reduced to reflect adjustments to estimated fair value to Skye.

- g. *Accrued payroll liabilities*, is adjusted to reflect (i) the severance provision in EHT’s COO’s executive employment agreement which provides for total payments in the amount of \$438,222, (ii) an in-substance severance arrangement, with a former member of the Skye’s Board of Directors which provides for total payments in the amount of \$78,693, and (iii) transaction bonuses payable to Skye’s CEO and CFO aggregating \$29,500.
- h. *Other current liabilities*, is adjusted to reflect the accrual for estimated transaction costs of \$216,000, the accrual for equity issuance costs of \$50,000 and an estimate of \$193,548 for the tail insurance policy for the benefit of the EHT directors and officers.
- i. *Current liabilities held for sale*, were reduced by the amount of the remaining lease liability related to the Richmond lease which is expected to be terminated prior to closing.
- j. *Common stock*, is increased by \$416,271 to reflect the par value (\$0.001) of 416,270,514 Skye shares expected to be issued as consideration for all the outstanding shares of EHT. The Company’s shares were valued at \$0.026 per share or \$10,823,033. Common stock is also increased by the issuance of convertible securities for an aggregate fair value of \$428,747 and transaction costs of \$1,604,444 (the “Purchase Consideration”). The following table summarizes the relative fair value allocation for the preliminary purchase price as of the acquisition date as if the acquisition was accounted for as an asset acquisition.

EHT relative fair value allocation:	September 30, 2022
Purchase Consideration	
Common stock	\$ 10,823,033
Stock options issued	114,249
Warrants issued	314,498
Transaction costs	1,604,444
Total consideration	\$ 12,856,224
Assets acquired	
Cash and cash equivalents	\$ 8,177,488
Accounts receivable	579,139
Property, plant and equipment	223
Current assets held for sale (property, plant and equipment)	7,254,576
Accounts payable	(927,222)
Accrued payroll liabilities	(459,525)
Other current liabilities	(1,380,526)
Insurance Payable	(378,905)
Accounts payable - related parties	(9,024)
Total net assets acquired	\$ 12,856,224

- k. *Additional paid-in capital* is adjusted to reflect the following:
- (i) The total value of the shares of common stock expected to be issued as consideration for the Acquisition of \$0,823,033 less the associated par value of \$416,271 recorded in *Common stock* (“j” above) and less equity issuance costs of \$50,000.

(ii) The estimated fair value of warrants issued as consideration for the Acquisition in the amount of \$314,498. These warrants represent EHT warrants outstanding as of September 30, 2022 which will be converted into warrants to purchase shares of SKYE common stock at the agreed-upon exchange ratio of 1.95. The chart below summarizes the details of these warrants:

EHT Warrants	EHT Exercise Price (CAD)	Number of EHT Warrants Outstanding	Adjusted Exercise Price (USD)	Term (Years)	Number of SKYE Warrants Issued and Outstanding
November 2019	\$ 0.75	4,385,965	\$ 0.28	5	8,552,630
December 2019	\$ 0.385	5,172,942	\$ 0.14	5	10,087,236
February 2020	\$ 0.385	7,596,551	\$ 0.14	5	14,813,272
February 2020	\$ 0.385	2,748,276	\$ 0.14	5	5,359,137
June 2020	\$ 0.27	11,351,351	\$ 0.10	5	22,135,132
		<u>31,255,085</u>			<u>60,947,407</u>

The assumptions used to value these warrants are as follows:

	September 30, 2022
Dividend yield	0.00%
Volatility	100.6 - 120.4%
Risk-free interest rate	3.96 - 4.23%
Expected term (years)	0.67 - 2.38

(iii) The estimated fair value of options issued as consideration for the Acquisition in the amount of \$14,249. These options represent EHT options outstanding as of September 30, 2022 totaling 4,247,500, which will be converted into options to acquire shares of SKYE common stock at the agreed-upon exchange ratio of .95 for a total of 8,282,626 SKYE options. The assumptions to value these options are as follows:

	September 30, 2022
Dividend yield	0.00%
Volatility	89.45 - 126.82%
Risk-free interest rate	2.79 - 4.25%
Expected term (years)	0.06 - 4.94

(iv) The grant date fair value of \$82,592 for one of two tranches of a stock option grant to a former member of the SKYE Board of Directors that provides for 2,000,000 shares of SKYE common stock, subject to an exercise contingency related to the satisfaction of a performance based provision tied to closing of the acquisition. This tranche meets the criteria for equity classification.

(v) The elimination of the historical equity of EHT.

1. *Accumulated other comprehensive income* and *Accumulated deficit* are adjusted to reflect the elimination of the remaining historical equity balances of EHT as well as the applicable effects of the acquisition transactions as presented above.

4. Warrants and Derivative Liabilities

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

Warrants

Warrants vested and outstanding as of September 30, 2022 are summarized as follows:

Source	Exercise Price	Term (Years)	Number of Warrants Outstanding
Pre 2015 Common Stock Warrants	\$ 1.00	10	1,110,000
2015 Common Stock Warrants	5.00	10	100,000
2016 Common Stock Warrants to Service Providers	1.15	10	40,000
2018 Emerald Financing Warrants	0.10	5	3,400,000
Emerald Multi-Draw Credit Agreement Warrants	0.50	5	7,500,000
2019 Common Stock Warrants	0.35	5	8,000,000
2020 Common Stock Warrants to Placement Agent	0.08	5	8,166,667
2021 Inducement Warrants	0.15	5	21,166,667
2021 Inducement Warrants to Placement Agent	0.19	5	1,481,667
2021 Common Stock Warrants	0.09	5	77,777,779
2021 Common Stock Warrants to Placement Agent	0.11	5	5,444,445
2022 Common Stock Warrants to Service Provider	0.04	2	2,000,000
Total warrants outstanding as of September 30, 2022			136,187,225

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

2022 Common Stock Warrants Issued to a Service Provider

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

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

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

Derivative Liability

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

	Nine Months Ended September 30, 2022				September 30, 2022 Fair Value of Derivative Liability
	December 31, 2021 Fair Value of Derivative Liability	Fair Value of Derivative Liability	Change in Fair Value of Derivative Liability	Reclassification of Derivative to Equity	
Emerald Financing - warrant liability	\$ 59,732	\$ —	\$ (59,406)	\$ —	\$ 326
Current balance of derivative liability	\$ 59,732	\$ —	\$ (59,406)	\$ —	\$ 326

Nine Months Ended September 30, 2021

	December 31, 2020 Fair Value of Derivative Liability	Fair Value of Derivative Liability	Change in Fair Value of Derivative Liability	Reclassification of Derivative to Equity	September 30, 2021 Fair Value of Derivative Liability
Emerald Financing - warrant liability	\$ 38,567	\$ —	\$ 169,349	\$ —	\$ 207,916
Total derivative liability	\$ 38,567	\$ —	\$ 169,349	\$ —	\$ 207,916

Emerald Financing Warrant Liability

The Emerald Financing Warrants were issued during 2018 in connection with the Emerald Financing, and originally contained a price protection feature. In connection with the August 2020 Financing, the exercise price was permanently set to \$0.10. The warrants contain a contingent put option if the Company undergoes a subsequent financing that results in a change in control. The warrant holders also have the right to participate in certain subsequent financing transactions on an as-if converted basis.

The Company reviewed the warrants for liability or equity classification under the guidance of ASC 480-10, *Distinguishing Liabilities from Equity*, and concluded that the warrants should be classified as a liability and re-measured to fair value at the end of each reporting period. The Company also reviewed the warrants under ASC 815, *Derivatives and Hedging/Contracts in Entity's Own Equity*, and determined that the warrants also meet the definition of a derivative. With the assistance of a third party valuation specialist, the Company valued the warrant liabilities utilizing the Monte Carlo valuation method pursuant to the accounting guidance of ASC 820-10, *Fair Value Measurements*. Beginning March 31 2021, the Company changed its valuation model for the Emerald Financing Warrant Liability to a Black-Scholes valuation method, as it was determined that a more simplistic model such as the Black-Scholes valuation method yields a substantially similar result as a Monte Carlo simulation due to the Company's current assumptions.

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

	September 30, 2022	December 31, 2021
Dividend yield	— %	— %
Volatility factor	93.3 %	126.5 %
Risk-free interest rate	2.79 %	0.43 %
Expected term (years)	0.38	1.13
Underlying common stock price	\$ 0.03	\$ 0.05

5. Debt

Multi-Draw Credit Agreement- Related Party

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

	Conversion Price	As of September 30, 2022	As of December 31, 2021
Total principal value of convertible debt—related party	\$ 0.40	\$ 2,014,500	\$ 2,014,500
Unamortized debt discount		(8,535)	(487,668)
Unamortized debt issuance costs		(594)	(1,927)
Carrying value of total convertible debt - related party		2,005,371	1,524,905
Total principal value of non-convertible debt—related party	n/a	450,000	450,000
Total carrying value of advances under the multi-draw credit agreement		\$ 2,455,371	\$ 1,974,905

On October 5, 2018, the Company entered into the Credit Agreement with Sciences, a related party (Note 9). On April 29, 2020, the Company entered into the Amended Credit Agreement with Sciences, which amends and restates the Credit Agreement. For all pre-existing and new advances, the Amended Credit Agreement removed the change in control as an event of default. The amendments to the pre-existing advances were accounted for as a modification.

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

Advances under the Amended Credit Agreement are unsecured, and bear interest at an annual rate of 7% and mature on October 5, 2022 (Note 11). The Company is currently within the 30 business day grace period which expires on November 17, 2022. At Sciences' election, convertible advances and unpaid interest may be converted into common stock at the applicable fixed conversion price of the underlying advance, subject to customary adjustments for stock splits, stock dividends, recapitalizations, etc.

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

In connection with each advance under the Amended Credit Agreement, the Company has agreed to issue to Sciences warrants to purchase shares of common stock in an amount equal to 50% of the number of shares of common stock that each advance may be converted into. The warrants have a term of five years and are immediately exercisable upon issuance. Under the Amended Credit Agreement, Sciences may issue notice that no warrants will be granted at the time of the advance request. The warrants issued under the Credit Agreement have an exercise price of \$0.50 per share. The exercise prices are subject to adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events or upon any distributions of assets, including cash, stock or other property to the Company's stockholders (Note 4).

As of September 30, 2022, the unamortized debt discount on the convertible advances will be amortized over a remaining period of 0.01 years. As of September 30, 2022, the fair value of the shares underlying the convertible advances under the Amended Credit Agreement was \$130,943. As of September 30, 2022, the if-converted value did not exceed the principal balance.

Insurance premium loan payable

On February 28, 2022, the Company entered into an annual financing arrangement for a portion of its Directors and Officers Insurance Policy (the "D&O Insurance") with Marsh & McLennan in an amount of \$275,537. The loan is payable in equal monthly installments of \$1,149, matures on October 28, 2022 and bears interest at a rate of 4.17% per annum. As of September 30, 2022, a total of \$132,028 and \$30,615, remains financed in prepaid expenses and loans payable, respectively.

Interest Expense

The Company's interest expense consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Related party interest expense – stated rate	\$ 44,086	\$ 44,086	\$ 130,824	\$ 130,824
Insurance premium loan payable - stated rate	1,602	—	4,273	—
PPP loan interest expense – stated rate	—	—	—	445
Non-cash interest expense:				
Amortization of debt discount	165,082	150,852	479,133	437,834
Amortization of transaction costs	459	420	1,333	1,219
	\$ 211,229	\$ 195,358	\$ 615,563	\$ 570,322

6. Stockholders' Equity and Capitalization

Warrant Exercises

During the nine months ended September 30, 2022, 19,666,667 pre-funded warrants with an intrinsic value of \$1,178,033 were exercised in exchange for 19,666,667 shares of common stock for gross proceeds of \$1,967.

Common Stock Issuance

On March 2, 2022, the Company released 150,000 shares of common stock to a service provider (Note 7).

7. Stock-Based Compensation

Stock Incentive Plan

On October 31, 2014, the Board of Directors approved the Company's 2014 Omnibus Incentive Plan (the "2014 Plan").

On June 14, 2022, in connection with the Acquisition, the Board approved the 2014 Amended and Restated Omnibus Incentive Plan (the "2014 Amended and Restated Plan") which replaced the 2014 Plan in its entirety. The 2014 Amended and Restated Plan, among other things, fixed the number of shares that can be issued under the plan to 91,219,570, provided that each January 1 beginning in 2023 and ending on (and including) January 1, 2032 the number of shares will increase by 5% of the outstanding shares of Common Stock as of the prior December 31, unless the Board of Directors of the Company decides to a lesser increase.

On September 30, 2022, the Amended and Restated 2014 Plan was approved by the shareholders. The 2014 Amended and Restated Plan authorizes the issuance of awards including stock options, stock appreciation rights, restricted stock, stock units and performance units to employees, directors, and consultants of the Company. As of September 30, 2022, the Company had 47,514,820 shares available for future grant under the 2014 Plan.

Stock Options

The following is a summary of option activities under the Company's 2014 Plan for the nine months ended September 30, 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2021	35,405,000	\$ 0.07	9.08	\$ 134,750
Granted	4,350,000	0.04		
Exercised	—	—		
Cancelled	(321,250)	0.06		
Forfeited	(1,678,750)	0.08		
Outstanding, September 30, 2022	37,755,000	\$ 0.07	8.45	\$ —
Exercisable, September 30, 2022	14,782,500	\$ 0.08	7.81	\$ —

The weighted-average grant-date fair value of stock options granted during the nine months ended September 30, 2022 was \$0.04.

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

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

Stock Option Awards with Performance and Other Conditions

During the nine months ended September 30, 2022, the Company granted 4,000,000 stock options with an exercise price of \$0.04 which include a combination of performance vesting conditions and other vesting conditions pursuant to a consulting agreement entered with Mr. Jim Heppell, a former director of Skye and related party of the Company (Note 9). The vesting conditions of the stock option award provide that 50% of the options are vested upon grant and the remaining 50% will vest upon the sale of a real estate asset held by EHT at an amount greater than or equal to an amount specified in the agreement. None of the options are exercisable until the Acquisition is consummated, which was not deemed probable for accounting purposes as of September 30, 2022, (Note 3). The conditions related to the sale of EHT's real estate are considered other conditions and the condition related to the closing of the Acquisition is considered a performance condition. When a performance condition is deemed to be probable of achievement, time-based vesting and recognition of stock-based compensation expense commences.

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

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

Restricted Stock Units

On December 14, 2021, the Company granted restricted stock units ("RSUs") to its executive management team. The RSUs cliff vest 33% per year on the anniversary of the grant date over a three year period. As of September 30, 2022, 4,000,000 RSUs with a weighted average grant date fair value of \$0.06 per share remain unvested.

Awards Granted Outside the 2014 Plan

The following is a summary of restricted stock activity outside of the 2014 Amended and Restated Plan during the nine months ended September 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, December 31, 2021	150,000	\$ 0.13
Released	(150,000)	0.13
Unvested, September 30, 2022	—	\$ —

Stock-Based Compensation Expense

The Company recognizes stock-based compensation expense using the straight-line method over the requisite service period. The Company recognized stock-based compensation expense, including compensation expense for warrants with vesting provisions issued to a service provider (Note 4), and the RSUs discussed above, in its Condensed Consolidated Statements of Operations and Comprehensive Loss as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Research and development	\$ 23,966	\$ 17,986	\$ 64,507	\$ 37,350
General and administrative	120,158	470,987	361,339	709,902
	\$ 144,124	\$ 488,973	\$ 425,846	\$ 747,252

The total amount of unrecognized compensation cost was \$1,217,236 as of September 30, 2022. This amount will be recognized over a weighted average period of 3.65 years.

2022 Employee Stock Purchase Plan

In June 2022, the Company's board of directors approved the 2022 Employee Stock Purchase Plan (the "ESPP"). Under which the Company will offer eligible employees the option to purchase common stock at a 15% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of the ESPP. Total individual purchases in any year are limited to 15% of compensation. The ESPP was approved by the Company's stockholders on September 30, 2022.

8. Significant Contracts - University of Mississippi

UM 5050 and UM 8930 License Agreements

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

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

- i) \$100,000 paid within 30 days following the submission of the first Investigational New Drug ("IND") application to the Food and Drug Administration or an equivalent application to a regulatory agency anywhere in the world, for a product;
- ii) \$200,000 paid within 30 days following the first submission of a New Drug Application ("NDA"), or an equivalent application to a regulatory agency anywhere in the world, for each product that is administered in a different route of administration from that of the earlier submitted product(s); and
- iii) \$400,000 paid within 30 days following the approval of an NDA, or an equivalent application to a regulatory agency anywhere in the world, for each product that is administered in a different route of administration from that of the early approved product(s).

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

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

As of September 30, 2022, the Company has paid the fee due for the notice of patent allowance for the proprietary molecule under the UM 8930 License Agreement. In July 2022, the Company met milestone i) above under its UM 5050 license agreement upon submission of our application for authorization to conduct the Company's Phase 1 trial of SBI-100 OE to the Therapeutic Goods Administration in Australia. As of September 30, 2022, none of the other milestones under these license agreements have been met.

UM 5070 License Agreement

In January 2017, the Company entered into a license agreement with UM pursuant to which UM granted the Company an exclusive, perpetual license, including the right to sublicense, to intellectual property related to a platform of cannabinoid-based molecules ("UM 5070"), to research, develop and commercialize products for the treatment of infectious diseases.

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

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

9. Related Party Matters

Emerald Health Sciences

In January 2018, the Company entered into a securities purchase agreement with Sciences pursuant to which Sciences purchased a majority of the equity interest in the Company, resulting in a change in control (the "Emerald Financing"). While Sciences no longer maintains a controlling interest in the Company, it holds a significant equity interest as of September 30, 2022 and has provided the Company with financing under the Amended Credit Agreement (Note 5).

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

On September 14, 2021, Dr. Dhillon provided his notice to terminate the Independent Contractor Services Agreement, with an effective termination date of October 14, 2021. As of October 14, 2021, the Company no longer has any obligations or business relationship with Dr. Dhillon. No expenses were incurred under this agreement during the three months and nine months ended September 30, 2022. Under this agreement, for the three and nine months ended September 30, 2021, the Company incurred fees of \$30,000 and \$90,000, respectively.

On May 18, 2022, Jim Heppell resigned from the Company's board of directors and concurrently entered into a consulting agreement with the Company pursuant to which Mr. Heppell will provide services mutually agreed upon by the Company. The consulting agreement has an initial minimum term of one-year and will be automatically renewed for a one-year period on the anniversary of the contract unless terminated with 60 days' notice. Under the consulting agreement, Mr. Heppell is entitled to a monthly fee of \$6,300, which will be increased to \$16,600 per month upon the closing of the Acquisition. The consulting agreement provides Mr. Heppell with a termination payment in an amount equal to the monthly fees through the then-remaining term of the agreement if Mr. Heppell's engagement is terminated by the Company without cause. In addition, Mr. Heppell was awarded 4,000,000 stock options which are subject to certain performance and other conditions (Note 7). The Company has accounted for the consulting contract as an in-substance severance arrangement and recognized \$0 and \$75,600 in severance expense during the three and nine months ended September 30, 2022. The accrual for Mr. Heppell's severance will be adjusted to include the increased fee payments when the Company determines that the closing of the Acquisition is probable. As of September 30, 2022, the Company recognized \$6,300, in accounts payable - related party and \$47,555 in other current liabilities - related party under this consulting agreement.

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

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

In January 2021 and April 2021, the Company entered into two separate Collaborative Research Agreements pursuant to a Master Services Agreement with VivaCell Biotechnology España, S.L.U ("VivaCell"), a research and development entity with substantial expertise in cannabinoid science and a subsidiary of Emerald Health Research, Inc., which is 100% owned by Sciences. Under the Collaborative Research Agreements, VivaCell will provide research and development services pursuant to agreed-upon project plans for the research and development of SBI-200 and the preclinical development services for novel derivatives. The term of each agreement is initially for a one-year period. The agreements will terminate upon delivery and acceptance of the final deliverables under the project plans or if either party is in breach of the terms of the contract and such breach remains uncured for 45 days. Payment for services are based on the negotiated amounts for the completion of agreed upon objectives as provided in the Collaborative Research Agreements. For the three months ended September 30, 2022 and 2021, the Company incurred \$0 and \$73,678, respectively, in expenses under the Collaborative Research Agreements. For the nine months ended September 30, 2022 and 2021, the Company incurred \$87,926 and \$143,278, respectively, in expenses under the Collaborative Research Agreements. As of December 31, 2021, the Company recognized prepaid asset in the amount of \$8,056.

