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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

or

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

For the transition period from __________ to __________

Commission File Number: 000-56181

SmartKem, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**85-1083654**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

Manchester Technology Centre, Hexagon Tower.
Delaunays Road, Blackley
Manchester, M9 8GQ U.K.
(Address of Principal Executive Offices)
011-44-161-721-1514
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of August 22, 2022, there were 26,949,282 of the registrant's shares of common stock outstanding.

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PART I —FINANCIAL INFORMATION

Item 1. Financial Statements

SMARTKEM, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except number of shares and per share data)

	June 30, 2022	December 31, 2021
ASSETS	**(UNAUDITED)**	
Current assets:		
Cash and cash equivalents	$ 7,757	$ 12,226
Accounts receivable	4	—
Research and development tax credit receivable	1,505	1,070
Prepaid expenses and other current assets	1,815	802
Total current assets	11,081	14,098
Property, plant equipment, net of accumulated depreciation of $1,090 and $1,102	677	802
Right-of-use assets, net	549	154
Other assets	6	6
Total assets	$ 12,313	$ 15,060
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 1,190	$ 1,423
Current lease liabilities	208	87
Total current liabilities	1,398	1,510
Non-current lease liabilities	320	28
Total liabilities	1,718	1,538
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Common stock, par value $0.0001 per share, 300,000,000 shares authorized, 26,949,282 and 25,554,309 shares issued and outstanding, at June 30, 2022 and December 31, 2021, respectively	3	3
Additional paid-in capital	92,612	89,954
Accumulated other comprehensive loss	(485)	(1,363)
Accumulated deficit	(81,535)	(75,072)
Total Stockholders' equity	10,595	13,522
Total Liabilities and Stockholders' Equity	$ 12,313	$ 15,060

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

SMARTKEM, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(in thousands, except number of shares and per share data)

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenue	$ 4	$ —	$ 34	$ —
Cost of revenue	2	—	25	—
Gross profit	2	—	9	—
Other operating income	294	256	578	688
Operating Expenses:				
Research and development	1,344	1,355	2,802	5,369
Selling, general and administrative	1,370	1,345	2,611	5,328
Transaction expenses	—	16	—	1,329
Total operating expenses	2,714	2,716	5,413	12,026
Loss from operations	(2,418)	(2,460)	(4,826)	(11,338)
Non-operating (Expense)/Income				
(Loss)/Gain on foreign currency transactions	(1,284)	57	(1,638)	(412)
Interest expense	—	—	—	(19)
Interest income	1	2	1	2
Total non-operating (expense)/income	(1,283)	59	(1,637)	(429)
Loss before income taxes	(3,701)	(2,401)	(6,463)	(11,767)
Income tax expense	—	—	—	—
Net loss	$ (3,701)	$ (2,401)	$ (6,463)	$ (11,767)
Net loss	$ (3,701)	$ (2,401)	$ (6,463)	$ (11,767)
Other comprehensive loss:				
Foreign currency translation	722	15	878	33
Total comprehensive loss	$ (2,979)	$ (2,386)	$ (5,585)	$ (11,734)
Basic & diluted net loss per common share	$ (0.13)	$ (0.09)	$ (0.23)	$ (0.52)
Basic & diluted weighted average shares outstanding	28,751,365	27,066,385	28,595,550	22,733,033

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

SMARTKEM, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

For the Three and Six Months Ended June 30,

(in thousands, except share data)

	Common stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at January 1, 2021	13,627,887	$ 1	$ 61,276	$ (1,480)	$ (57,946)	$ 1,851
Issuance of common shares due to exercise of stock-options	1,404,813	1	19	-	-	20
Stock-based compensation expense	-	-	6,020	-	-	6,020
Repurchase of common stock	(2,307,700)	-	-	-	-	-
Effect of reverse capitalization	2,500,000	-	-	-	-	-
Issuance of common shares to vendor	50,000	-	99	-	-	99
Issuance of common stock and warrants in private placement	10,162,000	1	24,637	-	-	24,638
Issuance costs related to common stock and warrants in private placement	-	-	(2,454)	-	-	(2,454)
Foreign currency translation adjustment	-	-	-	17	-	17
Net loss	-	-	-	-	(9,366)	(9,366)
Balance at March 31, 2021	25,437,000	3	89,597	(1,463)	(67,312)	20,825
Stock-based compensation expense	-	-	75	-	-	75
Issuance of common shares to vendor	25,000	-	50	-	-	50
Foreign currency translation adjustment	-	-	-	15	-	15
Net loss	-	-	-	-	(2,401)	(2,401)
Balance at June 30, 2021	25,462,000	$ 3	$ 89,722	$ (1,448)	$ (69,713)	$ 18,564

	Common stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at January 1, 2022	25,554,309	$ 3	$ 89,954	$ (1,363)	$ (75,072)	$ 13,522
Stock-based compensation expense	-	-	98	-	-	98
Issuance of common shares to vendor	12,500	-	43	-	-	43
Issuance of common stock in private placement (note 13)	1,000,000	-	2,000	-	-	2,000
Issuance costs related to common stock in private placement	-	-	(160)	-	-	(160)
Foreign currency translation adjustment	-	-	-	156	-	156
Net loss	-	-	-	-	(2,762)	(2,762)
Balance at March 31, 2022	26,566,809	3	91,935	(1,207)	(77,834)	12,897
Stock-based compensation expense	-	-	97	-	-	97
Issuance costs related to common stock in private placement	-	-	(10)	-	-	(10)
Issuance of common shares to vendor	382,473	-	590	-	-	590
Foreign currency translation adjustment	-	-	-	722	-	722
Net loss	-	-	-	-	(3,701)	(3,701)
Balance at June 30, 2022	26,949,282	$ 3	$ 92,612	$ (485)	$ (81,535)	$ 10,595

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

SMARTKEM, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021 As restated
Cash flows from operating activities:		
Net loss	$ (6,463)	$ (11,767)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	105	95
Common shares issued to vendor for services	633	107
Amortization of right of use asset	131	96
Stock-based compensation	195	6,095
Loss on foreign currency transactions	1,638	412
Change in operating assets and liabilities:		
Accounts receivable, net	(6)	19
Research & development tax credit receivable	(578)	(499)
Prepaid expenses and other current assets	(1,057)	(901)
Accounts payable and accrued expenses	(134)	435
Lease liabilities	(115)	(120)
Other assets	—	(1)
Net cash used in operating activities	(5,651)	(6,029)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(58)	(121)
Net cash used by investing activities	(58)	(121)
Cash flows from financing activities:		
Proceeds from term loan payable	—	738
Repayment of term loan payable	—	(738)
Proceeds from the issuance of common stock and warrants in private placement	—	24,638
Proceeds from the issuance of common stock in private placement	2,000	—
Payment of issuance costs	(170)	(2,454)
Proceeds from the exercise of stock options	—	20
Net cash provided by financing activities	1,830	22,204
Effect of exchange rate changes on cash	(590)	(387)
Net change in cash	(4,469)	15,667
Cash, beginning of period	12,226	764
Cash, end of period	$ 7,757	$ 16,431
Supplemental disclosure of cash and non-cash investing and financing activities		
Cash paid for interest	$ —	$ 19
Right of use asset and lease liability additions	$ 539	$ 86

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

1. BUSINESS AND BASIS OF PREPARATION

SmartKem Inc. ("SmartKem" or the "Company") a Delaware corporation, formerly known as Parasol Investments Corporation ("Parasol"), was formed on May 13, 2020 and is the successor, as discussed below, of SmartKem Limited, which was formed under the Laws of England and Wales. The Company was founded as a "shell" company registered under the Exchange Act, with no specific business plan or purpose until it began operating the business of SmartKem Limited following the closing of the Exchange described below.