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

The Company has agreed to pay to VivaCell a royalty based on any and all licensing revenue or other consideration paid to the Company by a third-party licensee, assignee or purchaser of intellectual property rights created under the ESRA. In addition, upon a change of control transaction, the Company has agreed to pay an amount equal to the royalty percentage multiplied by the fair value of the intellectual property created under the ESRA. Pursuant to the ESRA, VivaCell will provide a budget to be approved by the Company for each project, and the Company will make payments in accordance with the approved budget and pay an annual retainer to VivaCell of \$200,000 per year. For the three and nine months ended September 30, 2022, the Company incurred \$50,000 and \$150,000, respectively, in research and development expenses related to the retainer under the ESRA. As of September 30, 2022 and December 31, 2021, the Company has recognized \$50,000 and \$5,376 in accounts payable - related parties and prepaid expense - related party, respectively, related to the retainer under the ESRA.

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

On March 1, 2022, the Company entered into a research project with VivaCell under the ESRA Agreement for the development of a screening platform for anteroposterior ocular diseases. The project budget is \$190,500. For the three and nine months ended September 30, 2022, the Company incurred \$47,000 and \$167,000, respectively of research and development expenses under the ESRA. As of September 30, 2022, the Company recognized \$54,835, in other current liabilities - related parties related to the first research project. As of September 30, 2022, the Company recognized \$63,916, in accounts payable - related parties under this agreement.

Management Conflicts

As of September 30, 2022, the Company's CEO Punit Dhillon, is a board member of the Company and EHT (Note 3 & 11). Mr. Dhillon also served as a board member of Sciences, VivaCell and , Emerald Health Pharmaceuticals, Inc. ("EHP") until he tendered his resignation from such boards on August 10, 2020, September 22, 2021 and August 19, 2022, respectively. On July 8, 2022, Punit Dhillon was appointed to serve as the interim principal executive officer of EHP under a consulting arrangement (Note 11). On October 28, 2022, Mr. Dhillon resigned as the interim principal executive officer of EHP and the consulting arrangement was terminated.

On February 28, 2022, the Company entered into a standard consulting agreement with the CEO's brother. Compensation under the agreement is for a rate of approximately \$73 per hour. The consulting agreement may be terminated by either party upon providing 15 days of advance notice. For the nine months ended September 30, 2022, the Company incurred \$8,595, in consulting expenses in general and administrative expenses under this agreement. No expense was incurred under this agreement during the three months ended September 30, 2022. As of September 30, 2022, the Company recorded \$10,779 to deferred asset acquisition cost related to this consulting agreement.

10. Commitments and Contingencies

Office Lease

The Company leases office space for its corporate headquarters, located at 11250 El Camino Real, Suite 100 San Diego, California 92130. The lease is effective from September 1, 2021 through October 31, 2023 and contains a renewal option for a two-year extension after the current expiration date. The Company does not expect that the renewal option will be exercised, and has therefore excluded the option from the calculation of the right of use asset and lease liability. The lease provides for two months of rent abatement and the initial monthly rent is \$8,067 per month with annual increases of 3% commencing on November 1, 2022. The lease includes non-lease components (i.e., property management costs) that are paid separately from rent, based on actual costs incurred, and therefore were not included in the right-of-use asset and lease liability but are reflected as an expense in the period incurred. In calculating the present value of the lease payments, the Company has elected to utilize its incremental borrowing rate based on the lease term.

For the three and nine months ended September 30, 2022 and 2021 lease expense comprised of \$2,675 and \$7,558, and \$68,026 and \$7,558, respectively in lease cost from the Company's non-cancellable operating lease.

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

	September 30, 2022
Weighted-average remaining term – operating lease (in years)	1.08
Weighted-average discount rate – operating lease	12 %

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

Year:		
2022	\$	24,686
2023		83,093
Total future minimum lease payments:		107,779
Less imputed interest		(7,196)
Total	\$	<u>100,583</u>

Reported as:

Operating lease liability	\$	92,356
Operating lease liability, net of current portion		8,227
Total lease liability	\$	<u>100,583</u>

General Litigation and Disputes

From time to time, in the normal course of operations, the Company may be a party to litigation and other dispute matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable outcome to any legal matter, if material, could have a materially adverse effect on the Company's operations or financial position, liquidity or results of operations.

As of September 30, 2022, the Company is party to a legal proceeding with a former employee alleging wrongful termination. Due to the stage of the proceedings as of September 30, 2022, the Company is unable to estimate the potential contingency as the outcome remains uncertain. The Company is expensing the legal costs related to this proceeding as incurred.

11. Subsequent Events

Loan Agreement with EHT

On October 17, 2022, Skye and EHT entered into a loan agreement (the "Loan Agreement") pursuant to which EHT loaned Skye USD\$700,000 (the "Loan") in accordance with the terms of a promissory note ("Note"). Skye intends to use the proceeds from the Loan for general working capital purposes.

The Loan is unsecured and will accrue simple interest from October 17, 2022, until paid at an interest rate of 12% per annum, provided, however, that upon closing of the Acquisition, such interest rate has been reduced to 5% per annum.

The entire outstanding principal amount of the Loan and applicable interest accrued matures in full on October 17, 2023.

As required under the Skye's amended and restated multi-draw credit facility, Skye has obtained a waiver from Emerald Health Sciences, Inc. to incur debt under the Loan.

Acquisition of EHT

On November 7, 2022, EHT agreed to waive the requirement to obtain a conditional letter from the CSE and the Acquisition closed on November 10, 2022. The Company has covenanted to use its best efforts to continue to pursue the CSE listing subsequent to the closing date. (See Note 3 *Acquisition of EHT* for more information).

Sale of Verdélite

On November 10, 2022, EHT, C3 Souvenir Holding, Inc., a corporation governed under the Canada Business Corporations Act ("Purchaser"), Verdélite Sciences, Inc. ("Verdélite"), Verdélite Property Holdings, Inc. ("VPHI") entered into a stock purchase agreement (the "Verdélite SPA") effective November 8, 2022, pursuant to which Purchaser will acquire all of the outstanding shares of Verdélite, the holder of EHT's most significant real estate asset, for an aggregate purchase price of approximately USD\$9,312,000, subject to certain adjustments. Prior to the closing of the Acquisition, VPHI was wound up into Verdélite and Verdélite is a wholly owned subsidiary of EHT. The terms of the Verdélite SPA provide for an upfront, non refundable deposit, except in the case of material breach, in the amount of approximately \$548,000, which as already been received by EHT. The remainder of the purchase price will be paid as follows, (i) approximately \$6,026,000 to be paid on the closing date of the Verdélite SPA, (ii) three equal installments of approximately \$913,000 to be paid on each of the 18-month ("Term 1"), 30-month ("Term 2"), and 42 month ("Term 3") anniversaries of the closing date.

Annual compounded interest on the loan receivable will be payable at the end of Term 3 and will accrue at a rate equal to the Prime Rate set by the Bank of Montreal plus 1.55%, 3.55% and 5.55% per annum for Term 1, Term 2 and Term 3, respectively. The Purchaser has the option to prepay the principal term payments in full at any time during Term 1 or Term 2. If prepayment occurs, the interest rate will be retrospectively adjusted to the Prime Rate plus 1.55%, compounded annually, until the installment payments are paid in full.

The balance of the purchase price after closing will be secured against the assets and stock of the Purchaser.

The Verdélite SPA contains customary closing conditions including, but not limited to, the completion of an environmental audit by EHT.

The foregoing description of the Verdélite SPA do not purport to be complete and are qualified in their entirety by reference to the text of the Verdélite SPA which is attached as exhibit 10.3 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Management Conflicts

On October 28, 2022, the Company's CEO, Punit Dhillon, tendered his resignation as principal executive officer of EHP. As such, Mr. Dhillon is no longer affiliated with EHP.

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 nine months ended September 30, 2022 and 2021 (unaudited) and the consolidated financial statements and the related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, together with the notes thereto. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

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

About Skye Bioscience, Inc.

We are a preclinical pharmaceutical company focused on the discovery, development and commercialization of a novel class of cannabinoid derivatives to modulate the endocannabinoid system, which has been shown to play a vital role in overall human health and, notably, in multiple ocular indications. We are developing novel cannabinoid derivatives through our own directed research efforts and multiple license agreements. We have retained Novotech as our contract research organization "CRO" in Australia and expect to commence a Phase 1 trial in the fourth quarter of 2022. We are also working towards filing our IND for SBI-100 by year end in anticipation of the start of our Phase 2 clinical trial in 2023.

On May 11, 2022, we entered into an Arrangement Agreement (as amended, the "Arrangement Agreement") with Emerald Health Therapeutics, Inc., a corporation existing under the laws of the Province of British Columbia, Canada ("EHT"), pursuant to which we agreed to acquire all of the issued and outstanding common shares of EHT (the "EHT Shares") pursuant to a plan of arrangement under the Business Corporations Act (British Columbia) (the "Acquisition"). On November 7, 2022, EHT and the Company agreed to waive the mutual closing condition requiring the Company to obtain conditional approval from the Canadian Stock Exchange to list the common stock of the Company. The Acquisition was consummated on November 10, 2022. Under the terms of the Arrangement Agreement and the Plan of Arrangement, on November 10, 2022, each share of EHT common stock ("EHT Shares") outstanding immediately prior to the effective time of the Acquisition (the "Effective Time") was transferred to the Company in exchange for 1.95 shares (the "Exchange Ratio") of Company common stock. The cash and assets of EHT acquired in the Acquisition will be used to fund our Phase 1 and Phase 2 clinical trials. EHT is currently in the advanced stages of its realization process to wind down all prior operations and liquidate substantially all of its remaining assets. We expect this strategic opportunity to be a pivotal financing event for our business allowing us to extend our cash runway into at least the second quarter of 2023 and obtain meaningful clinical data. In addition, EHT has a lab facility which we are currently evaluating to determine whether it is practical to bring certain aspects of our research and development activities in house.

Our Product Candidates and Significant Contracts

Refer to our more recent Form 10-K filed with the Securities Exchange Commission for information regarding our product candidates and significant contracts.

In June 2022, we received approval from Belberry Limited, a certified Australian Human Research Ethics Committee, to begin our Phase 1 clinical trial for the study of our lead product candidate, SBI - 100 OE. We subsequently notified the Australian Therapeutics Goods Administration of our intent to initiate our Phase 1 clinical trial through the Clinical Trial Notification scheme. In connection with this approval to initiate the first-in-human trial for SBI-100 by a governmental regulatory authority, we triggered the first milestone payment under our license agreement for UM 5050 with UM.

In addition, during September of 2022 we completed the manufacture of the clinical trial material, SBI - 100 OE, for our Phase 1 clinical trial which is expected to commence before the end of 2022.

During the quarter ended September 30, 2022, we initiated the manufacture of the active pharmaceutical ingredient to be used in our Phase 2 clinical trial. We obtained feedback from the FDA during our pre-IND meeting that we may commence our Phase 2 trial in the United States without having conducting a Phase 1 study. We expect to begin our Phase 2 trial in the first half of 2023.

General Trends and Outlook

During the second quarter of 2022, we were indirectly impacted by a cyberattack on our Phase 1 clinical supply contract manufacturer. This disruption delayed our production timeline and the anticipated initiation of enrollment in our Phase 1 clinical studies for SBI-100 Ophthalmic Emulsion ("SBI-100 OE") to the fourth quarter of 2022. The overall potential delay in our drug product research and development from these types of incidents is unknown, but our operations and financial condition may continue to suffer in the event of continued business interruptions, supply chain issues, delayed clinical trials, production or a lack of laboratory resources due to the pandemic and other global conditions. It is possible that we may encounter other similar issues relating to the current situation that will need to be managed in the future. The factors to take into account in going concern judgements and financial projections include travel bans, restrictions, government assistance and potential sources of replacement financing, financial health of service providers and the general economy.

Financial Overview

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

We have incurred operating losses and negative cash flows from operations since inception and as of September 30, 2022, had a working capital deficit of \$3,462,290 and an accumulated deficit of \$56,846,123. As of September 30, 2022, we had unrestricted cash in the amount of \$415,389. For the three and nine months ended September 30, 2022 and 2021, we incurred losses from operations of \$2,922,282 and \$1,819,109, and 9,028,662 and 5,386,044, respectively. For the three and nine months ended September 30, 2022 and 2021, we incurred net losses of \$3,127,283 and \$1,824,818, and \$9,589,960 and \$6,009,362, respectively. We expect to continue to incur significant losses through 2022 and expects to incur significant losses and negative cash flows from operations in the future.

Critical Accounting Policies and Estimates

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

Management assessed the critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 and included a new *Asset Acquisition*" policy note and made updates to its *Stock-based Compensation*" policy note which are critical to its accounting policies and estimates during the nine months ended September 30, 2022 (Note 2).

Recently Issued and Adopted Accounting Pronouncements

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

Results of Operations

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

Three months ended September 30, 2022 and 2021*Research and Development Expenses*

Research and development expenses included the following:

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

We expect to incur future research and development expenditures to support our preclinical and clinical studies. Preclinical activities include laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies to assess safety and efficacy. Our application to administer our lead drug candidate, SBI-100 OE, in human subjects has been submitted and approval was obtained by Belberry Limited, an Australian Human Research Ethics Committee (HREC) during the second quarter of 2022 and during the quarter ended September 30, 2022, we completed the production of SBI-100 OE clinical trial material for our Phase 1 study. We have received authorization from a certified Human Research Ethics Committee in Australia and appropriately notified the Australian Therapeutics Goods Administration that we intend to commence the Phase 1 clinical trial. We expect to initiate enrollment in our first-in-human study during the fourth quarter of 2022.

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

	Three Months Ended September 30,			
	2022	2021	\$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Research and development expenses	\$ 1,781,724	\$ 327,731	\$ 1,453,993	444 %

Research and development expenses for the three months ended September 30, 2022 increased by \$1,453,993 as compared to the three months ended September 30, 2021. The increase in research and development expenses was primarily due to an increase in contract research and development activities, including \$1,400,531 for the manufacturing of our Phase 1 clinical trial material for SBI-100 OE and the manufacture of API for our Phase 2 study. In addition, the Australian regulatory approval triggered a license fee milestone payment to UM for regulatory approval in Australia of \$100,000. This increase was offset by a decrease in consulting fees of \$56,696.

General and Administrative Expenses

Below is a summary of general and administrative expenses for the three months ended September 30, 2022 and 2021:

	Three Months Ended September 30,			
	2022	2021	\$ Change 2022 vs. 2021	% Change 2022 vs. 2021
General and administrative expenses	\$ 1,140,558	\$ 1,491,378	\$ (350,820)	(24) %

General and administrative expenses for the three months ended September 30, 2022 decreased by \$350,820 as compared to the three months ended September 30, 2021. The decrease in general and administrative expenses was primarily due to a decrease in stock compensation expense of \$278,321 related to the acceleration of a vesting provision and the extension of the post termination exercise period for two stock option awards that were modified in connection with the termination of a consultant which resulted in higher stock compensation expense during the three months ended September 30, 2021, as compared to the three months ended September 30, 2022. Decreases in general and administrative expenses also included decreases in consulting fees of \$61,467, a decrease in employee wages of \$82,360 related to a change in estimate in bonus accruals, decreases in investor relations expenses of \$100,535 and decrease in recruiting fees of \$49,120. The aggregate decrease was offset by increases of approximately \$181,000 and \$55,351 in employee salaries due to increases in headcount and software expenses, respectively.

Other Expense (Income)

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

	Three Months Ended September 30,			
	2022	2021	\$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Change in fair value of derivative liabilities	\$ (6,228)	\$ (189,649)	\$ 183,421	(97) %
Interest expense	211,229	195,358	15,871	8 %
Total other expense	\$ 205,001	\$ 5,709	\$ 199,292	3491 %

For the three months ended September 30, 2022, we had net other expense of \$205,001 related to interest expense and a gain from the change in fair value of our warrant liability. When comparing the three months ended September 30, 2022 and 2021, total other expense increased by \$199,292. Gains and losses from the change in fair value of our derivative liabilities are due primarily to fluctuations in our stock price and our volatility during each period. The increase in interest expense was due to an increase in the amortization of the debt discount on our Amended Credit Agreement for the period ended September 30, 2022, as compared to the period ended September 30, 2021.

Nine months ended September 30, 2022 and 2021

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

	Nine Months Ended September 30,			
	2022	2021	\$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Research and development expenses	\$ 4,474,531	\$ 1,818,059	\$ 2,656,472	146 %

Research and development expenses for the nine months ended September 30, 2022 increased by \$2,656,472 as compared to the nine months ended September 30, 2021. The increase in research and development expenses was primarily due to an increase in contract research and development activities, including \$1,879,964 for the manufacturing of our Phase 1 clinical trial material for SBI-100 OE, the manufacture of API for our Phase 2 study and contracted site initiation costs for our Phase 1 clinical study. In addition, we incurred \$113,717 in expense for the use of specialized consultants, had increased costs related to lab supplies and materials of \$45,964, an increase in compensation cost of \$467,370 due to bonus expense and additional headcount from the addition of regulatory and development personnel, an increase in software of \$31,637 and an increase in license fees from meeting the first milestone under our license agreement with UM.

General and Administrative Expenses

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

	Nine Months Ended September 30,			
	2022	2021	\$ Change 2022 vs. 2021	% Change 2022 vs. 2021
General and administrative expenses	\$ 4,554,131	\$ 3,567,985	\$ 986,146	28 %

General and administrative expenses for the nine months ended September 30, 2022 increased by \$986,146 as compared to the nine months ended September 30, 2021. The increase in general and administrative expenses was primarily due to an increase in employee wages and board fees of \$422,584 related to the hiring of our chief financial officer and the addition of two board members. Additionally, there were increases in professional and legal fees of \$794,893 related primarily to preliminary diligence costs associated with the EHT Acquisition which were expensed as incurred during the first quarter and general legal fees, an increase in software expense of \$113,596, and an increase in facilities and rent expense of \$72,164. The aggregate increase was offset by decreases of \$234,490 and 159,789 and \$54,244 in investor relations expenses, consulting and recruiting expenses, respectively.

Other Expense (Income)

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

	Nine Months Ended September 30,			
	2022	2021	\$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Change in fair value of derivative liabilities	\$ (59,406)	\$ 169,349	\$ (228,755)	(135) %
Interest expense	615,563	570,322	45,241	8 %
Gain on forgiveness of PPP loan	—	(117,953)	117,953	100 %
Total other expense	\$ 556,157	\$ 621,718	\$ (65,561)	(11) %

For the nine months ended September 30, 2022, we had net other expense of \$556,157 related to interest expense, offset in part by a gain from the change in fair value of derivative liabilities. The primary reason for the gain on the change in fair value of our derivative liabilities was due to the decrease in our stock price and volatility, for the period ended September 30, 2022 as compared to the period ended September 30, 2021. The increase in interest expense was primarily due to an increase in the amortization of the debt discount on our Amended Credit Agreement for the period ended September 30, 2022, as compared to the period ended September 30, 2021.

For the nine months ended September 30, 2021, we had net other expense of \$621,718 related to interest expense and a loss from the change in fair value of derivative liabilities. The primary reason for the loss on the change in fair value of our derivative liabilities was due to an increase in our stock price and volatility, for the period ended September 30, 2021. Other expenses during the period were offset by the gain on debt forgiveness realized from the PPP Loan.

Liquidity, Going Concern and Capital Resources

Liquidity and Going Concern

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

During the latter part of 2022 and in 2023, we expect to fund our operations through the strategic acquisition of EHT and subsequent liquidation of EHT's assets. Management expects that this funding opportunity will provide us with financing at least through the second quarter of 2023 which will allow Skye to complete its Phase 1 trial and commence its Phase 2 trial. During the nine months ended September 30, 2022, we expended significant resources on the acquisition of EHT and experienced transactional delays which resulted in the further extension of the outside date to close the transaction. Due to these delays, in October 2022 we obtained a working capital loan from EHT to continue operations through the date of closing. These two factors, among others, have resulted in an overall increase in cash used in operating activities for the nine months ended September 30, 2022. On November 10, 2022, we closed the Acquisition and acquired its remaining assets consisting primarily of cash and real estate. However, based on our expected cash requirements, without obtaining additional funding by the end of the second half of 2023, we will not have enough funds to continue operations. These conditions give rise to substantial doubt as to our ability to continue as a going concern within one year after the date that the financial statements are issued.

During the third quarter of 2022, we met our operational funding requirements during the pre-closing period by, among other things, laying off two employees and entered into a \$700,000 working capital bridge loan from EHT. In late 2022 and early 2023, we will continue with the liquidation of EHT's assets and pursue financing transactions. However, we cannot provide any assurances that such additional funds will be available on reasonable terms, or at all. If we raise additional funds by issuing equity securities, dilution to existing stockholders would result.

On October 5, 2018, we secured a Credit Agreement with Sciences, that provided us with a credit facility of up to \$20,000,000. On April 29, 2020, we entered into the first amendment to the Credit Agreement with Sciences, which amended and restated the Credit Agreement. On March 29, 2021, we entered the second amendment to the Amended Credit Agreement to defer interest payments until the earlier of maturity or prepayment of the principal balance. Effective September 15, 2021, the disbursement line under the credit facility was closed and the Amended Credit Agreement no longer serves as a potential source of liquidity to the Company. The outstanding principal advances of \$2,464,500 plus accrued interest of \$305,734 was due on October 5, 2022 and we are currently within the 30 business day grace period for repayment.

As of September 30, 2022, we had an accumulated deficit of \$56,846,123, stockholders' deficit of \$3,284,981 and a working capital deficit of \$3,462,290. We had unrestricted cash of \$415,389 as of September 30, 2022, as compared to \$8,983,007 as of December 31, 2021. The decrease was attributable to operating cash burn during the nine months ended September 30, 2022, which was accelerated due to Acquisition related costs and increases in our research and development expenses as we approach our Phase 1 clinical study. Without additional funding, management believes that we will not have enough funds to meet our obligations and continue our preclinical and clinical studies beyond one year after the date the Condensed Consolidated Financial Statements are issued. These conditions indicate it is probable that there is substantial doubt as to our ability to continue as a going concern, unless we are able to raise sufficient capital to continue our operations.

Our prior independent registered public accounting firm has issued a report on our audited consolidated financial statements as of and for the year ended December 31, 2021, that included an explanatory paragraph referring to our recurring operating losses and expressing substantial doubt in our ability to continue as a going concern. Our Condensed Consolidated Financial Statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they become due. The outcome of these matters cannot be predicted with any certainty at this time and raise substantial doubt that we will be able to continue as a going concern. Our Condensed Consolidated Financial Statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

Cash Flows

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

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (7,872,550)	\$ (4,506,032)
Net cash used in investing activities	(452,110)	(36,828)
Net cash (used in) provided by financing activities	(242,955)	13,163,078

Cash Flows from Operating Activities

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

Cash used in operating activities of \$7,872,550 during the nine months ended September 30, 2022, reflected a net loss of \$9,589,960, partially offset by aggregate non-cash charges of \$930,372 and included a \$787,038 net change in our operating assets and liabilities.

Non-cash charges included \$425,846 for stock-based compensation expense, \$480,466 non-cash interest expense from the amortization of the debt discount on the multi-draw credit facility – related party, a \$59,406 gain from the decrease in fair value of our warrant liability and \$83,466 in depreciation and amortization. The net change in our operating assets and liabilities included a \$334,127 increase in our accrued expense and other current liabilities and a \$488,222 increase in our accounts payable.

Cash used in operating activities of \$4,506,032 during the nine months ended September 30, 2021, reflected a net loss of \$6,009,362, partially offset by aggregate non-cash charges of \$1,247,113 and included a \$256,217 net change in our operating assets and liabilities. Non-cash charges included \$747,252 for stock-based compensation expense, \$439,053 non-cash interest expense from the amortization of the debt discount on the multi-draw credit facility – related party, \$9,412 depreciation and amortization of property and equipment, \$169,349 loss from the increase in fair value of our warrant liability and \$117,953 related to the forgiveness of the PPP loan. The net change in our operating assets and liabilities included a \$149,213 decrease in our prepaid expense and other current assets, a \$69,751 decrease in accounts payable and a \$483,490 increase in our accrued expense and other current liabilities.

Cash Flows from Investing Activities

Our investing activities consist of our capital expenditures in relation to the purchase of property plant and equipment and costs incurred in connection with the acquisition of EHT. During the nine months ended September 30, 2022 and 2021, the Company purchased \$15,556 and \$36,828 in machinery office equipment, respectively. During the nine months ended September 30, 2022, the Company made \$436,554 in payments for costs related to the Acquisition of EHT.

During the nine months ended September 30, 2021, our investing activities have consisted primarily of our capital expenditures in relation to the purchase of property plant and equipment.

Cash Flows from Financing Activities

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

During the nine months ended September 30, 2022, cash used in financing activities included \$1,967 in proceeds received in connection with the exercise of pre-funded warrants and a \$244,922 repayment on the our insurance premium loan payable.

During the nine months ended September 30, 2021, cash provided by financing activities included \$7,011,799 in proceeds received in connection with the exercise of warrants, \$6,146,496 in net proceeds from the issuance of common stock, pre-funded warrants and common stock warrants, and \$4,783 received from employee stock option exercises.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

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

We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2022. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective at a the reasonable assurance level.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors.

Not required because we are a smaller reporting company.

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

The language in Item 5 below under the heading "*Completion of Acquisition or Disposition of Assets*" is incorporated by reference into this section.

The Consideration Shares, the Replacement Options, and the Replacement Warrants (each as defined below) issued by the Company in connection with the consummation of the Arrangement were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(10) of the Securities Act based on the final order of the Supreme Court of British Columbia following a hearing by the court which considered, among other things, the fairness of the Acquisition to the persons affected.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Completion of Acquisition or Disposition of Assets

As previously disclosed in the Current Reports on Form 8-K filed by the Company with the Securities and Exchange Commission (the "SEC"), the Company entered into an Arrangement Agreement on May 11, 2022 (as amended, the "Arrangement Agreement"), with EHT, pursuant to which the Company agreed to acquire all of the issued and outstanding common shares of EHT (the "EHT Shares") pursuant to a plan of arrangement (the "Plan of Arrangement") under the Business Corporations Act (British Columbia) (the "Acquisition"). The Supreme Court of British Columbia issued a final order approving the Acquisition on August 25, 2022. On November 7, 2022, EHT and the Company agreed to waive the mutual closing condition requiring the Company to obtain conditional approval from the Canadian Stock Exchange to list the common stock of the Company. The Acquisition was consummated on November 10, 2022 (the "Closing Date"). Under the terms of the Arrangement Agreement and the Plan of Arrangement, on November 10, 2022, each share of EHT common stock ("EHT Shares") outstanding immediately prior to the effective time of the Acquisition (the "Effective Time") was transferred to the Company in exchange for 1.95 of a share (the "Exchange Ratio") of Company common stock, par value \$0.001 per share ("Company Common Stock"). In the aggregate, EHT shareholders received 416,270,514 shares of Company Common Stock (the "Consideration Shares"). The Exchange Ratio was agreed to on May 11, 2022 and was not adjusted for any subsequent changes in market price of the Company Common Stock or EHT Shares prior to the Closing Date. It is expected that, for U.S. and Canadian federal income tax purposes, the Acquisition shall constitute a taxable exchange by the EHT shareholders of EHT Shares for Company Common Stock.

In addition, at the Effective Time, (i) all EHT options to purchase EHT Shares ("EHT Options") granted under EHT's omnibus incentive plan that are outstanding as of the Effective Time, were exchanged into options to purchase shares of Company Common Stock, with the number of shares underlying each option (and the exercise price of such option) adjusted based on the Exchange Ratio, with the options retaining the same term to expiry, conditions to and manner of exercise and other terms and conditions as the EHT Options (the "Replacement Options") and (ii) each of the warrants to acquire EHT Shares (the "EHT Warrants") were exchanged into warrants to acquire Company Common Stock after adjustments to reflect the Acquisition and to account for the Exchange Ratio, with each warrant retaining the same term to expiry, conditions to and manner of exercise and other terms and conditions of the EHT Warrants (the "Replacement Warrants"). In the aggregate, the Company issued 8,282,626 Replacement Options and 60,947,407 Replacement Warrants in connection with the Acquisition.

The foregoing summary description of the completion of the Acquisition does not purport to be complete and is qualified in its entirety by reference to the terms of the Arrangement Agreement, which was filed as Exhibit 2.1 to this Quarterly Report on Form 10-Q, as well as the amendments to the Arrangement Agreement filed as Exhibits 2.2, 2.3 and 2.4 to this Quarterly Report on Form 10-Q.

Unregistered Sales of Equity Securities

The Consideration Shares, the Replacement Options, and the Replacement Warrants issued by Company in connection with the consummation of the Acquisition were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(10) of the Securities Act based on the final order of the Supreme Court of British Columbia following a hearing by the court which considered, among other things, the fairness of the Acquisition to the persons affected.

Election of Director

As of the Effective Time, the Board of Company appointed Bobby Rai to serve as a director until his successor is duly elected or appointed and qualified or until his earlier retirement, disqualification resignation, removal or death.

Mr. Rai will receive annual director compensation for his service on the Board in an amount equal to \$40,000, plus aggregate annual committee compensation of \$1,000. Additionally, Company anticipates that Mr. Rai will be granted a one time award of stock options consistent with their non-employee director compensation policy.

In addition, Mr. Rai entered into the Company's standard indemnification agreement.

Financial Statements

The financial statements required by Item 9.01(a) of Form 8-K and the notes related thereto are filed as Exhibit 99.1 and 99.2 to this Quarterly Report on Form 10-Q.

The pro forma financial information required by Item 9.02(b) of Form 8-K and the notes related thereto are included above in Note 3 to the Condensed Consolidated Financial Statements (Unaudited) and are incorporated by reference herein.

Entry into a Material Definitive Agreement

On November 10, 2022, EHT, C3 Souvenir Holding, Inc., a corporation governed under the Canada Business Corporations Act ("Purchaser"), Verdélite Sciences, Inc. ("Verdélite"), Verdélite Property Holdings, Inc. ("VPHI") entered into a stock purchase agreement (the "Verdélite SPA") effective November 8, 2022, pursuant to which Purchaser will acquire all of the outstanding shares of Verdélite, the holder of EHT's most significant real estate asset, for an aggregate purchase price of approximately USD\$9,312,000, subject to certain adjustments. Prior to the closing of the Acquisition, VPHI was wound up into Verdélite and Verdélite is a wholly owned subsidiary of EHT. The terms of the Verdélite SPA provide for an upfront, non refundable deposit, except in the case of material breach, in the amount of approximately \$548,000, which as already been received by EHT. The remainder of the purchase price will be paid as follows, (i) approximately \$6,026,000 to be paid on the closing date of the Verdélite SPA, (ii) three equal installments of approximately \$913,000 to be paid on each of the 18-month ("Term 1"), 30-month ("Term 2"), and 42 month ("Term 3") anniversaries of the closing date.

Annual compounded interest on the loan receivable will be payable at the end of Term 3 and will accrue at a rate equal to the Prime Rate set by the Bank of Montreal plus 1.55%, 3.55% and 5.55% per annum for Term 1, Term 2 and Term 3, respectively. The Purchaser has the option to prepay the principal term payments in full at any time during Term 1 or Term 2. If prepayment occurs, the interest rate will be retrospectively adjusted to the Prime Rate plus 1.55%, compounded annually, until the installment payments are paid in full.

The balance of the purchase price after closing will be secured against the assets and stock of the Purchaser.

The Verdélite SPA contains customary closing conditions including, but not limited to, the completion of an environmental audit by EHT.

The foregoing description of the Verdélite SPA do not purport to be complete and are qualified in their entirety by reference to the text of the Verdélite SPA which is attached as exhibit 10.3 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Item 6. Exhibits.

2.1	Arrangement Agreement, dated May 11, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on May 11, 2022)
2.2	Amendment No. 1 to the Arrangement Agreement, dated June 14, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 17, 2022)
2.3	Amendment No. 2 to the Arrangement Agreement, dated July 15, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 21, 2022)
2.4	Amendment No. 3 to the Arrangement Agreement, dated October 18, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 19, 2022)
3.1	Articles of Incorporation of Registrant, as amended (incorporated by reference to Exhibit 3.1 to our Report on Form 10-K filed on March 2, 2021)
3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to our Report on Form 10-K filed on March 2, 2021)
10.1	Skye Bioscience, Inc. 2014 Amended and Restated Omnibus Incentive Plan (incorporated by reference to our definitive proxy statement filed on August 31, 2022)
10.2*	Form of Stock Option Award - For Canadian Optionees under Amended and Restated 2014 Omnibus Incentive Plan
10.3**+	Share Purchase Agreement, dated November 8, 2022, by and between Emerald Health Therapeutics, Inc., 14428773 Canada Inc., Verdélite Sciences, Inc., Verdélite Property Holdings, Inc. and C3 Centre Holding Inc.
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
99.1	Financial statements of EHT as of December 31, 2021 and December 31, 2020 (incorporated by reference to our definitive proxy statement filed on August 31, 2022)
99.2	Unaudited Condensed Interim Consolidated Financial Statements of EHT as of June 30, 2021 and June 30, 2022 (incorporated by reference to our definitive proxy statement filed on August 31, 2022)
101	The following materials from the Skye Biosciences, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Balance Sheets (Unaudited), (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited), (iii) Condensed Consolidated Statements of Cash Flows (Unaudited), (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited), and (v) related Notes to the Unaudited Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(*) Filed herewith.

+ 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**

November 14, 2022

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

November 14, 2022

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

NOTICE OF GRANT OF STOCK OPTION AWARD - FOR CANADIAN OPTIONEES

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

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

Optionee: []

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

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

Participant: []

Skye Bioscience, Inc.

By: _____

Title: _____

Date: _____

Date: _____

CONSENT OF SPOUSE

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

Spouse's Signature:

Date:

328972.00001/117626132.2

SF-4852369

TERMS AND CONDITIONS OF STOCK OPTION AWARD

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

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

The Company intends for this Option to qualify as an agreement to sell or issue securities for the purposes of section 7 of the *Income Tax Act* (Canada) (the "ITA") and any equivalent provision of any corresponding provincial or territorial legislation (an "Equivalent Provincial/Territorial Tax Provision"), and for this Option to be eligible, to the maximum extent possible, for a deduction under paragraph 110(1)(d) of the ITA and any Equivalent Provincial/Territorial Tax Provision. This Agreement shall be administered and construed in light of this intention, and the Company may modify the Plan and this Award to the extent necessary to fulfill it.

- (a) Exercise of Option. This Option shall be exercisable, in whole or in part, during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement. No Shares shall be issued pursuant to the exercise of an Option unless the issuance and exercise comply with applicable laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares. The Committee may, in its discretion, (i) accelerate vesting of the Option, or (ii) extend the applicable exercise period to the extent permitted under Section 6.03 of the Plan.
- (b) Method of Exercise. The Optionee may exercise the Option by delivering an exercise notice in a form approved by the Company (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Shares exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.
- (c) Acceleration of Vesting on Change in Control. Unless otherwise specified in the Notice of Grant, in the event of a Change in Control, no accelerated vesting of any Options outstanding on the date of such Change in Control shall occur.

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

- (a) cash or check;
- (b) a "net exercise" method under which Options are exchanged for a number of shares of Shares 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), in which case the Company agrees to make the election described in subsection 110(1.1) of the ITA and any Equivalent Provincial/Territorial Tax Provision in respect of such exchange (to the extent the making of such election is required in order for the Optionee to benefit from a deduction under paragraph 110(1)(d) of the ITA and any Equivalent Provincial/Territorial Tax Provision).

- (c) any other consideration that the Committee deems appropriate and in compliance with applicable law as well as the requirements for eligibility, to the maximum extent possible, for a deduction under paragraph 110(1)(d) of the ITA and any Equivalent Provincial/Territorial Tax Provision.

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 to any member of the Optionee's Immediate Family or to a trust, limited liability company, family limited partnership or other equivalent vehicle, established for the exclusive benefit of one or more members of his Immediate Family by delivering to the Company a Notice of Assignment in a form acceptable to the Company. No transfer or assignment of the Option to or on behalf of an Immediate Family member under this Section 4 shall be effective until the Company has acknowledged such transfer or assignment in writing. "Immediate Family" means the Optionee's parents, spouse, children, siblings, and grandchildren. Following transfer, the Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. In the event an Option is transferred as contemplated in this Section 4, such Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

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

6. Withholding.

- (a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Optionee with respect to the Option Award.
- (b) The Optionee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 11.05 of the Plan.
- (c) Subject to any rules prescribed by the Committee, the Optionee shall have the right to elect to meet any withholding requirement (i) by transferring Options having a fair market value equal to the amount of any taxes required to be withheld with respect to the exercise of Options (together with any taxes required to be withheld with respect to such transfer) to the Company in exchange for a cash payment which the Optionee shall direct the Company to retain in order to satisfy the applicable withholding requirements, (ii) by making a 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 the methods described in paragraph (i) and (ii). In the event that the Optionee elects to transfer Options to the Company in exchange for a cash payment to satisfy the relevant withholding requirements, the Company agrees to make the election described in subsection 110(1.1) of the ITA and any Equivalent Provincial/Territorial Tax Provision in respect of such transfer (to the extent the making of such election is required in order for the Optionee to benefit from a deduction under paragraph 110(1)(d) of the ITA and any Equivalent Provincial/Territorial Tax Provision).

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 prospectus requirement under Canadian securities laws, 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.

SHARE PURCHASE AGREEMENT
RELATING TO VERDELITE GROUP

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**SHARE PURCHASE AGREEMENT
OF THE VERDÉLITE GROUP**

Executed as of November 8, 2022

BETWEEN:

EMERALD HEALTH THERAPEUTICS, INC., a corporation governed by the *Business Corporations Act* (British Columbia), having an establishment located at 4420 West Saanich Road, P.O. Box 24076, Victoria, British Columbia, V8Z 7E7;

("Vendor")

-and-

C3 SOUVENIR HOLDING INC., a corporation governed by the *Canada Business Corporation Act*, having an establishment located at 212B boul. Labelle Rosemère, Québec, J7A 2H4;

("Purchaser")

VERDÉLITE SCIENCES, INC., a corporation governed under the *Canada Business Corporation Act*, having an establishment located at 560 boul. Industriel, Saint-Eustache, Québec, J7R 5V3;

("Corporation")

-and-

VERDÉLITE PROPERTY HOLDINGS, INC., a corporation governed under the *Business Corporation Act* (Québec), having an establishment located at 1419 rue Michelin Street, Laval, Québec, H7L 4S2;

("VPHI")

-and-

C3 CENTRE HOLDING INC., a corporation governed under the *Canada Business Corporation Act*, having an establishment located at 212B boul. Labelle Rosemère, Québec, J7A 2H4;

("C3")

(collectively the "Parties", individually, a "Party")

BACKGROUND

- A. The Vendor entered into an arrangement agreement dated May 11, 2022, as amended, with Skye Bioscience Inc. ("Skye") pursuant to which the Vendor and Skye will complete a plan of arrangement (the "**Arrangement**") in accordance with the *Business Corporations Act* (British Columbia).

- B. The Vendor is entering into this Agreement in connection with the Realization Process (as defined in the Arrangement Agreement).
- C. The Vendor is the legal and beneficial owner of all of the Purchased Shares which represent all of the issued and outstanding shares of the Corporation and VPHI.
- D. VPHI is the legal and beneficial owner of the Facility.
- E. Immediately prior to Closing, the Vendor will have completed the Pre-Closing Reorganization.
- F. Immediately after the completion of the Pre-Closing Reorganization, the Corporation will own all of the assets and liabilities and VPHI will have been dissolved.
- G. The Corporation is an authorized licensed cultivator and processor under the Cannabis Act, approved of conducting business in Québec, and is a licensed producer under the HC License.
- H. The Corporation owns or leases all the assets, equipment and machinery currently at the Facility.
- I. The Vendor agrees to sell and the Purchaser agrees to purchase the Purchased Shares and the Quebec IP on the terms and conditions contained in this Agreement.