SmartKem is seeking to reshape the world of electronics with a revolutionary semiconductor platform that enables a new generation of displays, sensors and logic. SmartKem's patented TRUFLEX® inks are solution deposited at a low temperature, on low-cost substrates to make organic thin-film transistor (OTFT) circuits. The company's semiconductor platform can be used in a number of applications including mini-LED displays, AMOLED displays, fingerprint sensors and logic circuits. SmartKem develops its materials at its research and development facility in Manchester, UK and its semiconductor manufacturing process at the Centre of Process Innovation (CPI) in Sedgefield, UK. The company has an extensive IP portfolio including approximately 120 issued patents.

Restatement of previously filed financial statements

The Company has determined that it made an error in the presentation and accounting of its consolidated statement of cash flows in the Company's annual and interim consolidated financial statements during 2021 and 2022. The management of the company has assessed its accounting policies as well as the presentation and accounting for the gain and loss on foreign currency and has concluded that it was necessary to restate its previously issued financial statements for the correction of this error related to incorrect classification of gain and loss on foreign currency in effect of exchange rate changes on cash instead of including such non-cash unrealized gains and losses in cash flows from operating activities. The effect of this error was to overstate net cash used in operating activities and effect of exchange rate changes on cash by $412 thousand for the six months ended June 30, 2021, respectively. The errors and the required restatement had no effect on the Company's cash flows from investing activities, financing activities, net changes in cash or cash and cash equivalents as of June 30, 2021 and had no impact on the Company's consolidated balance sheet, statements of operations and comprehensive loss and statements of stockholders' equity as of and for the three- and six-month periods ended June 30, 2021. The changes are presented below (in thousands):

		For the Six Months Ended June 30, 2021
Net cash used in operating activities as previously reported	$	(6,441)
Adjustment for (Loss)/Gain on foreign currency transactions		412
Net cash used in operating activities as restated	$	(6,029)
Effect of exchange rate changes on cash as previously reported	$	25
Adjustment for (Gain)/Loss on foreign currency transactions		(412)
Effect of exchange rate changes on cash as restated	$	(387)

Basis for Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting and are presented in thousands, except number of shares and per share data. Accordingly, certain notes or other information that are normally required by U.S. GAAP have been omitted if they substantially duplicate the disclosures contained in the Company's annual audited consolidated financial statements. Accordingly, the unaudited interim condensed consolidated financial statements should be read in connection with the Company's audited financial statements and related notes as of and for the year ended December 31, 2021. The accompanying interim condensed consolidated financial statements are unaudited; however, in the opinion of management, they include all normal and recurring adjustments necessary for a fair presentation of the Company's unaudited interim condensed consolidated financial statements for the periods presented. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

Comprehensive loss of all periods presented is comprised primarily of net loss and foreign currency translation adjustments.

Going Concern

The accompanying unaudited interim condensed consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business.

Since inception, we have incurred recurring losses including net losses of $3.7 million and $6.5 million for the three and six months ended June 30, 2022, respectively. As of June 30, 2022 we had an accumulated deficit of $81.5 million. The Company's cash as of June 30, 2022 was $7.8 million. We anticipate operating losses to continue for the foreseeable future due to, among other things, costs related to research funding, further development of our technology and products and expenses related to the commercialization of our products.

Management believes that the Company's existing cash as of June 30, 2022 will be sufficient to fund the operations of the Company through to April 2023 and that the Company will require additional capital to continue its operations and research and development activity thereafter.

There can be no assurance, however, that such financing will be available when needed, if at all, or on acceptable terms and conditions. The precise amount and timing of the funding needs cannot be determined accurately at this time, and will depend on a number of factors, including the market demand for the Company's products, the quality of product development efforts, management of working capital, and the continuation of normal payment terms and conditions for purchase of services.

In order to address its capital needs, including its planned research and development activities and other expenditures, the Company is assessing options for financing our working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. Adequate financing opportunities might not be available to the Company, when and if needed, on acceptable terms or at all.

If the Company is unable to obtain additional financing in sufficient amounts or on acceptable terms, the Company will be forced to delay, reduce or eliminate some or all of its research and development programs and product portfolio expansion, which could adversely affect its operating results or business prospects. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continuing operations, if at all. After considering the uncertainties, management consider it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements. The accompanying unaudited interim condensed consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Reverse Recapitalization

On February 23, 2021 Parasol entered into a Securities Exchange Agreement ("the Exchange Agreement"), with SmartKem Limited. Pursuant to the Exchange Agreement all of the equity interests in SmartKem Limited, except certain deferred shares which had no economic or voting rights (the "Deferred Shares") and which were purchased by Parasol for an aggregate purchase price of $1.40, were exchanged for shares of Parasol common stock, par value

$0.0001 per share (“common stock”), and SmartKem Limited became a wholly owned subsidiary of Parasol (the “Exchange”).

As a result of the Exchange, Parasol acquired the business of SmartKem Limited, and continues as the existing business operations of SmartKem Limited as a public reporting company under the name SmartKem, Inc.

Under ASC 805, Business Combinations, SmartKem Limited was deemed the accounting acquirer based on the following predominate factors: Parasol was created as a “shell” company to effect a business combination and had no operations, the former shareholders of SmartKem Limited own more than a majority of the outstanding voting stock of the Company, the Company’s board of directors and management consists of the former board of directors and management of SmartKem Limited, SmartKem Limited was the largest entity by assets at the time of the Exchange, and the principal operating location of the Company is SmartKem Limited’s premises which are located in Manchester, United Kingdom.

The Exchange was accounted for as a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with U.S. GAAP. Under this method of accounting, Parasol was treated as the “acquired” company for financial reporting purposes. Accordingly, for accounting purposes, the Exchange was treated as the equivalent of SmartKem Limited issuing stock for the net assets of Parasol, accompanied by a recapitalization. The net assets of Parasol are stated at historical cost, with no goodwill or other intangible assets recorded. The consolidated assets, liabilities, and results of operations prior to the Exchange are those of SmartKem Limited. Reported shares and earnings per share available to holders of the Company’s common stock, prior to the Exchange, have been retroactively restated as shares reflecting the exchange ratios established in the Exchange.

At the closing of the Exchange (the “Closing”), each SmartKem Limited ordinary share issued and outstanding immediately prior to the Closing (other than the Deferred Shares) was exchanged for 0.0111907 of a share of the Company’s common stock and each SmartKem Limited A ordinary share issued and outstanding immediately prior to the Closing was exchanged for 0.0676668 of a share of the Company’s common stock, with the maximum number of shares of our common stock issuable to the former holders of SmartKem Limited’s ordinary shares and A ordinary shares equal to 12,725,000. This includes enterprise management incentive options to purchase 124,497,910 SmartKem Limited ordinary shares (the “SmartKem Limited EMI Options”) issued and outstanding immediately prior to the Closing that were accelerated and exercised by the holders thereof for a like number of ordinary shares and exchanged for shares of the Company’s common stock pursuant to the Exchange. In aggregate 1,127,720,477 SmartKem Limited shares were exchanged for 12,725,000 of the Company’s common stock, an average exchange ratio of 0.011283825. Immediately prior to the Closing, an aggregate of 2,500,000 shares of the Company’s common stock owned by the stockholders of Parasol prior to the Exchange were forfeited and cancelled (the “Stock Forfeiture”).

The consolidated entity presented is referred to herein as “SmartKem”, “we”, “us”, “our”, or the “Company”, as the context requires and unless otherwise noted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidation

The unaudited interim condensed consolidated financial statements include the accounts of SmartKem, Inc. and its wholly-owned subsidiaries, SmartKem Delaware, Inc. and SmartKem Limited. The Company does not have any nonconsolidated subsidiaries. All intercompany balances and transactions have been eliminated on consolidation, including unrealized gains and losses on transactions between the companies.

The Company's formerly wholly-owned subsidiary, SmartKem Delaware Inc. was dissolved on May 13, 2021.

Comprehensive loss

Comprehensive loss of all periods presented is comprised primarily of net loss and foreign currency translation adjustments.

Management's Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in the Company's unaudited interim condensed consolidated financial statements relates to the valuation of common share, fair value of share options, and the valuation allowance of deferred tax assets. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Due to the uncertainty of factors surrounding the estimates or judgments used in the preparation of the financial statements, actual results may materially vary from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of 90 days or less at acquisition to be cash equivalents. As of June 30, 2022 and December 31, 2021, the Company did not have any cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount the Company expects to collect and do not bear interest. The Company considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. These receivables have historically been paid timely. Due to the nature of the accounts receivable balance, the Company believes there is no significant risk of non-collection. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, allowances for doubtful accounts would be required. There was no allowance for doubtful accounts recorded as of June 30, 2022 and December 31, 2021.

Impairment of Long-Lived Assets

Management continually evaluates whether events or changes in circumstances might indicate that the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of impairment would be based on generally accepted valuation methodologies, as deemed appropriate. If the carrying amount is greater than the undiscounted cash flows, the carrying amount of the asset is reduced to the asset's fair value. An impairment loss is recognized immediately as an operating expense in the condensed consolidated statements of operations. Reversal of previously recorded impairment losses are prohibited. As of June 30, 2022 and December 31, 2021, Company's management believed that no revision to the remaining useful lives or impairment of the Company's long-lived assets was required.

Warrants

The accounting treatment of warrants issued is determined pursuant to the guidance provided by ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*, as applicable. Each feature of a freestanding financial instruments including, without limitation, any rights relating to subsequent dilutive issuance, dividend issuances, equity sales, rights offerings, forced conversions, dividends, and exercise are assessed with determinations made regarding the proper classification in the Company's unaudited interim condensed consolidated financial statements. The Company determined that all outstanding warrants meet the criteria to be classified as equity.

Leases

Operating lease assets are included within operating lease right-of-use assets, and the corresponding operating lease obligation on the unaudited condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021. The Company has elected not to present short-term leases as these leases have a lease term of 12 months or less at lease inception and do not contain purchase options or renewal terms that the Company is reasonably certain to exercise. All other lease assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of the Company's leases do not provide an implicit rate of return, the Company used an incremental borrowing rate based on the information available at adoption date in determining the present value of lease payments.

Revenue

The Company applies the provisions of ASC 606 *Revenue from Contracts with Customers*. The Company recognizes revenue under the core principle to depict the transfer of control to the Company's customers in an amount reflecting the consideration the Company expects to be entitled to. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contact and (5) recognize revenue when a performance obligation is satisfied.

The Company's current contracts with customers do not contain significant estimates or judgments. All of the Company's revenue contains a single performance obligation that is recognized upon fulfilment of the sales order.

The Company derives its revenues primarily from sales of TRUFLEX® inks and demonstrator units to customers evaluating organic semiconductor technology. The transaction price is stated in each customer agreement and is allocated to a single performance obligation. Revenue is recognized upon shipment of each consignment of inks or each demonstrator, at a point in time. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

Other Operating Income

The Company's other operating income is related to government grant incentives received for qualifying research and development projects, and research and development tax credits related to the United Kingdom's Research and Development Expenditure Credit scheme, which is a government tax incentive designed to reward innovative companies for investing in research and development. Such incentives are recorded as other income when it is probable the amounts are collectible and can be reasonably estimated.

For the three months ended June 30, 2022 and 2021, the Company recorded grant income and research & development tax credits of $294 thousand and $256 thousand, respectively, and $578 thousand and $688 thousand for the six months ended June 30, 2022 and 2021, respectively. As of June 30, 2022, and December 31, 2021, the Company had receivables related to research & development tax credits for payments not yet received of $1,505 thousand and $1,070 thousand, respectively.

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

Share-based compensation

All share-based payments, including grants of stock options, are measured based on the fair value of the share-based awards at the grant date and recognized over their respective vesting periods. Outstanding options generally expire 10 years after the grant date. The Company has issued options that vest based on service requirements and options become exercisable when service requirements are met. Due to the Exchange, all options outstanding immediately prior to the event with a performance obligation requirement became vested and exercisable.

The estimated fair value of stock options at the grant date is determined using the Black-Scholes pricing model. The Black-Scholes option pricing model requires inputs such as the fair value of common stock on date of grant, expected term, expected volatility, dividend yield, and risk-free interest rate. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards. The Company records forfeitures when they occur.

Functional Currency and Operations

Prior to the Exchange, SmartKem Limited's ("the predecessor's") functional currency was the British Pound Sterling ("GBP"), and the consolidated financial statements were presented in United States dollars ("USD"). The predecessor's functional currency was the respective local currency of the primary economic environment in which an entity's operations are conducted. The predecessor translated the financial statements into the presentation currency using exchanges rates in effect on the balance sheet date for assets and liabilities and average exchanges rates for the period for statement of operations accounts, with the difference recognized in accumulated other comprehensive income /(loss).

From the date of the Exchange forward, the Company's functional currency is the U.S. dollar ("USD"). The functional currency of the Company's foreign operation is the respective local currency. Assets and liabilities of foreign operation denominated in local currencies are translated at the spot rate in effect at the applicable reporting date. The condensed consolidated statements of operations and comprehensive loss are translated at the weighted average rate of exchange during the applicable period. The resulting unrealized gain/loss is recognized as foreign currency translation as a component of other comprehensive income.