IN CONSIDERATION of the premises and the mutual agreements in this Agreement, and of other considerations (the receipt and sufficiency of which are acknowledged by each Party), the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

Defined terms in this Agreement shall have the meanings ascribed thereto as set out in Schedule 1.1. Any reference to a word or term defined in the ITA includes, for Quebec income tax purposes, a reference to the word or equivalent term, if any, defined in the *Taxation Act* (Québec). Any reference to the ITA or any of its provisions includes, for Québec income tax purposes, a reference to the *Taxation Act* (Quebec) or the equivalent provision thereof, if any.

1.2 Schedules and Disclosure Letter

The following Schedules, the Disclosure Letter, and the Purchaser Disclosure Letter are incorporated into this Agreement and form part of this Agreement:

Schedule	Description of Schedule
Schedule 1.1	Definitions
Schedule A	Pre-Closing Reorganization

ARTICLE 2
PURCHASE AND SALE OF THE PURCHASED SHARES

2.1 Purchase and Sale of the Purchased Shares

Effective as of the Closing Date, the Vendor agrees to sell, and the Purchaser agrees to purchase, the Purchased Shares and the Québec IP on the terms and conditions contained in this Agreement.

2.2 Deposit

Prior to the execution of this Agreement, the Purchaser paid to the Vendor the amount of seven hundred fifty thousand dollars (\$750,000) (the "**Deposit**") as a non-refundable deposit, the receipt of which is hereby acknowledged by the Vendor. The Deposit is non-refundable and the Vendor shall have no obligation to return the Deposit to the Purchaser provided, however, that if the Agreement is terminated in accordance with Sections 4.8(b)(iii), 7.1(a)(ii) or 7.1(a)(iii), the Vendor will refund the Deposit to the Purchaser.

2.3 Purchase Price

Subject to this Article 2, the aggregate consideration payable by the Purchaser to the Vendor for the Purchased Shares and the Quebec IP is twelve million seven hundred fifty thousand Canadian dollars (CDN\$12,750,000) (the "**Purchase Price**"), on a cash-free debt-free basis, subject to adjustment in accordance with Section 2.9.

2.4 Payment of Purchase Price.

The Purchase Price shall be paid and satisfied by the Purchaser as follows:

- (a) application of the Deposit to the Purchase Price;
 - (b) Eight million two hundred fifty thousand dollars (CDN\$8,250,000.00) due on the Closing Date (the "**First Instalment**");
 - (c) Three million seven hundred fifty thousand dollars (CDN\$3,750,000.00), payable in three (3) equal instalments of one million two hundred fifty thousand dollars (CDN\$1,250,000), payable on each of the 18-month ("**Term 1**"), 30-month ("**Term 2**"), and 42-month ("**Term 3**") anniversaries of the Closing Date (the "**Principal Installment Payments**"), together with interest at the compounded annual rate of equal to the Prime Rate plus 1.55% per annum during Term 1, the Prime Rate plus 3.55% per annum during Term 2, and Prime Rate plus 5.55% per annum during Term 3, (the Term 1, Term 2 and Term 3 interest payments are hereinafter collectively referred to as the "**Interest**"), payable at the end of Term 3, (the Principal Instalment Payments and the Interest are collectively referred to as the "**Balance of Purchase Price**").
 - (d) At any time during Term 1 or Term 2, the Purchaser shall have the option to prepay the Principal Instalment Payments in full and, if the Purchaser does prepay
-

the then outstanding Principal Instalment Payments prior to the end of Term 2, the effective interest rate for the Balance of Purchase Price shall be fixed at a compounded annual rate of Prime Rate plus 1.55% for the entire period from Closing until the date of payment of the Principal Instalment Payments in full.

- (e) If the Purchaser fails to pay any Principal Instalment Payment when due in accordance with Section 2.4(c), (i) the interest rate for Term 1 will be increased to Prime Rate plus 5.55% per annum, effective from the first day of Term 1, (ii) the interest rate for Term 2 will be increased to Prime Rate plus 7.55% per annum, effective from the first day of Term 2 and (iii) the interest rate for Term 3 will be increased to Prime Rate plus 9.55% per annum, effective from the first day of Term 3.
- (f) The Balance of Purchase Price will be secured at Closing by way of the Purchaser providing the Vendor with: (i) a hypothec/mortgage/charge (the "**Charge**") in the form attached as Schedule 2.4(f)(i) registered on the title against all of the Purchaser's current and future tangible movable/personal property, financial instruments (including the capital stock of the Buyer), inventory, accounts receivable, claims and receivables, cash and deposits, and intellectual property, including the proceeds of the sale of any such assets (collectively, the "**Movable Property**"); and (ii) the Quebec IP Assignment Agreements being placed in escrow with counsel for the Vendor to be held pursuant to an escrow agreement among counsel to the Vendor, the Vendor and the Purchaser (the "**Quebec IP Escrow Agreement**", together with the Charge, the "**Security Arrangements**"), in the form attached as Schedule 2.4(f)(ii). The Charge shall be second only in priority to a Tier 1 financial institution's first charge not to exceed a maximum of one million five hundred thousand (\$1,500,000), or any other mutually acceptable guaranty or security as determined by the Parties if required to implement the Contemplated Financing.
- (g) On the Adjustment Date, the Adjustment Amount, if any, shall be paid by the Vendor to the Purchaser in accordance with Section 2.9.
- (h) For clarity, all Taxes payable by the Corporation and/or VPHI (including for greater certainty those set out in Section 3.1.16 of the Disclosure Letter) shall have been paid by the Vendor directly to the applicable Governmental Authority by the Closing Date (with evidence of payment and/or the applicable release and discharge received from the applicable Governmental Authority), to be provided to Purchaser at Closing Date, including without limitation, any amount owing disclosed in Schedule 3.1.16.

2.5 Allocation.

The Purchase Price will be allocated as follows:

- (a) Twelve million seven hundred forty nine thousand nine hundred and ninety nine dollars (\$12,749,999) for the Purchased Shares; and
 - (b) one dollar (\$1.00) for the Québec IP.
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2.6 C3 Guarantee

C3 hereby unconditionally, absolutely, irrevocably and solidarily guarantees the obligations of the Purchaser to pay the Purchase Price payable in accordance with the terms of this Agreement. The obligations of C3 under this Agreement are not reduced, limited or terminated and C3 is not released from its obligations for any reason whatsoever, other than the integral, final and definitive payment of the Purchase Price by the Purchaser. Without limiting the foregoing, C3 shall remain liable for the obligations of the Purchaser to pay the Purchase Price pursuant to this Agreement even if the Purchaser is released from such obligations by reason of bankruptcy, a proposal, an arrangement or any other reason. C3 waives all rights to invoke causes of nullity of the debts and obligations of the Purchaser or the excess or absence of authority of persons acting on behalf of the Purchaser.

The Vendor shall not be bound or obligated to exhaust its recourses against the Purchaser or other persons, or to discuss the security which it shall hold or take any other action before being entitled to the payment by C3 of the Purchase Price. C3 shall pay all reasonable costs and expenses incurred by the Vendor in enforcing this Agreement. C3 renounces the benefits of discussion and division. Moreover, C3 may not be subrogated in the rights of the Vendor until the Vendor shall have received the entire amount of its claims against the Purchaser in connection with the obligation to pay the Purchase Price pursuant to the terms of this Agreement.

The payment of the Purchase Price due to the Vendor pursuant to the terms of this Agreement shall be made, observed and executed by C3 without any reduction whatsoever including, without limitation, all reductions resulting from any means of defense, right of action, right of compensation, set-off, counterclaim or from a reconventional demand of whatever nature, which C3 or the Purchaser, as the case may be, should dispose of or have disposed of, at any time against the Vendor, in connection with this Agreement.

2.7 Preparation of Closing Date Statements

- (a) *Draft Closing Date Statements.* Promptly after the Closing, the Purchaser shall prepare a draft of the Closing Date Statements, which shall be delivered to the Vendor no later than the one hundred and twentieth (120th) day following the Closing Date. The costs of preparation of the Closing Date Statements shall be shared equally between the Vendor and the Purchaser.
 - (b) *Post-Closing Adjustment Amount.* The post-Closing adjustment amount (the "**Adjustment Amount**") shall be an amount equal to the extent to which the Closing Working Capital is higher or lower than \$0 (the "**Target Working Capital**"). If the Closing Working Capital is greater than \$0, the Purchase Price shall be increased by the amount of the excess over the Target Working Capital (the "**Working Capital Excess**"). If the Closing Working Capital is less than \$0, the Purchase Price shall be reduced by the amount of the deficiency from the Target Working Capital (the "**Working Capital Deficiency**").
 - (c) *Access to Records.* During the Review Period, the Purchaser shall give the Vendor and its Representatives such assistance and access to the Books and Records as the Vendor and its Representatives may reasonably request in order to enable them to reasonably prepare the draft Closing Date Statements. The Vendor shall be provided promptly with copies of all working papers created by the Purchaser and its Representatives in connection with the preparation of the draft Closing Date Statements.
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- (d) *Deemed Acceptance.* If the Vendor does not give a notice of objection in accordance with Section 2.8, the Vendor shall be deemed to have accepted the draft Closing Date Statements prepared by the Purchaser which shall then be final and binding on the Parties and such draft Closing Date Statements shall constitute the Closing Date Statements for purposes of this Agreement immediately following the expiry date for the giving of such notice of objection.

2.8 Dispute Settlement.

If the Vendor objects to any matter in the draft Closing Date Statements prepared pursuant to Section 2.6, then the Vendor shall be entitled to give notice (the "**Objection Notice**") to the Purchaser no later than thirty (30) days after delivery of the draft Closing Date Statements (the "**Review Period**"). The Objection Notice shall set forth in detail the particulars of each disputed item. The Purchaser and the Vendor shall then use reasonable efforts to resolve such disputed items for a period of 30 days following the delivery of the Objection Notice. If the Purchaser and the Vendor are unable to come to a resolution with respect to the matters raised in the Objection Notice by the end of such 30 day period, then such unresolved matters shall be submitted by the Purchaser and the Vendor to a chartered accountant associated with an accounting firm of recognized national standing in Canada, which is independent of the Parties (the "**Independent Accountant**"). If the Purchaser and the Vendor are unable to agree on the Independent Accountant within a further 10-day period, then the Independent Accountant will be an accountant at Richter or, in the event of a conflict, an accountant at PricewaterhouseCoopers LLP. The Independent Accountant, who shall act as an expert in accounting and not an arbitrator, shall, as promptly as practicable (but in any event, within forty-five (45) days following its appointment), make a determination on the disputed items, based solely on written submissions of the Purchaser and the Vendor given by them to the Independent Accountant. The decision of the Independent Accountant as to any disputed items shall be final and binding upon the Parties. The Purchaser and the Vendor shall each pay one-half (1/2) of the fees and expenses of the Independent Accountant.

2.9 Payment of Adjustment Amount

- (a) Each of the Purchaser and the Vendor shall be deemed to have accepted the amounts set out in the Closing Date Statements, as follows: (a) if the Purchaser has not delivered a Notice of Objection, on the 30th day after the delivery of the Closing Date Statement; (b) if a Notice of Objection is delivered and the Purchaser and the Vendor have reached an agreement pursuant to Section 2.8, on the date the Purchaser and the Vendor reached such an agreement; or (c) if a Notice of Objection is delivered and disputed items are referred to the Independent Accountant pursuant to Section 2.8, the date a determination is made by the Independent Accountant pursuant to Section 2.8 (as applicable, the "**Adjustment Date**").
- (b) Within five (5) Business Days of the Adjustment Date,:
- (i) in the event of a Working Capital Deficiency and a reduction in the Purchase Price, the Vendor shall pay the Adjustment Amount to the Purchaser, by wire transfer of immediately available funds to such account as is directed by the Purchaser; and
 - (ii) in the event of a Working Capital Excess and an increase in the Purchase Price, the Purchaser shall pay the Adjustment Amount, by wire transfer of immediately available funds to such account as is directed by the Vendor.
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- (c) Any Adjustment Amount shall not bear interest.

**ARTICLE 3
REPRESENTATIONS AND WARRANTIES**

3.1 Representations and Warranties of Vendor

The Vendor represents and warrants to the Purchaser as of the date hereof and as of the Closing Date as follows and acknowledges that the Purchaser is relying upon such representations and warranties in entering into this Agreement:

3.1.1 Vendor

- (a) The Vendor has all necessary power and authority to own the Purchased Shares and to execute and deliver, and to observe and perform its covenants and obligations under, this Agreement and the Closing Documents to which the Vendor is a party.
- (b) The Vendor has taken, or will take by Closing, all action necessary to authorize the execution and delivery of, and the observance and performance of its covenants and obligations under, this Agreement and the Closing Documents to which the Vendor is a party.
- (c) This Agreement has been, and each Closing Document to which the Vendor is a party will on Closing be duly executed and delivered by such Vendor, and this Agreement constitutes, and each Closing Document to which the Vendor is a party will on Closing constitute a valid and binding obligation of the Vendor enforceable against it in accordance with its terms.

3.1.2 Corporate Matters

- (a) The Corporation and VPHI are corporations duly incorporated, organized and validly existing under the laws of Canada.
 - (b) No proceedings have been taken or authorized by the Corporation or VPHI or, to the best of Vendor's knowledge, by any other Person, with respect to the bankruptcy, insolvency, liquidation, dissolution or winding up of the Corporation or VPHI.
 - (c) The Corporation and VPHI have all necessary power and authority to own or lease the Assets and to carry on the Business as presently carried on. Neither the nature of the Business nor the location or character of any of the Assets requires the Corporation to be registered, licensed or otherwise qualified as an extra-provincial or foreign corporation or to be in good standing in any jurisdiction other than in the Province of Québec.
 - (d) A true copy of the Articles and all by-laws of the Corporation and VPHI will have been delivered to the Purchaser by the Vendor on or before the Closing Date. The Articles and such by-laws of the Corporation and VPHI as so delivered constitute all of the constating documents and by-laws of the Corporation and VPHI, and are complete and correct and are in full force and effect.
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- (e) The original or true copies of all corporate records of the Corporation and VPHI will have been made available to the Purchaser's solicitors for review prior to the Closing Date. Since May 2, 2018, such corporate records have been maintained in accordance with Applicable Law and contain the following, which are complete and accurate in all material respects:
- (i) minutes of all meetings of the directors, any committee thereof and the shareholders of the Corporation and VPHI held since May 2, 2018;
 - (ii) originals or copies of all resolutions of the directors, any committee thereof and the shareholders of the Corporation and VPHI passed by signature in writing since May 2, 2018;
 - (iii) all waivers, notices and other documents required by Applicable Law to be contained therein since May 2, 2018; and
 - (iv) reflect all actions taken and resolutions passed by the directors and shareholders of the Corporation and VPHI since May 2, 2018.
- (f) All resolutions contained in such records have been duly passed and all such meetings have been duly called and held. The share certificate books, register of shareholders, register of transfers and register of directors of the Corporation and VPHI are complete and accurate.
- (g) The list of directors and officers in Section 3.1.2 of the Disclosure Letter constitutes a complete and accurate list of all officers and directors of the Corporation and VPHI on the date hereof.

3.1.3 Absence of Conflicting Agreements

Subject to the receipt of the Required Consents, none of the execution and delivery of, or the observance and performance by the Vendor of any covenant or obligation under, this Agreement or any Closing Document to which it is a party, or the Closing:

- (a) contravenes or results in, or will contravene or result in, a violation of or a default under or a right of termination (with or without the giving of notice or lapse of time, or both) or in the acceleration of any obligation under:
 - (i) any Applicable Law;
 - (ii) any License (including the HC License);
 - (iii) the articles, by-laws, or directors' or shareholders' resolutions of any of the Vendor, the Corporation or VPHI;
 - (iv) any material provision of any agreement, including any mortgage, security document, obligation or instrument, to which the Vendor, VPHI or the Corporation is a party, or by which either of them is bound or affected;
 - (b) results in the creation or imposition of any Encumbrance on the Purchased Shares, the Corporation, VPHI or any of the Assets; or
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- (c) relieves any other party to any Contract with the Corporation of that party's obligations thereunder or enables it to terminate its obligations thereunder.

3.1.4 Consents and Approvals

Except as set forth in Section 3.1.4 of the Disclosure Letter (collectively the "**Required Consents**"), no consent, approval, License, Order, authorization, registration or declaration of, or filing with, any Governmental Authority or other Person is required by any of the Vendor, the Corporation or VPHI, in connection with:

- (a) the Closing;
- (b) the execution and delivery by the Vendor of this Agreement or the Closing Documents to which it is a party; or
- (c) the observance and performance by the Vendor of its obligations under this Agreement or the Closing Documents to which it is a party;

or to avoid the loss of any License (including the HC License) relating to the Business as a result of any of the foregoing.

3.1.5 Authorized and Issued Securities of the Corporation

The authorized and issued securities of VPHI and the Corporation are set forth in Section 3.1.5 of the Disclosure Letter and all such issued shares have been validly issued and are outstanding as fully paid and non-assessable shares. No shares or other securities of VPHI or the Corporation have been issued in violation of any Applicable Laws, the Articles or other constating documents of the Corporation, VPHI or the terms of any shareholders' agreement or any agreement to which the Corporation or VPHI is a party or by which either of them is bound.

3.1.6 Title to Purchased Shares

The Vendor now has and on Closing the Vendor will transfer, good and marketable title to all of the Purchased Shares, free and clear of all Encumbrances. There are no restrictions on the transfer of the Purchased Shares, except (a) those set forth in the Articles of the Corporation (b) pursuant to applicable securities laws and (c) pursuant to the *Cannabis Act* (Canada) and the regulations thereunder.

3.1.7 No Options

No Person other than the Purchaser has any oral or written agreement, option, warrant, right, privilege or any other right, commitment or arrangement of any character capable of becoming any of the foregoing (whether legal, equitable, contractual or otherwise) for the purchase, subscription or issuance of the Purchased Shares or any other securities issued by VPHI or Corporation.

3.1.8 Subsidiaries and Other Interests

Neither the Corporation nor VPHI has any subsidiaries. Neither the Corporation nor VPHI own any shares in or securities of any other body corporate and the Corporation and VPHI have not, nor have they agreed to become, a partner, member, owner, proprietor or equity investor of or in any partnership, joint venture, co-tenancy or other similar jointly-owned business undertaking. The Corporation and VPHI have not agreed

to acquire or lease any other business operation, and the Corporation and VPHI do not have any other equity interest in any business owned or controlled by any third party.

3.1.9 Books and Records

The Vendor has disclosed the existence of and made available for review by the Purchaser all Books and Records of the Corporation and VPHI. The Books and Records of the Corporation and VPHI fairly and correctly set out and disclose in all material respects the financial position of the Corporation and VPHI in accordance with good business practice and all financial transactions relating to the Corporation and VPHI have been accurately recorded in the Books and Records of the Corporation and VPHI (as applicable) in all material respects. The Books and Records of the Corporation and VPHI:

- (a) accurately reflect the basis for the financial condition and the revenues, expenses and results of the operations of the Corporation and VPHI shown in the Financial Statements; and
- (b) together with all disclosures made in this Agreement or in the Disclosure Letter, present fairly the financial condition and the revenues, expenses and results of the operations of the Corporation and VPHI as of and to the date hereof.

No information, records or systems pertaining to the operation or administration of the Business of the Corporation and VPHI are in the possession of, recorded, stored or maintained by, or otherwise dependent on, any other Person.

3.1.10 The Financial Statements

The Financial Statements:

- (a) have been prepared in accordance with International Financial Reporting Standards, applied on a basis consistent with that of the preceding periods;
- (b) are complete and accurate in all material respects;
- (c) accurately disclose in all material respects the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of the Corporation and VPHI and the results of the operations of the Corporation and VPHI, as at the dates thereof and for the periods covered thereby;
- (d) reflect all proper accruals as at the dates thereof and for the periods covered thereby of all amounts which, though not payable until a time after the end of the relevant period, are attributable to activities undertaken during or prior to that period; and
- (e) contain or reflect adequate reserves for all liabilities and obligations of the Corporation and VPHI of any nature, whether absolute, contingent or otherwise, matured or unmatured, as at the date thereof.