Foreign Currency Transactions

The company measures foreign currency denominated monetary assets and liabilities using exchange rates in effect at the end for the period. Transaction gains and losses are included in net loss. Foreign exchange losses, primarily driven by foreign exchange revaluation of our dollar borrowings held by non-dollar group undertakings, were $1,284 thousand and $1,638 thousand for the three- and six-month periods ended June 30, 2022, respectively. Foreign exchange gains were $57 thousand and foreign exchanges losses were $412 thousand for the three-and six-month periods ended June 30, 2021, respectively.

Income Taxes

Income taxes are recorded in accordance with ASC 740, *Income Taxes* ("ASC 740"), which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are provided, if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit would more likely than not be realized assuming examination by the taxing authority. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. The Company recognizes any interest and penalties accrued related to unrecognized tax benefits as income tax expense.

As of June 30, 2022 and December 31, 2021, there were no accruals for uncertain tax positions.

Contingent Liabilities

A provision for contingent liabilities is recorded when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. With respect to legal matters, provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. The Company is a party to certain litigation and disputes arising in the normal course of business. As of June 30, 2022, the Company does not expect that such matters will have a material adverse effect on the Company's business, financial position, results of operations, or cash flows.

Offering Costs

Direct and incremental legal and accounting costs associated with the Company's issuance of common stock and warrants are deferred and classified as a component of other assets on the condensed consolidated balance sheet until completion of the issuance. Upon completion of the issuance, deferred offering costs are reclassified from other assets to equity and recorded against the net proceeds received in the issuance. For the six months ended June 30, 2022 and 2021 respectively, $170 thousand and $2,454 thousand of offering costs were recorded in additional paid-in capital. No offering costs were deferred as of both June 30, 2022 and December 31, 2021.

Segment Information

The Company has determined that it operates and reports in one segment, which focuses on the development of materials and processes used to make organic thin-film transistors (OTFTs) for the manufacture of flexible electronics. The Company's operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The Company's CODM has been identified as its Chairman and Chief Executive Officer.

Basic and Diluted Loss Per Share

Basic and diluted net loss per share is determined by dividing net loss by the weighted average ordinary shares outstanding during the period. For all periods presented with a net loss, the shares underlying the ordinary share options and warrants have been excluded from the calculation because their effect would be anti-dilutive. Therefore, the weighted-average shares outstanding used to calculate both basic and diluted loss per share are the same for periods with a net loss.

The loss per share information in these unaudited interim condensed consolidated financial statements is reflected and calculated as if the Company had existed since January 1, 2020. Accordingly, loss per share for all periods was calculated based on the number of shares retroactively adjusted for the exchange ratio determined in the reverse recapitalization (see also note 1).

The Company has 2,168,000 pre-funded common stock warrants outstanding as of June 30, 2022, which became exercisable on April 24, 2021 based on terms and conditions of the agreements. As the pre-funded common stock warrants are exercisable for $0.01, these shares are considered outstanding common shares and included in computation of basic and diluted Earnings Per Share as the exercise of the pre-funded common stock warrants is virtually assured. The Company included these pre-funded common stock warrants in basic and diluted earnings per share when all conditions were met on April 24, 2021.

The following potentially dilutive securities have been excluded from the computation of diluted weighted average shares outstanding as they would be anti-dilutive:

	June 30,	
	2022	2021
Options	1,937,382	1,596,562
Warrants	985,533	985,533
Total	2,922,915	2,582,095

Recent Accounting Pronouncements Adopted

In May 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity Classified Written Call Options*" ("ASU 2021-04"), which introduces a new way for companies to account for warrants either as stock compensation or derivatives. Under the new guidance, if the modification does not change the instrument's classification as equity, the company accounts for the modification as an exchange of the original instrument for a new instrument. In general, if the fair value of the "new" instrument is greater than the fair value of the "original" instrument, the excess is recognized based on the substance of the transaction, as if the issuer has paid cash. The effective date of the standard is for interim and annual reporting periods beginning after December 15, 2021 for all entities, and early adoption is permitted. The Company adopted ASU 2021-04 on January 1, 2022. As a result of Management's evaluation, the adoption of ASU 2021-04 did not have a material impact on the consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832)* ("ASU 2021-10"), which provides guidance on disclosing government assistance. Under the new guidance, the Company is required to including the disclosure of (1) the types of assistance, (2) an entity's accounting for the assistance, and (3) the effect of the assistance on the entity's financial statements. The effective date of the standard is for annual periods beginning after December 15, 2021. The Company adopted ASU 2021-10 on January 1, 2022. As a result of Management's evaluation, the adoption of ASU 2021-10 did not have a material on the consolidated financial statements.

Recent Accounting Pronouncements Not Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments: Credit Losses (Topic 326)*, which requires measurement and recognition of expected losses for financial assets held. The new standard changes the impairment model for most financial instruments, including trade receivables, from an incurred loss method to a new-forward looking approach, based on expected losses. The estimate of expected credit losses will require organizations to incorporate considerations of historical information, current conditions and reasonable and supportable forecasts. The standards update is effective prospectively for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted, for U.S. Securities Exchange filer, excluding entities eligible to be smaller reporting companies. The standards update is effective prospectively for annual and interim periods beginning after December 15, 2022. Management is currently evaluating the impact of these changes on the Financial Statements.

Reclassifications

Certain amounts in prior periods' interim condensed consolidated financial statements have been reclassified to conform to the current period's presentation.

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Prepaid expenses and other current assets consist of the following:

	June 30, 2022	December 31, 2021
Prepaid service charges and property taxes	$ 83	$ 58
Prepaid utilities	31	51
Prepaid insurance	633	412
Prepaid administrative expenses	55	63
Prepaid technical fees	212	141
Prepaid consulting fees	629	27
VAT receivable	141	50
Other Receivable and other prepaid expenses	31	—
Total prepaid expenses and other current assets	$ 1,815	$ 802

As of June 30, 2022 and December 31, 2021, there was $191 thousand and $217 thousand respectively, of non-current prepaid insurance related to directors' and officers' liability insurance that was included in the amounts above.

4. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of the following:

	June 30, 2022	December 31, 2021
Plant and equipment	$ 1,523	$ 1,633
Furniture and fixtures	220	245
Computer hardware and software	24	26
	1,767	1,904
Less: Accumulated depreciation	(1,090)	(1,102)
Property, plant and equipment, net	$ 677	$ 802

Depreciation expense was $51 thousand and $47 thousand for the three months ended June 30, 2022 and 2021, respectively, and $105 thousand and $95 thousand for the six months ended June 30, 2022 and 2021, respectively and is classified as research and development expense.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consist of the following:

	June 30, 2022	December 31, 2021
Accounts payable	$ 457	$ 510
Accrued expenses – lab refurbishments	118	131
Accrued expenses – technical fees	58	66
Accrued expenses – variable rent & utilities	9	20
Accrued expenses – audit & accounting fees	167	191
Accrued expenses – other	67	112
Credit card liabilities	34	10
Payroll and social security liabilities	280	383
Total accounts payable and accrued expenses	$ 1,190	$ 1,423

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

6. LEASES:

The Company has operating leases consisting of office space, lab space, and equipment with remaining lease terms of 1 to 3 years, subject to certain renewal options as applicable.

In April 2022, the Company renewed its lease for research & development, engineering, testing and corporate offices in Manchester. The renewed lease term expires in 2025 with an option for the Company to end the lease in 2024.

There was no sublease rental income for the three and six months ended June 30, 2022 and 2021. The Company is not the lessor in any lease agreement, and no related party transactions for lease arrangements have occurred.

The table below presents certain information related to the lease costs for the Company's operating and finance leases for the periods ended:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Operating lease cost	$ 68	$ 52	$ 131	$ 99
Short-term lease cost	2	13	4	26
Variable lease cost	41	64	95	98
Total lease cost	$ 111	$ 129	$ 230	$ 223

The total lease cost is included in the unaudited condensed consolidated statements of operations as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development	$ 105	$ 120	$ 218	$ 207
Selling, general and administrative	6	9	12	16
Total lease cost	$ 111	$ 129	$ 230	$ 223

Right of use lease assets and lease liabilities for our operating leases were recorded in the unaudited condensed consolidated balance sheet as follows:

	June 30, 2022	December 31, 2021
Assets		
Operating lease right of use assets	$ 549	$ 154
Total lease assets	$ 549	$ 154
Liabilities		
Current liabilities:		
Operating lease liability – current portion	$ 208	$ 87
Noncurrent liabilities:		
Operating lease liability, net of current portion	320	28
Total lease liabilities	$ 528	$ 115

The Company had no right of use lease assets and lease liabilities for financing leases as of June 30, 2022 and December 31, 2021.

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

The table below presents certain information related to the cash flows for the Company's operating leases for the periods ended:

	For the Six Months Ended June 30,	
	2022	2021
Operating cash outflows from operating leases	$ 115	$ 120
Supplemental non-cash amounts of operating lease liabilities arising from obtaining right of use assets	$ 539	$ 86

The table below presents certain information related to the weighted average remaining lease term and the weighted average discount rate for the Company's operating and finance leases as of the period ended:

	For the Six Months Ended June 30,	
	2022	2021
Weighted average remaining lease term (in years) – operating leases	2.66	1.10
Weighted average discount rate – operating leases	7.64 %	6.12 %

Undiscounted operating lease liabilities as of June 30, 2022, by year and in the aggregate, having non-cancelable lease terms in excess of one year were as follows:

	As of June 30, 2022
2022	$ 137
2023	220
2024	219
2025	9
2026	—
Thereafter	—
Total undiscounted lease payments	585
Less imputed interest	(57)
Total net lease liabilities	$ 528

7. NOTES PAYABLE:

On January 26, 2021, the Company entered into a term loan facility agreement for the amount of $739 thousand. The funds were available to be drawn on from the effective date of the agreement through January 27, 2021. The Company drew down the full loan amount on January 26, 2021. The Company's research and development tax credit was to be utilized as collateral. The Lender was to be paid immediately following payment of research and development tax credit from the United Kingdom's HM Revenue and Customs. The final repayment was due six months from the agreement date, if the loan and any interest was not repaid in full prior to this date. The loan carried a monthly interest rate of 1.25%. The interest accrued daily and compounded monthly on the monthly anniversary of the draw down date of the loan. The Company repaid the note payable in full on March 2, 2021.

For six months ended June 30, 2021, the Company incurred an effective interest rate of 26.20% relating to notes payable. The interest expense recognized based on the debt's effective interest rate for six months ended June 30, 2021, was $19 thousand.

There were no notes payable outstanding during the six months ended June 30, 2022 and no associated interest expense during the period.

8. COMMITMENTS AND CONTINGENCIES:

Legal proceedings

In the normal course of business, the Company may become involved in legal disputes regarding various litigation matters. In the opinion of management, any potential liabilities resulting from such claims would not have a material effect on the financial statements.

Capital expenditure commitments and unconditional purchase obligations contracted for but not yet incurred as of June 30, 2022, totaled $1,087 thousand and primarily consists of purchase commitments in the normal course of business for research & development services, communications infrastructure and administrative services.

9. STOCKHOLDERS' EQUITY:

Common Stock

Voting Rights

Each holder of common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. The Company's amended and restated certificate of incorporation and the Company's amended and restated bylaws do not provide for cumulative voting rights. The holders of one-third of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders.

Dividends

The Company has never paid any cash dividends to shareholders and do not anticipate paying any cash dividends to shareholders in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon financial condition, results of operations, capital requirements and such other factors as the board of directors deems relevant.

Market Information

Quotations on our common stock on the OTC Market Group's OTCQB® Market quotation system ("OTCQB") commenced under the ticker symbol "SMTK" in February 2022. There was no trading of our common stock on the OTCQB or any other over-the-counter market prior to February 2022.

Common shares issued to vendor for services

On May 27, 2022, the Company issued 22,473 shares of common stock as payment for investor relations services.

On June 29, 2022, the Company issued 360,000 shares of common stock as payment for a one-year internet advertising contract.

Preferred Stock

The Company currently has no shares of preferred stock outstanding, and the Company has no present plan to issue any shares of preferred stock. The board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences, and privileges could include dividend rights, conversion rights, voting rights, redemption rights, liquidation preferences, sinking fund terms, and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock.

Common Stock Warrants

On February 23, 2021, a total of 985,533 fully vested common stock warrants were issued to a vendor for financial advisory services provided in connection with the sale of the Company's common stock. The common stock warrants are exercisable at a per share price of $2.00 until they expire on February 23, 2026. During the six months ended June 30, 2022 and 2021, respectively, no warrants issued to vendors for financial advisory services were exercised. The grant date fair value for these warrants of $0.91 per warrant for a total fair value of $896 thousand, was determined using the Black-Scholes options valuation model. The Company recorded the warrants at fair value, as both an increase and decrease in additional paid-in capital during the six months ended June 30, 2021. There were no warrants issued during the three and six months ended June 30, 2022.

A summary of the Company's warrants to purchase common stock activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Warrants outstanding at January 1, 2022	985,533	$ 2.00	4.15
Exercised	—	—	—
Forfeited or Expired	—	—	—
Granted	—	-	—
Warrants outstanding at June 30, 2022	985,533	$ 2.00	3.65

On February 23, 2021, a total of 2,168,000 pre-funded common stock warrants were issued to investors with an exercise price of $0.01 per share for total proceeds to the Company of $4,314 thousand. During the three and six months ended June 30, 2022, no warrants issued to investors were exercised. The grant date fair value for these warrants of $1.99 is based on the stock price at issuance date of $2.00 less the exercise price of $0.01. The pre-funded common stock warrants have no expiration date and terminate upon exercise.