The Vendor has no knowledge of any information that would render the Financial Statements incomplete or inaccurate in any material respects.

3.1.11 Undisclosed Liabilities

The Corporation and VPHI have no liabilities (whether accrued, absolute, contingent or otherwise, matured or unmatured) of any kind except for: (i) any liabilities disclosed or provided for in the Financial Statements; and (ii) pursuant to the Contracts and at Closing, the Corporation and VPHI will have no Indebtedness.

3.1.12 Absence of Guarantees

The Corporation and VPHI have not given nor agreed to give, and are not a party to or bound by, any guarantee of Indebtedness or other obligations of third parties nor any other commitment by which the Corporation and VPHI is, or is contingently, responsible for such Indebtedness or other obligations of a third party.

3.1.13 Jurisdictions

Section 3.1.13 of the Disclosure Letter lists every jurisdiction in which the Corporation is qualified to do business.

3.1.14 Absence of Changes

Since the Bring-Down Date, except as set out in Section 3.1.14 of the Disclosure Letter:

- (a) the Corporation and VPHI have conducted the Business in the ordinary course, have not incurred any debt, obligation or liability or of an unusual or extraordinary nature relating to the Business and has used its best efforts to preserve the Business and the Assets;
- (b) there has not been any material change in the Condition of the Business, and such changes have not, either individually or in the aggregate, been and have not had nor may they be reasonably expected to have, either before or after the Closing Time, a Material Adverse Effect on the Condition of the Business; and
- (c) there has not been any change in the accounting principles, policies, practices or procedures of the Corporation and VPHI or their application.

3.1.15 Absence of Unusual Transactions

Since the Bring-Down Date, except as set out in Section 3.1.15 of the Disclosure Letter, the Corporation and VPHI have not:

- (a) transferred, assigned, sold or otherwise disposed of any of the Assets or cancelled any debts or claims;
 - (b) incurred or assumed any debt, obligation or liability (fixed or contingent);
 - (c) settled any liability, claim, dispute, proceeding, suit or appeal pending against the Corporation and VPHI or against any of the Assets;
 - (d) discharged or satisfied any Encumbrance, or paid any obligation or liability (fixed or contingent);
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- (e) waived, or omitted to take any action in respect of, any rights of substantial value or entered into any commitment or transaction if such waiver, loss of rights, commitment or transaction is or would be material in relation to the Assets or the Business;
- (f) hired any Employee;
- (g) made any payments to any Employees out of the ordinary course of business (other than severance payments) or increased the compensation paid or payable to any of its Employees or increased the benefits to which such Employees are entitled under any Benefit Plan or created any new Benefit Plan for any of such Employees;
- (h) created any Encumbrance on any of the Assets or suffered or permitted any such Encumbrance that has arisen on the Assets since that date to remain;
- (i) modified, amended or terminated any Contract, agreement or arrangement to which it is or was a party, or waived or released any right which it has or had except as contemplated by this Agreement and in furtherance of the transactions contemplated by this Agreement;
- (j) issued or sold any securities or any bonds, debentures or other securities issued by the Corporation and VPHI, or issued, granted or delivered any right, option or other commitment for the issuance of any such securities;
- (k) declared or paid any dividend or other distribution in respect of the securities of the Corporation and VPHI or purchased or redeemed any securities of the Corporation and VPHI;
- (l) entered into or become bound by any material contract, agreement or arrangement, written or oral;
- (m) made any material capital expenditure;
- (n) made any payments to the Vendor; or
- (o) authorized or agreed or otherwise become committed to do any of the foregoing.

3.1.16 Tax Matters

- (a) **Tax Returns.** Other than as disclosed in Section 3.1.16 of the Disclosure Letter, the Corporation and VPHI have prepared and filed all Tax Returns required to be filed prior to the Closing Date with all appropriate Governmental Authorities for all fiscal periods ending prior to the date hereof. Each such Tax Return was correct and complete in all material respects. Copies of all Tax Returns prepared and filed by the Corporation and VPHI during the past four (4) fiscal years (if applicable) ending prior to the date hereof will be given to the Purchaser on or before the Closing Date.
 - (b) **Payment of Taxes.** Other than as disclosed in Section 3.1.16 of the Disclosure Letter, the Corporation and VPHI have paid all Taxes due and payable by it or for which it is liable, whether or not such Taxes were reflected on its Tax Returns, and has paid all assessments and reassessments
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it has received in respect of Taxes. Other than as disclosed in Section 3.1.16 of the Disclosure Letter, the Corporation and VPHI have paid in full all Taxes accruing due on or before the date hereof which are not reflected in its Tax Returns or will have made adequate provision in the Financial Statements for the payment of such Taxes.

- (c) **Reassessments.** There are no reassessments of Taxes that have been issued and are outstanding. No Governmental Authority has challenged, disputed or questioned the Corporation or VPHI in respect of Taxes or of any Tax Returns, other than any such action or proceeding that has been satisfied by payment in full or withdrawn. The Corporation and VPHI are not negotiating any draft assessment or reassessment with any Governmental Authority in respect of Taxes. The Corporation and VPHI have not executed or filed with any Governmental Authority any agreement to extend the period for assessment, reassessment or collection of any Taxes. Assessments under the *Income Tax Act*, the *Excise Tax Act* (Canada), the *Taxation Act* (Québec) and the *Act Respecting the Québec Sales Taxes* have been made with respect to the Corporation and VPHI covering all past periods for which a Tax Return has been filed. The Corporation and VPHI have not filed any request under any voluntary disclosure programs with any Governmental Authority.
 - (d) **Withholdings.** The Corporation and VPHI have withheld from each payment made to any of its respective present or former employees, officers and directors, and to all persons who are non-residents of Canada for the purposes of the *Income Tax Act* all amounts required by law and will continue to do so until the Closing Time and has remitted such withheld amounts within the prescribed periods to the appropriate Governmental Authority. The Corporation and VPHI have remitted all Taxes payable by it in respect of its employees (as applicable) and has or will have remitted such amounts to the proper Governmental Authority within the time required by Applicable Law. The Corporation and VPHI have charged, collected and remitted on a timely basis all Taxes as required by Applicable Law on any sale, supply or delivery whatsoever, made by the Corporation and VPHI.
 - (e) **Residence, GST/HST Registrant.** The Vendor is not a non-resident of Canada as defined in the *Income Tax Act*. The Corporation is a registrant for the purposes of GST/HST provided for under the *Excise Tax Act* and its registration number is [****] and is a registrant under *An act Respecting the Québec Sales Tax* and its registration number is [****]. VPHI is not a registrant for the purposes of GST/QST provided for under the *Excise Tax Act* and *An act Respecting the Québec Sales Tax*.
 - (f) **Non-arm's Length Transactions.** No transaction or arrangement between the Corporation and VPHI and any Person with whom the Corporation or VPHI was not dealing at arm's length within the meaning of *Income Tax Act* involving the acquisition, delivery, disposition or provision of property or services or the right to use property or services, took place for consideration that is other than the fair market value for such property, services or right and such transaction or arrangement was made on arm's length terms and conditions. The Corporation and VPHI, as applicable, have made or obtained records or documents that meet the requirements of paragraphs 247(4)(a) to (c) of the *Income Tax Act* with respect to all transactions and arrangements between the Corporation and VPHI and any non-resident
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person, within the meaning of the *Income Tax Act*, with whom the Corporation or VPHI (as applicable) was not dealing at arm's length.

3.1.17 Compliance with Applicable Law

Each of Corporation and VPHI has conducted and is conducting its Business in compliance with all Applicable Laws, and is not in breach of any Applicable Laws except to the extent that any such non-compliance or breach would not constitute a Material Adverse Effect, and neither the Vendor nor the Corporation or VPHI have received any notice of any alleged breach of or investigation under any such Applicable Laws.

3.1.18 Licenses

The only Licenses necessary for the operation of the Business by the Corporation and VPHI as currently conducted and the ownership or use of the Assets are listed in Section 3.1.18 of the Disclosure Letter and each such License is in full force and effect unamended. The Corporation is in compliance in all material respects with all provisions of such Licenses and there are no proceedings in progress, or to the knowledge of the Vendor, pending or threatened, which may result in revocation, cancellation, suspension or any adverse modification of such Licenses. Subject to obtaining the Required Consents, no such License is void or voidable as a result of the completion of the transactions contemplated hereby or by the Closing Documents. Other than the Required Consents, no consent or approval of any Person is required to ensure the continued validity and effectiveness of any such License in connection with the purchase of the Purchased Shares.

3.1.19 HC License

The HC License is in good standing with Health Canada and, to the Vendor' knowledge, there is no claim or basis for any claim that might or could adversely affect the Corporation's ability to continue to use the HC License. The Corporation has not received a notice of non-compliance, nor knows of, nor has reasonable grounds to know of, any facts that could give rise to a notice of non-compliance with respect to any License or the HC License. Except as has been delivered to the Purchaser, the Corporation has not received any correspondence or notice from Health Canada or any other Governmental Authority respecting the HC License. All correspondence from Health Canada or any other Governmental Authority respecting HC License has been provided to the Purchaser and has been addressed to the satisfaction of Health Canada or such other Governmental Authority, as applicable, and no such correspondence remains unaddressed or not responded to by the Corporation. Other than the HC License, no rights, licenses or permits are necessary from Health Canada for the conduct of the Business as currently conducted by the Corporation.

3.1.20 Restrictions on Business

Neither the Corporation nor VPHI is a party to or bound or affected by any agreement, lease, mortgage, security document, obligation or instrument or subject to any restriction in the Articles, its by-laws or its directors' or shareholders' resolutions or subject to any restriction imposed by any Governmental Authority or subject to any Applicable Law or Order, which restricts or would reasonably be expected to interfere with the conduct of the Business as currently conducted or as currently proposed to be conducted or its currently proposed use of the Assets or which limits or would reasonably be expected to limit or restrict or otherwise adversely affect the Purchased Shares, the Assets or the Condition of the Business, other than statutory provisions and restrictions of general

application to the Business, the terms of any License and Contracts entered into by the Corporation or VPHI.

3.1.21 Title to Assets

Except for those Encumbrances listed in Section 3.1.21 of the Disclosure Letter, the Corporation or VPHI has good and marketable title free and clear of all Encumbrances to all of the Assets which it owns and has the exclusive right to use all of the Assets which it leases. The Assets constitute all of the Assets owned by or leased or licensed to the Corporation or VPHI which are necessary or desirable to operate the Business as currently operated by the Corporation in the ordinary course as of the date hereof. The tangible Assets are situated at the Facility.

3.1.22 Accounts Receivable

All accounts receivable of the Corporation or VPHI reflected in the Financial Statements have arisen in the ordinary course of the Business from *bona fide* arm's length transactions, and, except to the extent that they have been paid in the ordinary course of the Business, are valid and enforceable and payable in full, without any right of set-off or counterclaim or any reduction for any credit or allowance made or given, except to the extent of the allowance for doubtful accounts reflected therein and, in the case of accounts receivable which have come into existence since the Bring Down Date, of a reasonable allowance for doubtful accounts, which allowances are adequate and calculated in a manner consistent with the Corporation or VPHI's previous accounting practice.

3.1.23 Inventory

The Inventory have been accumulated by the Corporation for use or sale in the ordinary course of the Business, and are in good and marketable condition and are capable of being processed and sold in the ordinary course of the Business, subject to a reasonable allowance for obsolete inventory. At Closing, neither the Corporation nor VPHI will have any material amount of Inventory.

3.1.24 Equipment

The property, assets and equipment of the Corporation and VPHI comprise all of the property and assets necessary for it to carry on the Business as it is currently operated. All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Corporation and VPHI in the Business are in good operating condition and repair, ordinary wear and tear excepted, and are reasonably fit and usable for the purposes for which they are currently being used.

3.1.25 Equipment Leases

Section 3.1.25 of the Disclosure Letter sets forth a true and complete list of all Equipment Leases. All of the Equipment Leases are in full force and effect and no default exists thereunder on the part of the Corporation or, to the knowledge of the Vendor, on the part of any of the other parties thereto. The entire interest of the Corporation under each of the Equipment Leases is held by the Corporation and all payments due under the Equipment Leases have been duly paid and all obligations to be discharged or performed under the Equipment Leases have been fully discharged and performed in accordance with the terms of the Equipment Leases.

3.1.26 Contracts

- (a) True and correct copies of the Contracts listed in Section 3.1.26 of the Disclosure Letter and the Equipment Leases (collectively, the "**Material Contracts**") have been delivered to the Purchaser or its solicitors.
- (b) Except as disclosed on Section 3.1.26 of the Disclosure Letter, the Material Contracts are all in good standing and in full force and effect with no amendments. All of the Material Contracts are valid and binding obligations of the parties thereto enforceable in accordance with their respective terms. The Corporation and VPHI, as applicable, have complied with all material terms thereof, has paid all amounts due thereunder, has not waived any material rights thereunder and to the knowledge of the Vendor, no default or breach exists in respect thereof on the part of any of the parties thereto and no event has occurred which, after the giving of notice or the lapse of time or both, would constitute such a default or breach in any material respect. All amounts payable to the Corporation or VPHI under the Material Contracts are still due and owing to the Corporation without any right of set-off. No purchase commitment of the Corporation or VPHI is in excess of its normal business requirements or is not terminable by the Corporation or VPHI without penalty on notice of 30 days or less.

3.1.27 Real Property

- (a) Section 3.1.27 of the Disclosure Letter lists all immovable property owned by Corporation or VPHI, including all buildings, plants and structures located thereon (collectively, the "**Owned Real Property**") and specifies the current legal description and municipal address of each such property and the name of the corporation that owns same. VPHI owns the Owned Real Property as absolute owner with good, valid and marketable title thereto, free and clear of all Encumbrances, other than Permitted Encumbrances. Copies of all deeds by which VPHI acquired the Owned Real Property and copies of all certificates of location, opinions, abstracts, phase I environmental reports and surveys in the possession of the Vendor or VPHI relating to the Owned Real Property, including the Phase I Report, have been, or will be, delivered to the Buyer.
 - (b) Except as disclosed in Section 3.1.27 of the Disclosure Letter, all buildings, plants, structures, fixtures and improvements located on the Owned Real Property were constructed, in accordance with applicable Law in all material respects, including applicable land use planning, zoning and building code requirements and comply therewith. To the Knowledge of the Vendor, all buildings, plants, structures, fixtures and improvements located on the Owned Real Property are structurally sound and free of material defects (latent or otherwise) and suitable and appropriate for the purposes which they are currently being used; such buildings, plants, structures, fixtures and improvements are in good operating condition and in a state of good maintenance and repair, and, to the Knowledge of the Vendor, they are not in need of maintenance or repairs, except for ordinary routine maintenance and repairs that are not material in nature or cost. No remedial order has been issued or, to the Knowledge of the Vendor, threatened with respect to any Owned Real Property, the use thereof by the Corporation or VPHI, or any buildings, plants, structures, fixtures and improvements located thereon, including, any Remedial Order advising of any defects in the construction or
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state of repair thereof, requiring any work to be done with respect thereto, or advising of any other non-compliance with any Law, including with respect to fire, safety, land use planning, zoning, construction, occupancy or otherwise.

- (c) To the Knowledge of the Vendor, no buildings, plants, structures or fixtures owned by the Corporation or VPHI encroach on any property adjoining or adjacent to the Owned Real Property on which they are located, and no buildings, plants, structures or fixtures located on any property adjoining or adjacent to the Owned Real Property encroach thereon. Neither Corporation nor VPHI is in default under any of the Permitted Encumbrances affecting the Owned Real Property, nor has it breached any of the terms thereof.
- (d) The Owned Real Property is not subject to *An Act respecting the preservation of agricultural land and agricultural activities* (Québec).
- (e) The Owned Real Property is not a recognized or a classified cultural property and is not situated in a historical or natural district, within a classified historic site or in a protected area within the meaning of the Law, nor is it subject to any restriction under the *Cultural Heritage Act* (Québec).
- (f) The Owned Real Property is not part of a housing complex within the meaning of *An Act respecting the Régie du Logement* (Québec).
- (g) There are no Claims, pending Claims or, to the Knowledge of the Vendor, threatened Claims against the Corporation or VPHI relating to the Facility or Owned Real Property and nor the Seller, the Corporation or VPHI is aware or has received notice of a cause of action, inspection or state of facts which could provide a valid basis for any of the foregoing or which could reasonably be expected to have a Material Adverse Effect on the Facility or Owned Real Property.

3.1.28 No Expropriation

The Corporation and VPHI have not received any notice of expropriation of all or a portion of the Owned Real Property and the Vendor is not aware of any expropriation proceeding pending or threatened against or affecting all or a portion of the Owned Real Property.

3.1.29 Environmental Matters

- (a) All operations relating to the Business or activities of the Corporation and VPHI and its respective assets, including as conducted on the Facility, have been and are now, in compliance in all material respects with all Environmental Laws, including the maintenance and storage of certain pesticides and diesel oils currently being held on the premises of the Facility which are in compliance in all respects with Environmental Laws.
 - (b) All Environmental Permits as may be required for the operation of the Business or in connection with any of the property or assets of the Corporation and VPHI have been obtained and are valid and in full force and effect and are being complied with.
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- (c) The Corporation and VPHI have complied and is in compliance in all respects with all reporting and monitoring requirements under all Environmental Laws and the Environmental Permits and neither the Corporation nor VPHI have received any notice of any non-compliance with any Environmental Laws or Environmental Permits which have not been resolved to the satisfaction of the issuer of such notice, all of which have been disclosed to the Purchaser.
 - (d) Except in compliance in all material respects with all applicable Environmental Laws, the Corporation and VPHI have not used or permitted to be used any of its property or assets (including the Facility) or facilities or property which it previously owned or leased, to generate, manufacture, process, distribute, use, treat, store, dispose of or handle any Hazardous Substance and the Corporation and VPHI have not caused or permitted any Release, omission, spill or disposal, in any manner whatsoever, of any Hazardous Substance on, in, around, from or in connection with any of its properties or assets or their use, or any property or asset which it previously owned or leased, or any such Release from a facility owned or operated by a third party but with respect to which the Corporation is or may reasonably be alleged to have liability.
 - (e) All Hazardous Substances and all other residual hazardous materials and other materials and substances used in whole or in part by the Corporation and VPHI have been disposed of, treated and stored by the Corporation or VPHI in compliance with all Environmental Laws.
 - (f) The Corporation nor VPHI have never received any notice of, or been prosecuted for, non-compliance with any Environmental Laws, or settled any allegation of noncompliance prior to prosecution, and the Corporation and VPHI have no knowledge of any facts or circumstances that could reasonably be expected to result in any Claim or Threatened Claim or result in any Damages to the Corporation or VPHI resulting from a breach or non-compliance with any Environmental Law. There are no underground or above-ground storage tanks or associated piping or Appurtenances (active or abandoned), containing any Hazardous Substances, including urea formaldehyde foam insulation, asbestos, polychlorinated biphenyls or radioactive substances located on or in or under the surface of any of the Facility.
 - (g) To the knowledge of the Vendor, there is no basis, whether in law or in equity, upon which the Corporation or VPHI, either on behalf of itself or the landlord, could become, responsible for any clean-up or corrective action pursuant to any Environmental Laws with respect to the Facility and/or the buildings, structures, additions or improvements thereon. Other than the Phase I Report, the Corporation and VPHI have never directly or indirectly engaged any Person to prepare and has never had in its possession or control, any environmental audits, site assessments and studies (including all drafts thereof) concerning or with respect to any current or former Owned Real Property of the Corporation or VPHI or the Facility or that are in any way related to the Business, whether lawful or otherwise. The Corporation and VPHI have no knowledge of any environmental audits, site assessments or studies (including all drafts thereof) concerning the Facility or other formerly leased property other than the Phase I Report.
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- (h) The Corporation or VPHI has obtained all Environmental Permits necessary to conduct the Business as now carried on and to own, use and operate the Assets.