A summary of the Company's pre-funded warrants to purchase common stock activity is as follows:

	Number of Shares	Weighted-Average Exercise Price
Pre-funded warrants outstanding at January 1, 2022	2,168,000	$ 0.01
Exercised	—	—
Forfeited or Expired	—	—
Granted	—	
Pre-funded warrants outstanding at June 30, 2022	2,168,000	$ 0.01

The grant date fair value of common stock warrants is determined using the Black Scholes option-pricing model. There was no public trading market for our shares before February 2022 and the Company estimates its expected stock volatility based on historical volatility of publicly traded peer companies. The Company did not issue any warrants in the six months ended June 30, 2022.

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)

10. SHARE-BASED COMPENSATION:

Prior to the Exchange discussed in Note 1, SmartKem Limited had stock option plans.

SmartKem Limited had issued Enterprise Management Incentive options ("EMI Options") and non-tax-advantaged options ("Unapproved Options") to eligible employees, officers, non-employee directors and other individual service providers as a means for them to develop a sense of proprietorship and personal involvement in the development and financial success of SmartKem Limited. The options generally expired 10 years after the grant date and were subject to vesting conditions and became fully vested and exercisable when there was a liquidity event, such as a change in control, and the employee, or consultant, was providing services to the Company at the time of the event. As of December 31, 2020, there were 1,810,749 options outstanding. These options were either exercised or cancelled as a result of the reverse merger and recapitalization.

On February 23, 2021, the Company approved the 2021 Equity Incentive Plan ("2021 Plan"), in which a maximum aggregate number of shares of common stock that may be issued under the 2021 Plan is 2,275,000 shares. Subject to the adjustment provisions of the 2021 Plan, the number of shares of the Company's common stock available for issuance under the 2021 Plan will also include an annual increase on the first day of each fiscal year beginning with 2022 fiscal year and ending on the Company's 2031 fiscal year in an amount equal to the least of: 1) 2,275,000 shares of the Company's common stock; 2) four percent (4%) of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year; or 3) such number of shares of the Company's common stock as the administrator may determine.

As a result of the reverse merger and recapitalization, an aggregate of 402,586 options were issued during February 2021 under the 2021 Plan in consideration for the cancellation of the SmartKem Limited options that were outstanding. Of these options, 336,557 had an exercise price of $0.001 per share and 66,029 had an exercise price of $2.00 per share and all expire on the ten year anniversary of the grant date. These options were fully vested on the grant date.

No options were awarded during the three and six months ended June 30, 2022.

Determining the appropriate fair value of share-based awards requires the input of subjective assumptions, including the fair value of the Company's common shares, and for share options, the expected life of the option, and expected share price volatility. The Company uses the Black-Scholes option pricing model to value its share option awards. The assumptions used in calculating the fair value of share-based awards represent management's best estimates and involves inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, the share-based compensation expense could be materially different for future awards.

In the absence of a public trading market of the common share, on each grant date, the Company develops an estimate of the fair value of the common shares underlying the option grants. The Company estimated the fair value of the common shares by referencing arms-length transactions inclusive of the common shares underlying which occurred on or near the valuation date(s). From February 2022, the Company's common shares are publicly traded and the Company will no longer have to estimate the fair value of the common share, rather the value will be determined based on quoted market prices. The Company determined the fair value of common share using methodologies, approaches and assumptions consistent with the AICPA Practice Guide, Valuation of Privately Held Company Equity Securities Issued as Compensation and based in part on input from an independent third-party valuation firm.

The Company estimates its expected volatility by using a combination of historical share price volatilities of similar companies within our industry. The risk-free interest rate assumption is based on observed interest rates for the appropriate term of the Company's options on a grant date. The expected option term assumption is the contractual term, as the service period is implied under the practical expedient since the Company does not have sufficient exercise history to estimate expected term of its historical option awards. The following table reflects share activity under the share option plans for six months ended June, 2022:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Fair Value at Grant Date	Aggregate Intrinsic Value *(in thousands)*
Options outstanding at January 1, 2022	1,953,882	$ 1.72323	9.31	$ 1.12355	
Exercised	—	—			
Cancelled	—	—			
Forfeited	(16,500)	2.00000			
Granted	—	—			
Options outstanding at June 30, 2022	1,937,382	$ 1.72087	8.81	$ 1.12553	
Options exercisable at June 30, 2022	708,624	$ 1.23685	8.71		$ 541
Vested and expected to vest after June 30, 2022	1,937,382	$ 1.72087	8.81		$ 541

As of June 30, 2022, there were 708,624 exercisable options outstanding.

Stock-based compensation, including stock options and warrants is included in the unaudited interim condensed consolidated statements of operations as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development	$ 38	$ 24	$ 78	$ 2,931
Selling, general and administrative	59	51	117	3,164
Total	$ 97	$ 75	$ 195	$ 6,095

Total compensation cost related to non-vested stock option awards not yet recognized as of June 30, 2022 was $1,122 thousand and will be recognized on a straight-line basis through the end of the vesting periods in September 2025. The amount of future stock option compensation expense could be affected by any future option grants or by any forfeitures.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Selling, general and administrative expenses are comprised of the following items:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Salaries and benefits	$ 504	$ 507	$ 1,005	$ 4,242
Rent and property tax (benefit)/expense	(12)	3	16	16
Insurance	165	172	331	253
Utilities	1	1	2	2
Sales and marketing	247	83	434	105
Legal and professional fees	449	569	738	691
Other selling, general, and administrative expenses	16	10	85	19
Total	$ 1,370	$ 1,345	$ 2,611	$ 5,328

SMARTKEM, INC. AND SUBSIDIARIES

Notes to Interim Condensed Consolidated Financial Statements
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12. DEFINED CONTRIBUTION PENSION:

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund. Pension cost is included in the unaudited interim condensed consolidated statements of operations as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development	$ 26	$ 24	$ 53	$ 48
Selling, general and administrative	13	9	27	17
Total pension cost	$ 39	$ 33	$ 80	$ 65

As of June 30, 2022 and December 31, 2021 there were no amounts owed to the pension scheme.

13. RELATED PARTY TRANSACTIONS:

In addition to transactions and balances related share-based compensation to officers and directors, the Company incurred expenses of $29 thousand and $18 thousand, for the three months ended June 30, 2022 and 2021, respectively, and $47 thousand and $25 thousand, for the six months ended June 30, 2022 and 2021 due to reimbursement of expenses and compensation for members of the Board of Directors. These expenses are recorded in selling, general & administrative in the unaudited interim condensed consolidated statements of operations. As of both June 30, 2022 and December 31, 2021, there was $18 thousand payable to members of the Board of Directors that are recorded in accounts payable and accrued expenses on the unaudited interim condensed consolidated balance sheets.

Octopus Share Purchase

On January 27, 2022, we sold an aggregate of 1,000,000 shares of our common stock at a purchase price of $2.00 per share to Octopus Titan VCT plc and Octopus Investments Nominees Limited in accordance with the Letter Agreement, dated as of February 23, 2021, between the Company and Octopus Titan VCT plc and certain related parties.