3.1.30 Employees

Section 3.1.31 of the Disclosure Letter is a true and complete list of all Employees of the Corporation and the Vendor has provided to the Purchaser true and complete copies of the employment Contracts for such Employees, if any, and there are no other agreements or arrangements (written or oral) respecting the employment of such Employees. Other than as set out in Section 3.1.31 of the Disclosure Letter, there are no other Employees of the Corporation. The Corporation is in compliance with, and to the knowledge of the Corporation, the respective Employee is in compliance with, the terms of the respective employment Contract. VPHI does not have Employees.

No retired employees of the Corporation are entitled to benefits from the Corporation. The Corporation is, as of the date hereof, in compliance in all material respects with all, and the Vendor is not aware of any such non-compliance with any, labour and employment legislation applicable to the Corporation and the Employees, including all employment standards, human rights, labour relations, occupational health and safety, pay equity, employment equity, employee privacy and workers' compensation or workplace safety and insurance legislation and there are no outstanding claims, complaints, investigations, prosecutions or orders under such legislation. The Vendor has delivered to the Purchaser true and complete copies of all permits issued under employment standards legislation that remain in effect. The Corporation has operated the Business in compliance with such permits.

3.1.31 Collective Agreements

The Corporation is not a party, either directly or by operation of law, to any Collective Agreement. No trade union, council of trade unions, employee bargaining agency or affiliated bargaining agent holds bargaining rights with respect to any of the Employees by way of certification, interim certification, voluntary recognition, related employer or successor employer rights, or, to the knowledge of the Corporation, has applied or threatened to apply to be certified as the bargaining agent of any of the Employees. To the knowledge of the Vendor, there has been no actual or threatened and there are no pending union organizing activities involving the Employees and the Corporation is not aware of any labour problems that might adversely affect the Business or lead to an interruption of operations.

3.1.32 Benefit Plans

Section 3.1.33 of the Disclosure Letter sets forth a true and complete list of all Benefit Plans in respect to the Corporation's Employees. The Corporation has not made any promise, proposal or commitment, whether legally binding or not, to create any Benefit Plan that would affect any employee, consultant or contractor of the Corporation.

3.1.33 Occupational Health and Safety

The Vendor has provided the Purchaser with all inspection reports under Occupational Health and Safety Acts relating to the Corporation received since the Bring-Down Date. There are no outstanding inspection Orders nor, to the knowledge of the Vendor, any pending or threatened charges made under any Occupational Health and Safety Acts relating to the Corporation or the Business or the business relating to the HC License.

There has been no fatal or critical accidents within the last three (3) years, which might lead to charges involving the Corporation under *Occupational Health and Safety Acts*. The Corporation has complied in all respects with any Orders issued under Occupational Health and Safety Acts. There are no appeals of any Orders under Occupational Health and Safety Acts relating to the Corporation which are currently outstanding.

3.1.34 **Workers' Compensation**

There are no notices of assessment, provisional assessment, reassessment, supplementary assessment, penalty assessment or increased assessment (collectively, "assessments") or any other communications related thereto which the Corporation has received from any workers' compensation or workplace safety and insurance board or similar authorities in any jurisdictions where the Business is carried on and there are no assessments which are unpaid on the date hereof or which will be unpaid at the Closing Time and there are no facts or circumstances relating to the Business of the Corporation as of the Closing Time which may reasonably be expected to result in an increase in liability to the Corporation from any applicable workers' compensation or workplace safety and insurance legislation, regulations, or rules after the Closing Time. The Corporation's accident cost experience relating to the Business is such that there are no pending or possible assessments and there are no claims or potential claims which may adversely affect the Corporation's accident cost experience.

3.1.35 **Litigation**

There is no claim, demand, suit, action, cause of action, dispute, proceeding, litigation, investigation, grievances, arbitration, governmental proceeding or other proceeding, including appeals and applications for review, in progress against, by or relating to the Corporation, VPHI, the Business or any Assets, nor to the knowledge of the Vendor is any of the same pending or threatened or material. The Vendor is not aware of any state of facts which would provide a *bona fide* basis for any of the foregoing which would be materially adverse to the Corporation, VPHI or the Business if determined against it. There is not at present, any outstanding or pending Claims against the Corporation or VPHI, nor any Order that adversely affects the Corporation or VPHI in any way or that in any way relates to this Agreement or the transactions contemplated herein.

3.1.36 **Insurance**

Section 3.1.37 of the Disclosure Letter is a true and complete list of all insurance policies (specifying the insured, the amount of coverage, the type of insurance, the policy number and any pending claims thereunder) maintained by the Corporation and VPHI as of the date hereof. True and complete copies of all of the most recent inspection reports, if any, received from insurance underwriters as to the condition of the Assets and the Business have been delivered to the Purchaser. Neither the Corporation nor VPHI is in default with respect to the payment of premiums or in any other material respect with the provisions contained in any such insurance policy. For any current claim that has not been settled or finally determined, the Corporation and VPHI have not failed to give any notice or present any claim under any such insurance policy in a due and timely fashion such that the insurer would be entitled to terminate coverage or deny liability on any such claim. All such policies of insurance are in full force and effect and the Corporation and VPHI are not in default, whether as to the payment of premium or otherwise, under the terms of any such policy.

3.1.37 Intellectual Property Rights

- (a) *Complete*. The Québec IP, the Technology and Confidential Information exercised in, used in or related to the Business are sufficient and complete to enable the Corporation to carry on the Business as currently carried on.
- (b) *Infringements by the Corporation*. The Corporation's conduct of the Business and the Corporation's use and exploitation of the Québec IP, the Technology or Confidential Information exercised in, used in or related to the Business has not infringed, misused, violated or breached any Intellectual Property rights of any person and is in accordance with all agreements under which the Corporation has the right to use or license any third-party Intellectual Property rights. No person has instituted or threatened any proceeding or action against the Corporation alleging any infringement, violation or misappropriation by the Corporation of any Intellectual Property rights of any person.

3.1.38 Bank Accounts

The name of each bank or other depository in which the Corporation and VPHI maintain any bank account, trust account or safety deposit box is set forth in Section 3.1.39 of the Disclosure Letter, along with the particulars thereof including the names of all persons authorized to draw thereon or who have access thereto.

3.1.39 Securities Legislation

The Corporation and VPHI are each a "private issuer" within the meaning of National Instruments 45-106.

3.1.40 Vendor's Residency

The Vendor is not a "non-resident" of Canada within the meaning of the *Income Tax Act* (Canada).

3.1.41 Privacy Matters

The Corporation and VPHI carry on and have carried on the Business in material compliance with all Applicable Laws relating to the protection of Personal Information wherever such Personal Information may be situated. In addition, to the knowledge of the Vendor, there are no facts or circumstances that would reasonably be expected to give rise to breach or alleged breaches of, or non-compliance with, any Privacy Law.

3.1.42 Product Warranty

Except as disclosed in Section 3.1.43 of the Disclosure Letter, there are no pending or, to the knowledge of the Vendor, threatened civil, criminal or administrative investigations or proceedings relating to (i) any alleged hazard or defect in, manufacture, sale, or health and safety, including any failure to warn or alleged breaches of express or implied warranty, relating to any product manufactured, distributed or sold by or on behalf of the Corporation and VPHI in connection with the Business or (ii) any breach of any of the product warranties, indemnities or performance guarantees given to customers of the Business.

3.1.43 Disclosure

None of the foregoing representations and warranties in this Section 3.1 contain any untrue statement of a material fact or omits to state any material fact necessary to make any such statement or representation not misleading in any material respect.

3.1.44 Protection of Confidential Information

The Corporation and VPHI have taken commercially reasonable precautions and made commercially reasonable efforts to protect the Confidential Information related to or used in the Business from disclosure to, or access or use by, unauthorized Persons, as well as from loss, harm, theft, tampering, copying, modification, destruction, sabotage and transmission. The Vendor is not aware of any information, security or confidentiality related to the Business having been breached by any Person.

3.2 Representations and Warranties of the Purchaser

Each of the Purchaser and C3, on a joint and several basis, represent and warrant to the Vendor as of the date hereof and as of the Closing Date as follows and acknowledge that the Vendor is relying upon such representations and warranties in entering into this Agreement:

3.2.1 Corporate Matters

- (a) Each of C3 and Purchaser is a corporation duly incorporated, organized and not dissolved under the laws of its jurisdiction of incorporation. No proceedings have been taken or authorized by the Purchaser or C3 or, to the best of the Purchaser's knowledge, by any other Person, with respect to the bankruptcy, insolvency, liquidation, dissolution or winding up of the Purchaser, C3 or any Affiliate.
 - (b) Each of C3 and Purchaser has all necessary power and authority to execute and deliver, and to observe and perform its covenants and obligations under, this Agreement and the Closing Documents to which it is a party.
 - (c) Each of C3 and Purchaser has taken, or will take by Closing, all action necessary to authorize the execution and delivery of, and the observance and performance of its covenants and obligations under, this Agreement and the Closing Documents to which it is a party.
 - (d) This Agreement has been, and each Closing Document to which each of C3 and Purchaser is a party will on Closing be, duly executed and delivered by each of C3 and Purchaser, and this Agreement constitutes, and each Closing Document to which each of C3 and Purchaser is a party will on Closing constitute, a valid and binding obligation of each of C3 and Purchaser enforceable against them in accordance with its terms.
 - (e) Each of C3 and Purchaser has all necessary power and authority to own or lease its property and assets and to carry on its business as presently carried on. Neither the nature of the business nor the location or character of any of the assets requires each of C3 and Purchaser or any Affiliate to be registered, licensed or otherwise qualified as an extra-provincial or foreign corporation or to be in good standing in any jurisdiction other than in the Province of Québec.
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3.2.2 Absence of Conflicting Agreements

None of the execution and delivery of, nor the observance and performance by each of C3 and Purchaser of, any covenant or obligation under, this Agreement or the Closing Documents to which they are a party or the Closing contravenes or results in, or will contravene or result in, a violation of or a default under or a right of termination (with or without the giving of notice or lapse of time, or both) or in the acceleration of any obligation affecting each of C3 and Purchaser under:

- (a) any Applicable Law;
- (b) any License;
- (c) the Articles, by-laws, or resolutions of the directors or shareholders of each of C3 and Purchaser; or
- (d) the provisions of any agreement, including any mortgage, security document, obligation or instrument, to which the Purchaser is a party, or by which it is bound or affected.

None of the execution and delivery of, nor the observance and performance by each of C3 and Purchaser of, any covenant or obligation under, this Agreement or the Closing Documents to which it is a party, or the Closing relieves any other party to any Contract of that party's obligations thereunder or enables it to terminate its obligations thereunder.

3.2.3 Consents and Approvals

Except as set forth in Section 3.2.3 of the Purchaser Disclosure Letter, no consent, approval, License, Order, authorization, registration or declaration of, or filing with, any Governmental Authority or other Person is required by each of C3 and Purchaser in connection with

- (a) the Closing,
- (b) the execution and delivery by each of C3 and Purchaser of this Agreement or any Closing Document to which it is a party,
- (c) the observance and performance by each of C3 and Purchaser of its obligations under this Agreement or any Closing Documents to which it is a party, or
- (d) to avoid the loss or any restriction of any License relating to the business of each of C3 and Purchaser as a result of any of the foregoing.

3.2.4 Investment Canada Act

The Purchaser is not a non-Canadian within the meaning of the *Investment Canada Act*.

3.3 Interpretation

Each representation and warranty made by a Party in this Agreement shall be treated as a separate representation and warranty in respect of each statement made and the interpretation of any statement made shall not be restricted by reference to or inference from any other statement made in a representation and warranty of such Party.

3.4 Commission

Other than as set out in Section 3.4 of the Disclosure Letter, each Party represents and warrants to each other Party that no Party will be liable for any brokerage commission, finder's fee or other similar payment in connection with the transactions contemplated hereby.

3.5 Non-Waiver

No investigations made by or on behalf of a Party at any time shall waive, diminish the scope of or otherwise affect any representation or warranty made by the other Party in this Agreement or in any Closing Document. No waiver by the Purchaser or any Vendor, as the case may be, of any condition, in whole or in part, shall operate as a waiver of any other condition or affect the right to indemnification pursuant to Article 4 hereof.

3.6 Qualification of Representations and Warranties

Any representation or warranty made by a Party as to the enforceability of this Agreement or any Closing Document against such Party is subject to the following qualifications:

- (a) specific performance, injunction and other equitable remedies are discretionary and, in particular, may not be available where damages are considered an adequate remedy; and
- (b) enforceability may be limited by bankruptcy, insolvency, liquidation, reorganization, reconstruction and other laws generally affecting enforceability of creditors' rights.

3.7 Survival of Representations and Warranties of Vendor

All representations, warranties, statements, covenants and agreements made by the Vendor in this Agreement or any Closing Document shall survive the Closing and shall continue in full force and effect as follows:

- (a) the representations and warranties set forth in Sections 3.1.1, 3.1.2, 3.1.5 3.1.6 and 3.1.7 of this Agreement shall survive the Closing and continue without time limit;
 - (b) the representations and warranties set forth in Section 3.1.16 (the "**Vendor Tax Reps**") shall survive the Closing Date and continue until six months following the expiration of any time within which an assessment, reassessment or similar document or determination may be issued under any Applicable Law and after such period, the Vendor shall not have any further liability hereunder with respect to such representations and warranties except with respect to claims properly made within such period;
 - (c) all of the other representations and warranties contained in this Agreement or any Closing Document shall survive for a period of eighteen (18) months from the Closing Time; and after such period, the Vendor shall not have any further liability hereunder with respect to such representations and warranties except with respect to claims properly made within such period; and
 - (d) all covenants and agreements of the Vendor contained in this Agreement or any Closing Document shall survive the Closing and continue without time limit.
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For greater certainty, there shall be no limitation on the right of the Purchaser to bring any claim, action or proceeding based on any fraudulent misrepresentation of the Vendor.

3.8 Survival of Representations and Warranties of Purchaser

All representations, warranties, statements, covenants and agreements made by the Purchaser in this Agreement or any Closing Document shall survive the Closing and shall continue in full force and effect as follows:

- (a) the representations and warranties set forth in Section 3.2.1 of this Agreement shall survive the Closing and continue without time limit;
- (b) all of the other representations and warranties contained in this Agreement or any Closing Document shall survive for a period of eighteen (18) months from the Closing Time; and after such period, the Purchaser shall not have any further liability hereunder with respect to such representations and warranties except with respect to claims properly made within such period; and
- (c) all covenants and agreements of the Purchaser contained in this Agreement or any Closing Document shall survive the Closing and continue without time limit.

For greater certainty, there shall be no limitation on the right of the Vendor to bring any claim, action or proceeding based on any fraudulent misrepresentation of the Purchaser or any Affiliate.

3.9 Financing

The Purchaser has, or has a binding commitment for, sufficient funds to consummate the transactions contemplated by this Agreement, including the payment of that portion of the Purchase Price payable at Closing and any other amounts required to be paid in connection with the consummation of the transactions contemplated by this Agreement.

ARTICLE 4 OTHER COVENANTS OF THE PARTIES

4.1 Positive Covenants

During the period from the date of this Agreement to the Closing Time, the Vendor shall cause the Corporation to:

- (a) will use commercially reasonable efforts to cause the Closing Date to occur on or before 120 days after the execution of this Agreement;
 - (b) obtain the Environmental Audit;
 - (c) except as otherwise contemplated or permitted by this Agreement, conduct the Business in the ordinary course;
 - (d) maintain all policies of insurance maintained by or for the benefit of the Corporation and give all notices and present claims under all insurance policies in a timely fashion;
 - (e) comply, in all material respects, with all Applicable Laws affecting the Business and operations of the Corporation;
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- (f) cooperate with the Purchaser and use all reasonable efforts to obtain and diligently assist the Purchaser in obtaining all necessary consents, approvals and authorizations under any Applicable Law to the transactions contemplated by this Agreement;
- (g) except as otherwise contemplated or permitted by this Agreement, promptly advise the Purchaser in writing (i) of any fact or any change in the Business, operations, affairs, Assets, liabilities, capitalization, financial condition or prospects of the Corporation that has or could reasonably be expected to have, a Material Adverse Effect; (ii) of any breach by the Corporation or VPHI of any covenant or agreement contained in this Agreement; (iii) of any death, disability, resignation, termination of employment or service or other departure of any director, officer or any Senior Person in Charge of Corporation (as applicable) and VPHI; and (iv) any event, happening or circumstance which would make any representation or warranty provided herein by the Vendor materially untrue or misleading;
- (h) take all actions within its power and control to satisfy and fulfill the conditions set out in Section 6.2; and
- (i) promptly advise the Purchaser in writing of, and provide the Purchaser with copies of, all correspondence with Health Canada or any other Governmental Authority relating to the HC License.

4.2 Negative Covenants

During the period from the date of this Agreement to the Closing Date, except as otherwise contemplated or permitted by this Agreement, the Vendor shall cause the Corporation and VPHI to not, except (i) as contemplated, required or permitted pursuant to this Agreement, (ii) required by Applicable Law or Governmental Authority, or (ii) with the prior written consent of the Purchaser:

- (a) take any action or fail to take any action with Health Canada or any other Governmental Authority that would or could reasonably be expected to adversely affect the HC License;
 - (b) enter into any transaction which, if effected before the date of this Agreement, would constitute a breach of the representations, warranties or agreements of the Vendor contained in this Agreement;
 - (c) carry out, enter into, or agree to enter into, any agreement, arrangement, understanding or transaction described in Section 3.1.15;
 - (d) amend its Articles or by-laws, or reorganize, amalgamate or merge with any other corporation;
 - (e) make any change to the capital structure of the Corporation or VPHI, the issued and outstanding securities of the Corporation or VPHI, or declare or pay a dividend or make other distributions;
 - (f) issue, grant, pledge, award, deliver or sell, or authorize the issuance, grant, pledge, award, delivery or sale of, any shares, options, warrants or similar rights exercisable or exchangeable for or convertible into securities of the Corporation or VPHI (including for greater certainty, any options);
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- (g) mortgage, pledge, grant a security interest in or otherwise create an Encumbrance on any of the property or assets of the Corporation or VPHI other than in the ordinary course of the Business;
- (h) dispose of or revalue any of the property or assets of the Corporation or VPHI other than the sale of Inventory in the ordinary course of the Business;
- (i) terminate, cancel, modify or amend in any material respect or take or fail to take any action which would entitle any party to any Contract or License to terminate, cancel, modify or amend any such Contract or Licenses;
- (j) enter into any Contract that is material or is outside the ordinary course of Business;
- (k) in respect of the Business, make any capital expenditure or authorize any capital expenditure or make any commitment for the purchase, construction or improvement of any capital assets;
- (l) make any change in its accounting principles, policies, practices or methods;
- (m) cancel, compromise, waive or release any right or Claim (as defined in Section 5.1) relating to the Business;
- (n) create, incur, assume or otherwise become liable with respect to, in one transaction or in a series of related transactions, any debt or guarantees of any debt;
- (o) make any loan or advance to, or any capital contribution or investment in, or assume, guarantee or otherwise become liable with respect to the liabilities or obligations of, any Person;
- (p) terminate, or amend the terms of, any employment Contract, or grant any increase in the rate of wages, salaries, bonuses or other remuneration of any person who is an employee of the Corporation or of any Senior Person in Charge as of the date of this Agreement including any increase in benefits or contingent payments tied to the Closing; or
- (q) agree, commit or enter into any understanding to take any actions enumerated in this Section 4.2.

4.3 Positive Covenants of the Purchaser and C3

During the period from signing of this Agreement to the Closing Date, the Purchaser and C3:

- (a) will use commercially reasonable efforts to cause the Closing Date to occur on or before 120 days after the execution of this Agreement;
 - (b) except as otherwise contemplated or permitted by this Agreement, will promptly advise the Vendor in writing (i) of any breach by the C3 or the Purchaser of any covenant or agreement contained in this Agreement or (ii) any event, happening or circumstance which would make any representation or warranty provided herein by the Vendor materially untrue or misleading;
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- (c) will promptly advise the Vendor in writing of, and provide the Vendor with copies of, all correspondence with Health Canada or any other Governmental Authority relating to HC License; and
- (d) will take all actions within its power and control to satisfy and fulfill the conditions set out in Section 6.3; and
- (e) will do all necessary actions in order to implement the Contemplated Financing prior to the Closing Date.