14. SUBSEQUENT EVENTS:

During July 2022, the Company issued a further 225,700 EMI options, 150,000 ISO options and 92,300 NQSO options to employees and directors under the 2021 plan. The options vest over a period of four years, expire on the tenth anniversary of the grant date and have an exercise price of $2.00 per share.

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 together with our unaudited interim condensed consolidated financial statements and the related notes and other financial information included in this Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties as described under the heading "Cautionary Note on Forward-Looking Statements" below. You should review the disclosure under the heading "Risk Factors" in this Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statement.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains express or implied forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in forward-looking statements are reasonable, such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. All statements other than statements of historical fact contained in this Report are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "could," "will," "would," "should," "expect," "plan," "anticipate," "believe," "estimate," "intend," "predict," "seek," "contemplate," "project," "continue," "potential," "ongoing" or the negative of these terms or other comparable terminology.

These forward-looking statements include, but are not limited to, statements about:

- the implementation of our business model and strategic plans for our business, technologies and products;
- the rate and degree of market acceptance of any of our products or organic semiconductor technology in
- general, including changes due to the impact of (i) new semiconductor technologies, (ii) the performance of organic semiconductor technology, whether perceived or actual, relative to competing semiconductor materials, and (iii) the performance of our products, whether perceived or actual, compared to competing silicon-based and other products;
- the timing and success of our, and our customers', product releases;
- our ability to develop new products and technologies;
- our estimates of our expenses, ongoing losses, future revenue and capital requirements, including our our needs for additional financing;
- our ability to obtain additional funds for our operations and our intended use of any such funds;
- our ability to become listed and remain eligible on an over-the-counter quotation system;
- our receipt and timing of any royalties, milestone payments or payments for products, under any current or future collaboration, license or other agreements or arrangements;
- our ability to obtain and maintain intellectual property protection for our technologies and products and our ability to operate our business without infringing the intellectual property rights of others;
- the strength and marketability of our intellectual property portfolio;
- our dependence on current and future collaborators for developing, manufacturing or otherwise bringing our products to market;
- the ability of our third-party supply and manufacturing partners to meet our current and future business needs;
- our exposure to risks related to international operations;
- our dependence on third-party fabrication facilities;
- the impact of the COVID-19 pandemic and any future communicable disease outbreak on our business and operations;
- our relationships with our executive officers, directors and significant stockholders;
- our expectations regarding our classification as a "smaller reporting company," as defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and an "emerging growth company" under the JOBS Act (as defined below) in future periods;
- our future financial performance;

- the competitive landscape of our industry;
- the impact of government regulation and developments relating to us, our competitors or our industry;
- the restatement of previously issued financial statements;
- the identified material weaknesses in our internal control over financial reporting and our ability remediate those material weaknesses; and
- other risks and uncertainties, including those listed under the caption "Risk Factors."

These statements relate to future events or our future operational or financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under "Risk Factors" and elsewhere in this Form 10-Q.

Any forward-looking statement in this Form 10-Q reflects our current view with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our business, results of operations, industry and future growth. Given these uncertainties, you should not place undue reliance on these forward looking statements. No forward-looking statement is a guarantee of future performance. You should read this Form 10-Q and the documents that we reference in this Form 10-Q and have filed with the SEC as exhibits hereto completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward looking statements for any reason, even if new information becomes available in the future.

Overview

We are seeking to reshape the world of electronics with a revolutionary semiconductor platform that enables a new generation of displays, sensors and logic. SmartKem's patented TRUFLEX® inks are solution deposited at a low temperature, on low-cost substrates to make organic thin-film transistor (OTFT) circuits. Our semiconductor platform can be used in a number of applications including mini-LED displays, AMOLED displays, fingerprint sensors and logic circuits. We develop our materials at our research and development facility in Manchester, UK, and at our semiconductor manufacturing process at the Centre of Process Innovation (CPI) in Sedgefield, UK. We have an extensive IP portfolio including approximately 120 issued patents.

Since our inception in 2009, we have devoted substantial resources to the research and development of materials and production processes for the manufacture of organic thin film transistors and the enhancement of our intellectual property.

Our loss before income taxes was $3.7 million and $2.4 million for the three months ended June 30, 2022 and 2021, respectively and $6.5 million and $11.8 million for the six months ended June 30, 2022 and 2021, respectively. As of June 30, 2022, our accumulated deficit was $81.5 million. Substantially all our operating losses have resulted from expenses incurred in connection with research and development activities and from general and administrative costs associated with our operations.

Recent Developments

Octopus Share Purchase

On January 27, 2022, we sold an aggregate of 1,000,000 shares of our common stock at a purchase price of $2.00 per share to Octopus Titan VCT plc and Octopus Investments Nominees Limited in accordance with the Letter Agreement, dated as of February 23, 2021, between the Company and Octopus Titan VCT plc and certain related parties.

Joint Development Agreements

In February 2022, we entered into a joint development agreement with Nanosys Inc., a leader in developing and delivering quantum dot and micro-LED technology. Under this agreement the two parties will work together on a new generation of low-cost solution printed micro-LED and quantum dot materials for advanced displays.

In April 2022, we entered into a joint development agreement with a leading LED manufacturer to develop prototype mini-LED and micro-LED displays driven by OTFTs made from our TRUFLEX® inks.

Key Factors Affecting Our Performance

There are a number of industry factors that affect our business which include, among others:

Overall Demand for Products and Applications using Organic thin film transistors

Our potential for growth depends significantly on the adoption of organic thin film transistor (OTFT) materials in the display and sensor markets and our ability to capture a significant share of any market that does develop. We expect that demand for our technology will also fluctuate based on various market cycles, continuously evolving industry supply chains, trade and tariff terms, as well as evolving competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers.

Intense and Constantly Evolving Competitive Environment

Competition in the industries we serve is intense. Many companies have made significant investments in product development and production equipment. To remain competitive, market participants must continuously increase product performance, reduce costs and develop improved ways to serve their customers. To address these competitive pressures, we have invested in research and development activities to support new product development, improve ease of use, lower product costs and deliver higher levels of performance to differentiate our products in the market.

Governmental Trade and Regulatory Conditions

Our potential for growth depends on a balanced and stable trade, political, economic and regulatory environment among the countries where we do business. Changes in trade policy such as the imposition of tariffs or export bans to specific customers or countries could reduce or limit demand for our products in certain markets.

Technological Innovation and Advancement

Innovations and advancements in organic materials continue to expand the potential commercial application for our products. However, new technologies or standards could emerge, or improvements could be made in existing technologies that could reduce or limit the demand for our products in certain markets.

Intellectual Property Issues

We rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of our business. Protection of intellectual property is critical. Therefore, steps such as additional patent applications, confidentiality and non-disclosure agreements, as well as other security measures are important. While we believe we have a strong patent portfolio and there is no actual or, to our knowledge, threatened litigation against us for patent-related matters, litigation or threatened litigation is a common method to effectively enforce or protect intellectual property rights. Such action may be initiated by or against us and would require significant management time and expenses.