4.4 Negative Covenants of the Purchaser and C3

During the period from the date of this Agreement to the Closing Time, except as otherwise contemplated or permitted by this Agreement, the Purchaser and C3 shall not, except (i) as required or permitted pursuant to this Agreement, (ii) required by Applicable Law or Governmental Authority, or (iii) with the prior written notice to the Vendor:

- (a) take any action or fail to take any action with Health Canada or any other Governmental Authority that would or could reasonably be expected to adversely affect the HC License or take any action to negatively impact the treatment of the HC License; or
- (b) enter into any transaction which, if effected before the date of this Agreement, would constitute a breach of the representations, warranties or agreements of the Vendor contained in this Agreement.

4.5 Non-Competition by the Vendor and Affiliates

The Vendor shall not, and shall ensure that its Affiliates do not, without the prior written consent of the Purchaser, at any time within the period of five years following the Closing, be in competition with the Business of the Corporation and the Purchaser or otherwise compete in the creation of agglomerate of business in the cannabis sectors and the creation of a centre of excellence in the cannabis sector within the province of Québec (a “**Competitive Business**”); provided, however, that the foregoing shall not prevent the Vendor and its Affiliates from purchasing, subscribing for, or owning, in the aggregate, up to five percent (5 %) of the outstanding shares, partnership interest, trust interest or other ownership interest or indebtedness of any Person that carries on all or a portion of a Competitive Business listed on a recognized stock exchange.

4.6 Non-Solicitation of Employees

For a period of five years after the Closing, the Vendor and the Affiliates shall not, without the prior written consent of the Purchaser, and shall ensure that its Affiliates do not, directly or indirectly, solicit for employment or an independent contractor arrangement any persons who are officers or employees of the Corporation immediately after the Closing; provided, however, that the foregoing provision shall not prohibit the Vendor or any of its Affiliates from conducting general employment solicitations by newspaper or other mass media which are not targeted directly to or at the Corporation’s employees (collectively, the “**Restrictive Covenant**”).

4.7 Tax Covenants

- (a) **Tax Returns.** The Vendor shall prepare, or cause to be prepared, all income Tax Returns of the Corporation and VPHI which are required to be filed after the Closing Date, with respect to any taxation year ending as a result of the Closing,
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for which income Tax Returns have not been filed as of the Closing Date ("Stub Returns"). Such Stub Returns shall be prepared and filed on a basis consistent with applicable Laws and the past practices and procedures.

- (b) **Refunds.** If the Corporation or VPHI receives a refund of Taxes in respect of any taxation year ending on or before the Closing Date which is not included in the final Closing Date Statements, the amount of such refund shall promptly be paid, or caused to be paid, by the Purchaser to the Vendor as an adjustment to the Purchase Price.
- (c) **Cooperation.** The Vendor and the Purchaser shall cooperate with each other as and to the extent reasonably requested by the other Party, connection with tax matters relating to the Corporation and VPHI, including preparation and filing of Tax Returns and any audit, administrative or judicial proceeding in respect of Taxes assessed or proposed to be assessed and will preserve that data and other information until the expiration of any applicable limitation period for maintaining books and records under any applicable Law. The Purchaser covenants that, except with the consent of the Vendor, it will not request, or cause or allow the Corporation or VPHI to request, any audits by any Governmental Authority of any Tax Return or matter of or affecting the Corporation or VPHI in respect of any taxation year (or portions thereof) ending on or before the Closing Date, and that it will not cause or allow the Corporation or VPHI to originate the amending or refiling of any such Tax Return or file any waivers, notifications, or disclosures, for any taxation years (or portions thereof) of the Corporation or VPHI ending on or before the Closing Date, unless such amending, refiling, notification, or disclosure, is required by Law.
- (d) **Section 56.4 Election.** The Purchaser and the Vendor intend that the conditions set out in section 56.4(7) of the Tax Act have been met such that section 56.4(5) of the Tax Act applies to any "restrictive covenants" (as defined in section 56.4(1) of the Tax Act) granted by the Vendor (in this Section 4.7, the "Non-Competition Covenants"). For greater certainty: (a) for the purposes of section 56.4(7)(d) of the Tax Act, no proceeds will be attributable, allocable, received or receivable by the Vendors for granting the Non-Competition Covenants other than nominal consideration of \$1.00; (b) the Non-Competition Covenants are integral to this Agreement and have been granted to maintain or preserve the fair market value of the Purchased Shares; and (c) the Purchaser would not purchase the Purchased Shares without having the benefit of the Non-Competition Covenants. The Purchaser will, within 5 Business Days of a written request from a Vendor to do so, make jointly with a Vendor one or more elections, prepared by the Vendor, pursuant to or in respect of section 56.4(7) of the Tax Act in the required manner and using a form prescribed for such purposes (if applicable) and otherwise reasonably acceptable to their respective tax advisors, as will cause section 56.4(5) of the Tax Act to apply to the Non-Competition Covenants granted by the Vendor. Other than the nominal consideration of \$1.00, such election will reflect that the Parties have allocated no consideration to the Non-Competition Covenants. The Purchaser will not be responsible for any late filing penalties and will have no liability to the Vendor or otherwise with respect to the Tax consequences associated with any such election.

4.8 Environmental Remediation

- (a) The Parties acknowledge that the Vendor has commenced a phase 1 environmental audit (the "**Environmental Audit**") on the lands comprising the
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Facility. If the Environmental Audit requires remediation under any Environmental Law (the "**Remediation Work**"), the Parties agree to obtain three quotes (one of the Vendors' selection, one of the Purchaser's selection, and the third by a service provider agreed to by the Parties acting jointly) for the Remediation Work and that the average of the two quotes closest in price will be the deemed value of the Remediation Work (the "**Remediation Cost**").

- (b) In the Vendor's sole discretion, the Vendor can elect to (i) complete the Remediation Work at its own cost; (ii) reduce the Purchase Price by the amount of the Remediation Cost; or (iii) terminate this Agreement;
- (c) In the event the Vendor elects to:
 - (i) reduce the Purchase Price by the amount of the Remediation Cost, the Vendor will have no further liability or obligation for any Remediation Work; or
 - (ii) complete the Remediation Work, the parties will, acting reasonably, establish a framework for the completion of such Remediation Work.
- (e) The parties acknowledge and agree that the completion of the Remediation Work is not a condition to the completion of the transactions contemplated by this Agreement.

4.9 Pre-Closing Reorganization.

The Vendor shall following the execution of this Agreement and prior to the Closing Time, cause the Pre-Closing Reorganization to be completed. The Vendor and Purchaser acknowledge and agree that the planning for and implementation of any Pre-Closing Reorganization will not be considered a breach of any covenant under this Agreement and will not be considered in determining whether a representation or warranty of the Vendor hereunder has been breached. The Vendor and the Purchaser will work cooperatively and use commercially reasonable efforts to prepare prior to the Closing Time all documentation necessary and do such other acts and things as are necessary to give effect to such Pre-Closing Reorganization.

ARTICLE 5 INDEMNIFICATION

5.1 Definitions

As used in this Article 5:

"**Claim**" means any demand, action, suit, proceeding, claim (other than contractual claims in the ordinary course of the Business that are not in dispute), grievance, arbitration, assessment, reassessment, judgment or settlement or compromise relating thereto;

"**Defence Notice**" has the meaning set out in Section 5.6;

"**Defence Period**" has the meaning set forth in Section 5.6;

"**Defending Party**" has the meaning set forth in Section 5.7;

"**Direct Claim**" means any Indemnification Claim by an Indemnified Party against an Indemnifier which does not result from a Third-Party Claim;

"Indemnification Claim" means any act, omission or state of facts or Claim which may give rise to a right to indemnification under Section 5.2 or 5.3;

"Indemnified Party" means any Person entitled to indemnification under this Agreement;

"Indemnifier" means any Party obligated to provide indemnification under this Agreement;

"Indemnity Payment" means any amount of Loss required to be paid pursuant to Section 5.2 or 5.3;

"Loss" means any and all loss, liability, damage, cost or expense resulting from or arising out of any Claim, including the costs and expenses of any action, suit, proceeding, demand, assessment, reassessment, judgment, settlement or compromise relating thereto and all interest, punitive damages, fines and penalties and reasonable legal fees and expenses incurred in connection therewith, including loss of profits and consequential damages;

"Representative" means each director, officer, employee, agent, solicitor, accountant, professional advisor and other representatives of an Indemnified Party;

"Third Party Claim" means any Indemnification Claim asserted against an Indemnified Party or the Corporation, that is paid or payable to, or claimed by, any Person who is not a Party or an affiliate of a Party; and

"Third Party Claim Notice" has the meaning set out in Section 5.5.

5.2 Indemnification by Vendor

Subject to the limitations set out in Section 5.11, the Vendor shall indemnify, defend and save harmless the Purchaser and each of its Representatives from and against any and all Loss suffered or incurred by them, as a direct or indirect result of, or arising in connection with or related in any manner whatever to:

- (a) subject to Section 3.7, any misrepresentation or breach of warranty made or given by the Vendor in this Agreement, in any Closing Document or in any other document delivered pursuant to this Agreement or any Closing Document;
- (b) any failure by the Vendor to observe or perform any covenant or obligation contained in this Agreement, any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document; and
- (c) any Taxes owned, assessed or disclosed under any voluntary disclosure program to any Governmental Authority related to periods prior to Closing Date.

5.3 Indemnification by the Purchaser

Subject to the limitations set out in Section 5.11, the Purchaser and C3 shall, on a joint and several and several basis, indemnify, defend and save harmless the Vendor and each of its Representatives from and against any and all Loss suffered or incurred by them, as a direct or indirect result of, or arising in connection with or related in any manner whatsoever to:

- (a) subject to Section 3.8, any misrepresentation or breach of any warranty made or given by the Purchaser in this Agreement, in any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document; and
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- (b) any failure by the Purchaser to observe or perform any covenant or obligation contained in this Agreement, in any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document.

5.4 Agency for Representatives

Each Indemnified Party agrees that it accepts each indemnity in favour of any of its Representatives as agent and trustee of that Representative. Each Party agrees that an Indemnified Party may enforce an indemnity in favour of any of that Party's Representatives on behalf of that Representative.

5.5 Notice of Third Party Claims

If an Indemnified Party receives notice of the commencement or assertion of any Third Party Claim, the Indemnified Party shall give the Indemnifier reasonably prompt notice thereof, ("**Third Party Claim Notice**") but in any event no later than 30 days (or such shorter period as is required so as not to prejudice the defense in the circumstances) after receipt of such notice of such Third Party Claim. The Third-Party Claim Notice shall describe the Third Party Claim in reasonable detail and shall indicate, if reasonably practicable, the estimated amount of the Loss that has been or may be sustained by the Indemnified Party. If, through the fault of the Indemnified Party, the Indemnifier does not receive the Third Party Claim Notice in time to effectively contest the determination of any liability susceptible of being contested, such defense is materially prejudiced or the cost of any such defense is increased, then the liability of the Indemnifier shall be reduced but only to the extent that Losses are attributable to the Indemnified Party's failure to give the Third Party Claim Notice on a timely basis.

5.6 Defence of Third-Party Claims

The Indemnifier, provided it acknowledges its liability to indemnify in respect of a Third-Party Claim, may participate in or assume the defense of such Third-Party Claim by giving notice ("**Defense Notice**") to that effect to the Indemnified Party not later than 30 days (or such shorter period as is required so as not to prejudice the Indemnified Party) after receiving the Third-Party Claim Notice (the "**Defense Period**"). The Indemnifier's right to do so shall be subject to the rights of any insurer or other third party who has potential liability in respect of that Third-Party Claim. The Indemnifier shall pay all of its own expenses of participating in or assuming such defense. The Indemnified Party shall cooperate in good faith in the defense of each Third-Party Claim, even if the defense has been assumed by the Indemnifier and may participate in such defense assisted by counsel of its own choice at its own expense. If the Third Party Claim involves a Claim by a Governmental Authority requiring the payment of any Taxes and the failure to make such payment by a particular time would result in the imposition of any fine or penalty or would impair the ability to defend such Claim and the Indemnified Party gives notice thereof to the Indemnifier, the Indemnifier shall make the required payment on behalf of the Indemnified Party prior to the required time and the Indemnified Party shall reimburse the Indemnifier in the event it is subsequently determined that the payment made by the Indemnifier on behalf of the Indemnified Party does not qualify as an Indemnity Payment.

5.7 Assistance for Third Party Claims

The Indemnifier and the Indemnified Party shall use all reasonable efforts to make available to the Party which is undertaking and controlling the defense of any Third-Party Claim (the "**Defending Party**"),

- (a) those employees whose assistance, testimony or presence is necessary to assist the Defending Party in evaluating and in defending any Third-Party Claim; and
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- (b) all documents, records and other materials in the possession of such Party reasonably required by the Defending Party for its use in defending any Third-Party Claim,

and shall otherwise co-operate with the Defending Party. The Indemnifier shall be responsible for all reasonable expenses associated with making such documents, records and materials available and for all reasonable expenses of any employees made available by the Indemnified Party to the Indemnifier hereunder, which expense shall not exceed the actual cost to the Indemnified Party associated with such employees.

5.8 Settlement of Third-Party Claims

If an Indemnifier elects to assume the defense of any Third-Party Claim as provided in Section 5.6, the Indemnifier shall not be liable for any legal expenses subsequently incurred by the Indemnified Party in connection with the defense of such Third-Party Claim. However, if (a) the Indemnified Party has not received notice within the Notice Period that the Indemnifier has elected to assume the defense of such Third Party Claim or (b) the Indemnifier fails to take reasonable steps necessary to defend diligently such Third Party Claim within 30 days (or such shorter period as is required so as not to prejudice the Indemnified Party) after receiving notice from the Indemnified Party that the Indemnified Party bona fide believes on reasonable grounds that the Indemnifier has failed to take such steps, the Indemnified Party may, at its option, elect to assume the defense of and to compromise or settle the Third Party Claim assisted by counsel of its own choosing and the Indemnifier shall be liable for all reasonable costs and expenses paid or incurred in connection therewith.

Without the prior written consent of the Indemnified Party, the Indemnifier shall not enter into or cause any compromise or settlement of any Third-Party Claim unless:

- (a) the Indemnified Party receives, as part of the compromise and settlement, a legally binding and enforceable unconditional satisfaction or release, which is in form and substance satisfactory to the Indemnified Party, acting reasonably; and
- (b) the Third Party Claim and any Claim or liability of the Indemnified Party with respect thereto is being fully satisfied because of the compromise and settlement and the Indemnified Party is being released from any and all obligations or liabilities it may have with respect to the Third Party Claim and any Claim or liability which may arise in respect thereof to other Persons as a result of the Claim being asserted against such other Persons by the Person making the Third Party Claim.

5.9 Direct Claims

The Indemnified Party shall give notice of a Direct Claim by notifying the Indemnifying Party in writing in accordance with the notice provision in this Agreement. The Indemnifier shall have 30 days from receipt of such notice within which to make such investigation as the Indemnifier considers necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifier the information relied upon by the Indemnified Party to substantiate its right to be indemnified under Section 4.3, together with all such other information as the Indemnifier may reasonably request. If the Parties fail to agree at or before the expiration of such 30-day period (or any mutually agreed upon extension thereof), the Indemnified Party shall be free to pursue such remedies as may be available to it.

5.10 Failure to Give Timely Notice

A failure to give timely notice as provided in this Article 5 shall not affect the rights or obligations of any Party except and only to the extent that, as a result of such failure, any Party which was entitled to receive such notice was deprived of its right to recover any payment under its applicable insurance coverage or was otherwise damaged as a result of such failure, including due to increase in the cost of the defense of any Claim.

5.11 Limitation of Liability

Other than (i) any fraudulent or any intentional breach of any obligation or provision of this Agreement, or (ii) any Claim which is based upon intentional misrepresentation or fraud:

- (a) the maximum aggregate liability of the Vendor under this Agreement shall not exceed \$2,550,000; provided, however, that the maximum aggregate liability of the Vendor in relation to a breach of the representations in Sections 3.1.1, 3.1.2(a), 3.1.4, 3.1.5, 3.1.6 or 3.1.16 shall not exceed (i) if the Purchase Price has been paid in full, \$12,750,000; or (ii) if the First Installment and/or the Principal Installment Payments have not yet been made, the actual amount of the Purchase Price paid to the Vendor by the Purchaser;
- (b) the Purchaser shall not be entitled to make any indemnity claim under this Article 5 until the aggregate amount of all Claims exceeds \$50,000. Once the total of all Claims exceeds \$50,000, then the Purchaser shall be entitled to make a claim for all Claims incurred (for greater certainty, it being agreed that in the event such threshold is reached or exceeded, the Purchaser shall be entitled to recover the first \$50,000 of Claims and any Claims in excess of such amount); provided, however, that this Section 5.11(b) shall not apply to any Claim in respect any breach of the representations and warranties made in Sections 3.1.1, 3.1.2(a), 3.1.4, 3.1.5, 3.1.6 or 3.1.16 or in respect of a breach of any covenant in Sections 4.5 or 4.6; and
- (c) the Vendor's indemnification obligation in relation to a breach of Vendor Tax Reps shall not apply to any Taxes, including without limitation, any Taxes owed by Corporation and VPHI indicated in Schedule 3.1.16, or other amounts arising in respect of a proposed or actual reduction of the tax attributes, deductions or credits of the Corporation nor shall such indemnification obligations apply in respect of any Taxes to the extent that such Taxes were or could have been reduced through the application or potential application of the Corporation's tax attributes, deductions, or credits available for any taxation year.

5.12 Sole Remedy

The rights of indemnity set forth in this Article 4 are the sole and exclusive remedy of each Party in respect of any misrepresentation, incorrectness in or breach of any representation or warranty, or breach of covenant, by the other Party under this Agreement other than those remedies arising with respect to any intentional misrepresentation, fraud or willful misconduct. The rights of indemnity set forth in this Article 4 are not, for clarity, the sole and exclusive remedy under any instruments or documents, including the Closing Agreements, delivered pursuant to this Agreement. This Article 5 shall remain in full force and effect in all circumstances and shall not be terminated by any breach (fundamental, negligent or otherwise) by any Party of its representations, warranties or covenants hereunder or under any Closing Document or by any termination or rescission of this Agreement or any part hereof.

5.13 Set-Off

The Purchaser shall be entitled to set off the amount of any Loss subject to indemnification under this Agreement against any other amounts payable by the Purchaser to the Vendor under this Agreement, provided that if the amount of such Loss has been agreed or finally determined by a court of competent jurisdiction, but has not been satisfied in full by the Vendor, the Purchaser may deduct from amounts payable to the Vendor pursuant to this Agreement some or all of the amount remaining due to the Purchaser in respect of such Loss. The Purchaser shall not be entitled to set off the amount of any Loss related to Taxes subject to indemnification under this Agreement against any other amounts payable by the Purchaser to the Vendor without Purchaser's prior written consent.

5.14 Survival, Non-Waiver

The rights, remedies and recourses of the Purchaser and the Vendor hereunder shall not be affected by the Closing having occurred, by any investigation made by or on behalf of the Purchaser or the Vendor, as applicable, by the Purchaser or the Vendor, as applicable, lawfully terminating or failing to terminate this Agreement or by any other event or matter whatsoever except a specific and duly authorized written waiver or release executed by the Purchaser or the Vendor, as applicable.

5.15 Mitigation

The Indemnified Party will take commercially reasonable steps to mitigate all Loss, including availing itself of any defences, limitations, rights of contribution, claims against third persons, and other rights at law or equity and will provide such evidence and documentation of the nature and extent of the Loss as may be reasonably requested by the Indemnifying Party and in determining the amount of any Loss, reasonable mitigation will be taken into account.

5.16 Insurance and Recovery

- (a) The amount of any Claim incurred by an Indemnified Party under this Article 4 shall be net of any insurance proceeds actually received by such Indemnified Party relating to the facts giving rise to the right of indemnification and, if an Indemnified Party, receives such proceeds after receipt of payment from the relevant Indemnifying Party, then the amount of such proceeds, net of reasonable expenses incurred in obtaining such proceeds, shall be paid to such indemnifying Party. Each Party shall promptly, and in any case within the time periods prescribed in any insurance policies maintained by such Party, provide its insurer written notice and present all potential insured claims to the insurer for coverage and comply with the requirements of its insurance policy in respect thereto.
- (b) No Indemnified Party shall be entitled to indemnification more than once under this Article 4 with respect to the same matter.

**ARTICLE 6
CLOSING**

6.1 Place of Closing

The Closing shall take place at the Closing Time at the offices of Dunton Rainville LLP, or at such other places as may be agreed upon by the Vendor and the Purchaser, or virtually by email exchange of signatures pages.

6.2 Purchaser's Conditions

The Purchaser shall be obliged to complete the Closing only if each of the conditions precedent set out in the following Subsections of this Section 6.2 have been satisfied in full at or before the Closing Time. Each of such conditions precedent is for the exclusive benefit of the Purchaser and the Purchaser may waive any of them in whole or in part in writing.

6.2.1 Accuracy of Representations and Performance of Covenants

At the Closing Time, all of the representations and warranties of the Vendor made in or pursuant to this Agreement shall be true and correct in all material respects as if made at and as of the Closing Time (regardless of the date as of which the information in this Agreement or in any schedule or other document made pursuant hereto is given), and the Vendor shall have observed or performed in all respects all of the obligations, covenants and agreements which it must perform at or before the Closing Time.

6.2.2 Consents, Authorizations and Registrations

All consents, approvals, Orders and authorizations of any Person or Governmental Authority (or registrations, declarations, filings or recordings with), required for the Closing and listed in Section 3.1.4 of the Disclosure Letter (other than routine post-closing notifications or filings), shall have been obtained or made on or before the Closing Time.

6.2.3 No Material Adverse Change

No material adverse change shall have occurred since the Bring-Down Date with respect to the Condition of the Business, including, in particular, with respect to HC License.

6.2.4 Litigation

No Order shall have been entered that prohibits or restricts the Closing.

6.2.5 Sale-Lease Back

All conditions precedent to the closing of the Contemplated Financing, other than the completion of the purchase and sale of the Purchased Shares hereunder, will be complete.

6.2.6 Arrangement

The Arrangement will have been completed in accordance with the terms of the Arrangement Agreement.

6.2.7 Environmental Audit

The Environmental Audit will be complete.

6.2.8 Tolling Agreement

The Tolling Agreement will have been assigned by the Vendor to the Corporation.

6.2.9 Receipt of Closing Documents

The following documentation relating to the sale and purchase of the Purchased Shares will have been delivered to counsel for the Purchaser:

- (a) share certificates representing the Purchased Shares, duly endorsed for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank, in either case by the holders of record
 - (b) minute books and share transfer records of Corporation and VPHI, including any predecessor entities;
 - (c) an officer's certificate of the Vendor certifying (i) the matters in Section 6.2.1; (ii) that no Material Adverse Effect has occurred since the date of this Agreement and (iii) that the Pre-Closing Reorganization has been completed;
 - (d) all of the Books and Records and SOP of and related to the Corporation and VPHI. Purchaser agrees that it will preserve the Books and Records so delivered to it for a period of ten years from the Closing Date, or for any longer period as is required by any Applicable Law, and will permit the Vendor or its Representative reasonable access to them in connection with the affairs of the Vendor, but the Purchaser will not be responsible or liable to the Vendor for or as a result of any accidental loss or destruction of or damage to any Books and Records;
 - (e) satisfactory evidence from Health Canada that the Migration has occurred and that the Corporation is up to date with the HC License;
 - (f) confirmation of transfer of all bank accounts and usernames and passwords and access codes;
 - (g) the Quebec IP Escrow Agreement duly executed by the Vendor;
 - (h) resignation and waivers of officers and directors of the Corporation and VPHI;
 - (i) all material documentation related to the HC License issued by Health Canada;
 - (j) a release from the Vendor in a form acceptable to the Purchaser, acting reasonably of all claims against the Corporation and VPHI up to the Closing Time;
 - (k) certified copies of the resolutions of the Vendor, Corporation and VPHI relating to the matters contemplated by this Agreement;
 - (l) receipt of the Environmental Audit;
 - (m) confirmation of the payment of all Taxes owed by the Corporation and/or VPHI;
-

- (n) any applicable access codes, including without limitation, ClickSecur and all other similar codes;
- (o) all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated hereby and the taking of all corporate proceedings in connection therewith;

(collectively, the "**Vendor Closing Documents**").

All actions and proceedings taken on or prior to the Closing in connection with the performance by the Vendor of their obligations under this Agreement, shall be satisfactory in form (as to certification and otherwise) and substance to the Purchaser and its counsel, acting reasonably. The Purchaser shall have received copies of the Vendor Closing Documents required to be delivered on or before Closing.

6.3 Vendor's Conditions

The Vendor shall be obliged to complete the Closing only if each of the condition's precedent set out in this Section 5.3 have been satisfied in full at or before the Closing Time. Each of such condition's precedent is for the exclusive benefit of the Vendor and the Vendor may waive any of them in whole or in part in writing.

6.3.1 Accuracy of Representations and Performance of Covenants

At the Closing Time, all of the representations and warranties of the Purchaser made in or pursuant to this Agreement shall be true and correct in all material respects as if made at and as of the Closing Time (regardless of the date as of which the information in this Agreement or in any schedule or other document made pursuant hereto is given), and the Purchaser shall have observed or performed in all respects all of the obligations, covenants and agreements which it must perform at or before the Closing Time.

6.3.2 Consents, Authorizations and Registrations

All consents, approvals, Orders and authorizations of any Person or Governmental Authority (or registrations, declarations, filings or recordings with any of them), required for the Closing and listed in Section 3.2.3 of the Purchaser Disclosure Letter (other than routine post-closing notifications or filings), shall have been obtained or made on or before the Closing Time.

6.3.3 Litigation

No Order shall have been entered that prohibits or restricts the Closing or the transfer of the Purchased Shares.

6.3.4 Environmental Audit

The Environmental Audit will be complete.

6.3.5 Receipt of Closing Documents

The following documentation relating to the sale and purchase of the Purchased Shares will have been delivered to counsel for the Vendor;

- (a) payment of the First Instalment to the Vendor by wire transfer to an account designated by the Vendor, less amounts owing to Hyde Advisory & Investments Inc. ("**Hyde**") in accordance with 6.3.5(b);
- (b) payment of all amounts owing to Hyde as set out in the Advisory and Success Fee Agreement dated February 28, 2022 between Hyde and the Vendor by wire transfer to an account designated by Hyde;
- (c) certified copies of all resolutions of the Purchaser relating to the matters contemplated by this Agreement;
- (d) all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated hereby and the tacking of all corporate proceedings in connection therewith;
- (e) an officer's certificate of the Purchaser certifying the matters in Section 6.3.1;
- (f) the Quebec IP Escrow Agreement, together with the Quebec IP Assignment Agreements delivered in escrow thereunder, each duly executed on behalf of the Corporation; and
- (g) all such documentation or other evidence as the Vendor may reasonably request in order to establish the consummation of the transactions contemplated hereby and the taking of all corporate proceedings in connection therewith.

(collectively, the "**Purchaser Closing Documents**").

All actions and proceedings taken on or prior to the Closing in connection with the performance by the Purchaser's obligations under this Agreement, shall be satisfactory in form (as to certification and otherwise) and substance to the Vendor and its counsel. The Vendor shall have received copies of the Purchaser Closing Documents required to be delivered on or before Closing.

6.4 Waiver

Any Party may waive, by notice to the other Parties, any condition set forth in this Article 6 which is for its benefit. No waiver by a Party of any condition, in whole or in part, shall operate as a waiver of any other condition.

ARTICLE 7-TERMINATION

7.1 Termination Events

This Agreement may, by notice given prior to or at the Closing, be terminated:

- (a) by the Purchaser if:
-

- (i) any of the conditions in Section 6.2 have not been satisfied as of the Closing Time in the opinion of the Purchaser, acting reasonably, or if satisfaction of such a condition is or becomes impossible (other than through the failure of the Purchaser to comply with its obligations under this Agreement) and the Purchaser has not waived such condition on or before the Closing Time; or
 - (ii) there has been a material breach of any representation, warranty, covenant or agreement made by the Vendor under this Agreement and such breach has not been waived by the Purchaser or cured by the Vendor within 10 days of the Vendor's receipt of written notice of such breach from the Purchaser; or
 - (iii) if the Environmental Audit required the Vendor to complete Remediation Work and the Vendor has not, within 30 days of the determination of the Remediation Costs, (A) commenced the Remediation Work; or (B) notified the Purchaser that it elects to reduce the Purchase Price by the Remediation Cost in accordance with Section 4.8(c)(i);
- (b) by the Vendor if:
- (i) any of the conditions in Section 6.3 has not been satisfied as of the Closing Time in the opinion of the Vendor, acting reasonably, or if satisfaction of such a condition is or becomes impossible (other than through the failure of the Vendor to comply with their obligations under this Agreement) and the Vendor has not waived such condition on or before the Closing Time; or
 - (ii) there has been a material breach of any representation, warranty, covenant or agreement made by the Purchaser under this Agreement and such breach has not been waived by the Vendor or cured by the Purchaser within 10 days of the Purchaser's receipt of written notice of such breach from the Vendor;
- (c) by mutual consent of the Purchaser and the Vendor; or
- (d) by either the Purchaser or the Vendor if the Closing has not occurred (other than through the failure of any Party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before March 31, 2023, or such other date as the Parties may agree upon in writing.

7.2 Frustration of Closing Conditions

Neither the Vendor nor the Purchaser may rely, either as a basis for not consummating the transactions contemplated by this Agreement or for terminating this Agreement, on the failure of any conditions set forth in Sections 6.2 or 6.3 to be satisfied, if such failure was caused, in the case of the Vendor, by the Vendor's breach of any provision of this Agreement or failure to use its commercially reasonable efforts to consummate the transactions contemplated by this Agreement, or if by the Purchaser, the Purchaser's breach of any provision of this Agreement or failure to use its commercially reasonable efforts to consummate the transactions contemplated by this Agreement.

7.3 Effect of Termination

Each Party's right of termination under Article 7 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination shall not be an election of remedies. If this Agreement is terminated pursuant to Section 7.1, all further obligations of the Parties under this Agreement shall terminate, except that the obligations in Section 8.1 shall survive; provided, however, that if this Agreement is terminated by a Party because of the breach of the Agreement by the other Party or because one or more of the conditions to the terminating Party's obligations under this Agreement is not satisfied as a result of the other Party's failure to comply with its obligations under this Agreement, the terminating Party's right to pursue all legal remedies shall survive such termination unimpaired.

ARTICLE 8 GENERAL

8.1 Expenses

Each Party shall pay all expenses it incurs in authorizing, preparing, executing and performing this Agreement and the transactions contemplated hereunder, including all fees and expenses of its legal counsel, bankers, investment bankers, brokers, accountants or other representatives or consultants.

8.2 Notices

- (a) **Method of Delivery.** Any notice, demand or other communication (in this Section, a "**notice**") required or permitted to be given or made hereunder shall be in writing and shall be sufficiently given or made if:
- (i) delivered in person during normal business hours on a Business Day and left with a receptionist or other responsible employee of the recipient at the applicable address set forth below; or
 - (ii) sent by any electronic means of sending messages ("Electronic Transmission"), including facsimile transmission and e-mail, during normal business hours on a Business Day;

in the case of a notice to the Vendor, addressed to it at:

Emerald Health Therapeutics, Inc.
c/o 2500 – 666 Burrard Street
Vancouver, BC V6C 2X8 Attention:
E-mail:

with a copy to:

Bennett Jones LLP

2500 – 666 Burrard Street
Vancouver, BC V6C 2X8

Attention: [****]
E-mail: [****]

and in the case of a notice to the Purchaser, addressed to it at:

to the Purchaser at:

212B Boulevard LabelleRosemère, QuébecJ7A 2H4

Attention: [****]

E-mail: [****]

with a copy to:

DUNTON RAINVILLE LLP

800 Square Victoria, Suite 4300Montreal, Québec, H4Z 1H1

Attention: [****]

E-mail: [****]

- (b) **Deemed Delivery.** Each notice sent in accordance with this Section shall be deemed to have been received:
- (i) in the case of personal delivery, if delivered before 5:00 p.m., on the day it was delivered; otherwise, on the first Business Day thereafter; or
 - (ii) in the case of Electronic Transmission, on the same day that it was sent if sent on a Business Day before 5:00 p.m. (recipient's time) on such day, and otherwise on the first Business Day thereafter.

Any Party may change its address for notice by written notice delivered to the other Parties.

8.3 Public Announcements

Except as may be required by Law, no Party shall make any public statement or issue any press release concerning the transactions contemplated by this Agreement without consulting with the other Party prior to making such statement or release, and the Parties shall use all reasonable efforts, acting in good faith, to agree upon a text for such statement or release which is satisfactory to all Parties. If such advance consultation is not reasonably practicable or legally permitted, to the extent permitted by applicable Law, the disclosing Party shall provide the other Party with a copy of any written disclosure made by such disclosing Party as soon as practicable thereafter. For greater certainty, the Parties hereby agree that if any material change report is required to be filed following the public announcement of this Agreement by any Party hereto, such material change report shall be filed not later than the tenth day following such announcement and that a copy of this Agreement will only be publicly filed on the date such material change report is filed and the filed Agreement will contain such redactions as each Party may reasonably request, provided such redactions are permitted by applicable Law.

8.4 Assignment

Neither this Agreement nor any right or obligations hereunder may be assigned by either Party, by way of security or otherwise, without the prior consent of the other Party, except to a corporation or to an entity owned or controlled by the Purchaser or C3, in which case this Agreement can be assigned without the consent of the Vendor, provided that no such assignment

will relieve C3 of its obligations hereunder. This Agreement enures to the benefit of and is binding upon the Parties and their respective successors and permitted assigns.

8.5 Further Assurances

Each Party shall do such acts and shall execute such further documents, conveyances, deeds, assignments, transfers and the like, and will cause the doing of such acts and will cause the execution of such further documents as are within its power, as any other Party may in writing at any time and from time to time reasonably request be done and or executed, which are required in order to give full effect to the provisions of this Agreement, each Closing Document and to ensure compliance with all conditions set forth in Article 5.

8.6 International Financial Reporting Standards

All accounting and financial terms used herein, unless specifically provided to the contrary, shall be interpreted and applied in accordance with International Financial Reporting Standards.

8.7 Headings and References

The division of this Agreement into articles, sections, subsections and schedules and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The article, section, subsection and schedule headings in this Agreement are not intended to be full or precise descriptions of the text to which they refer and are not to be considered part of this Agreement. All uses of the words "**hereto**", "**herein**", "**hereof**", "**hereby**" and "**hereunder**" and similar expressions refer to this Agreement as a whole and not to any particular section or portion of it. References to an Article, Section, Subsection or Schedule refer to the applicable article, section, subsection or schedule of this Agreement unless otherwise specifically provided. In this Agreement, words in the singular include the plural and vice versa and words in one gender include all genders.

8.8 Time

Time is of the essence of each provision of this Agreement.

8.9 Entire Agreement

This Agreement, together with the non-disclosure agreement dated April 7, 2022 between the Vendor and C3.Farm Centre Inc., constitutes the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior agreements, negotiations, discussions and understandings, undertakings, statements, arrangements, promises, representations and agreements, whether written or oral, between the Parties, including the letter of intent of June 22, 2022, as amended and the letter of intent dated September 27, 2022. There are no representations, warranties, conditions, undertakings, commitments, other agreements or acknowledgements, whether direct or collateral, express or implied, that form part of or affect this Agreement, or which induced any Party to enter into this Agreement or on which reliance is placed by any Party, except as specifically set forth in this Agreement or in the Closing Documents.

8.10 Amendment

This Agreement may be amended, modified or supplemented only by the written agreement of the Parties.

8.11 Waiver of Rights

Any waiver of, or consent to depart from, the requirements of any provision of this Agreement shall be effective only if it is in writing and signed by the Party giving it, and only in the specific instance and for the specific purpose for which it has been given. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver of such right. No single or partial exercise of any such right shall preclude any other or further exercise of such right or the exercise of any other right.

8.12 Applicable Law

This Agreement shall be governed by, and construed, interpreted and enforced in accordance with, the laws of the Province of British Columbia and the laws of Canada in force in such Province (excluding any rule or principle of the conflict of laws which might refer such construction or interpretation to the laws of another jurisdiction). Each Party irrevocably submits to the non-exclusive jurisdiction of the courts of Québec, judicial district of Montréal, with respect to any matter arising hereunder or related hereto.

8.13 Currency

Unless specified otherwise, all statements of or references to dollar amounts in this Agreement are to Canadian dollars.

8.14 Third Party Beneficiaries

Nothing in this Agreement or in any Closing Document is intended or by implication to, or shall, confer upon any Person (other than the Parties and the Corporation) any rights or remedies of any kind.

8.15 Knowledge of the Vendor

Where any representation, warranty or covenant contained in this Agreement is expressly qualified by reference to the "knowledge" or "awareness" of the Vendor or the Purchaser, it shall be deemed to refer to the knowledge or awareness of the Vendor or Purchaser, as the case may, and the knowledge they would have had if they had conducted a diligent inquiry into the relevant subject matter. The Vendor and the Purchaser confirms that, except as otherwise specifically provided herein, it has made due and diligent inquiry of such Persons as they consider necessary as to the matters that are the subject of such representations, warranties and covenants.

8.16 No Strict Construction

The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of contra preferentum or strict construction shall be applied against any Party.

8.17 Counterparts

This Agreement may be executed in any number of counterparts. Each executed counterpart shall be deemed to be an original. All executed counterparts taken together shall constitute one and the same original agreement. To evidence the fact that it has executed this Agreement, a Party may send a copy of its executed counterpart to all other Parties by e-mail transmission or by electronic mail in Portable Document File (PDF) format and DosuSign. That Party shall be deemed to have executed this Agreement on the date it sent such e-mail or electronic

transmission. In such event, such Party shall forthwith deliver to the other Parties the counterpart of this Agreement executed by such Party.

8.18 Severability

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of this Agreement is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to affect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the terms of this Agreement remain as originally contemplated to the fullest extent possible.

8.19 Intervention

C3 intervenes to this Agreement to solidarity guaranty the representations, warranties, indemnification obligations and covenants of Purchaser under this Agreement.

8.20 Language

The parties hereto have specifically required that this Agreement and all related documents be drafted in English. *Les parties aux présentes ont expressément requis que la présente convention et tous les documents accessoires soient rédigés en anglais.*

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF this Agreement has been executed by the Parties as of the date first written above.

VENDOR

PURCHASER

EMERALD HEALTH THERAPEUTICS, INC.

C3 SOUVENIR HOLDOMG INC.

By: /s/ Moe Jiwan By: /s/ Jonathan Morrison
Name: Moe Jiwan Name: Jonathan Morrison
Title: Authorized representative Title: President

INTERVENTIONS:

VERDÉLITE SCIENCES, INC.

C3 CENTRE HOLDING INC.

By: /s/ Moe Jiwan By: /s/ Jonathan Morrison
Name: Moe Jiwan Name: Jonathan Morrison
Title: Authorized representative Title: President

VERDÉLITE PROPERTY HOLDINGS, INC.

By: /s/ Moe Jiwan
Name: Moe Jiwan
Title: Authorized representative

**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 September 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Punit Dhillon

Punit Dhillon

Chief Executive Officer, Chairman of the Board, and Director

Date: November 14, 2022

**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 September 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kaitlyn Arsenault

Kaitlyn Arsenault

Chief Financial Officer

(Principal Accounting Officer)

Date: November 14, 2022

**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 September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Punit Dhillon, Chief Executive Officer, Chairman of the Board, and Director of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ Punit Dhillon

Punit Dhillon

Chief Executive Officer, Chairman of the Board, and Director

Date: November 14, 2022

**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 September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kaitlyn Arsenault, Chief Financial Officer of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ Kaitlyn Arsenault

Kaitlyn Arsenault

Chief Financial Officer

(Principal Accounting Officer)

Date: November 14, 2022