Components of Results of Operations

There have been no material changes to the key components of our Condensed Consolidated Statements of Operations as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Form 10-K.

Results of Operations

The following tables set forth our results of operations for the periods presented. The information in the tables below should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes included in Part I, Item 1 of this Form 10-Q. The period-to-period comparisons of financial results in the tables below are not necessarily indicative of future results.

The following information has been adjusted to reflect the restatement of our financial statements as described under the heading Restatement of Previously Issued Financial Statements in Note 1 Business and Basis of Preparation in the Notes to Financial Statements of this Quarterly Report.

Comparison of Loss from Operations for the three month-periods ended June 30, 2022 and 2021

Our results of operations for the three month-periods ended June 30, 2022 and 2021 are as follows:

	Three Months Ended June 30,		Increase (Decrease)	
US$000	**2022**	**2021**	**Amount**	**Percentage**
Revenue	$ 4	$ —	$ 4	100 %
Cost of revenue	2	—	2	100 %
Gross Profit	2	—	2	100 %
Other operating income	294	256	38	15 %
Operating expenses				
Research and development	1,344	1,355	(11)	(1)%
Selling, general and administrative	1,370	1,345	25	2 %
Transaction expenses	—	16	(16)	(100)%
Total operating expenses	2,714	2,716	(2)	(0)%
Loss from operations	$ (2,418)	$ (2,460)	$ 42	(2)%

Revenue and Cost of Revenue

Revenues were $4 thousand in the three months ended June 30, 2022, compared with none in the same period of 2021. Revenue in the first quarter of 2022 resulted from the sale of TRUFLEX® materials.

Cost of revenue was $2 thousand in the three months ended June 30, 2022, compared with none in the same period of 2021. Cost of revenue resulted from the sale of the materials described above.

Other operating income

	Three Months Ended June 30,		Increase (Decrease)		% of total	% of total
US$000	**2022**	**2021**	**Amount**	**Percentage**	**2022**	**2021**
Research & development tax credit	$ 294	$ 251	$ 43	17 %	100%	98%
Research & development grants	—	2	(2)	(100)%	0%	1%
Other grants	—	3	(3)	(100)%	0%	1%
Total other operating income	$ 294	$ 256	$ 38	15 %	100%	100%

Other Operating Income was $294 thousand in the three months ended June 30, 2022, compared to $256 thousand in the same period of 2021, an increase of $38 thousand, or 15%. The increase resulted primarily from an increase in research and development tax credits resulting from a higher level of eligible expenditure compared to the comparable period of 202

Operating Expenses

	Three Months Ended June 30,		Increase (Decrease)		% of total	% of total
US$000	2022	2021	Amount	Percentage	2022	2021
Research and development	$ 1,344	$ 1,355	$ (11)	(1)%	50%	50%
Selling, general and administrative	1,370	1,345	25	2 %	50%	50%
Transaction expenses	—	16	(16)	(100)%	0%	0%
Total operating expenses	$ 2,714	$ 2,716	$ (2)	(0)%	100%	100%

Operating expenses of $2.7 million for the three months ended June 30, 2022 are consistent with those for the equivalent period of 2021.

Research and development expense, which represents 50% and 50% of our total operating expenses for the three months ended June 30, 2022 and 2021, respectively, remained at $1.3 million for the quarter as we further developed core materials and fabricated demonstrator devices to promote our technology to prospective customers and partners.

Selling, general and administrative expense, which represents 50% and 50% of our total operating expenses for the three months ended June 30, 2022 and 2021, respectively, remained at $1.4 million for the quarter.

Non-operating (expense)/income

	Three Months Ended June 30,		Increase (Decrease)	
	2022	2021	Amount	Percentage
Loss from operations	$ (2,418)	$ (2,460)	$ 42	(2)%
Non-operating (Expense)/Income				
(Loss)/gain on foreign currency transactions	(1,284)	57	(1,341)	(2,353)%
Interest expense	—	—	—	— %
Interest income	1	2	(1)	(50)%
Total non-operating (expense)/income	(1,283)	59	(1,342)	(2,275)%
Loss before income taxes	(3,701)	(2,401)	(1,300)	54 %
Income tax expense	—	—	—	—
Net Loss	$ (3,701)	$ (2,401)	$ (1,300)	54 %

Non-operating expenses for the three months ended June 30, 2022 increased $1.3 million, or 2,275%, to $1.3 million, compared to income of $59 thousand for the three months ended June 30, 2021, as a result of higher losses on foreign currency transactions due to fluctuations in U.S. dollar/U.K. pound value arising from transactions denominated in foreign currencies and the translation of foreign currency denominated balances on intra-group loans.

Loss before income taxes was $3.7 million for the three months ended June 30, 2022, an increase of $1.3 million, or 54%, compared to $2.4 million for the three months ended June 30, 2021. The increase in loss before income taxes was attributable to the higher non-operating expenses as described in the preceding paragraphs.

Comparison of Loss from Operations for the six month-periods ended June 30, 2022 and 2021

Our results of operations for the six month-periods ended June 30, 2022 and 2021 are as follows:

	Six Months Ended		Increase (Decrease)	
US$000	June 30, 2022	June 30, 2021	Amount	Percentage
Revenue	$ 34	$ —	$ 34	— %
Cost of revenue	25	—	25	— %
Gross Profit	9	—	9	— %
Other operating income	578	688	(110)	(16)%
Research and development	2,802	5,369	(2,567)	(48)%
Selling, general and administrative	2,611	5,328	(2,717)	(51)%
Transaction expenses	—	1,329	(1,329)	(100)%
Total operating expenses	5,413	12,026	(6,613)	(55)%
Loss from operations	$ (4,826)	$ (11,338)	$ 6,512	(57)%

Revenue and Cost of Revenue

Revenues were $34 thousand in the six months ended June 30, 2022, compared with none in the same period of 2021. Revenue in the first quarter of 2022 resulted from sales of TRUFLEX® materials.

Cost of revenue was $25 thousand in the six months ended June 30, 2022, compared with none in the same period of 2021. Cost of revenue resulted from the sale of the materials described above.

Other operating income

	Six Months Ended June 30,		Increase (Decrease)		% of total	% of total
US$000	2022	2021	Amount	Percentage	2022	2021
Research & development tax credit	$ 578	$ 499	$ 79	16 %	100%	73%
Research & development grants	—	181	(181)	(100)%	0%	26%
Other grants	—	8	(8)	(100)%	0%	1%
Total other operating income	$ 578	$ 688	$ (110)	(16)%	100%	100%

Other Operating Income was $578 thousand in the six months ended June 30, 2022, compared to $688 thousand in the same period of 2021, a decrease of $110 thousand, or 16%. The decrease resulted primarily from the absence of research and development grants in the first three months of 2022, partially offset by an increase in research and development tax credits. In the first quarter of 2021, we received $179 thousand in research and development funding for our work on the "SmartLight" project that successfully demonstrated OTFT mini-LED backlights for displays with improved light uniformity and lower defects. The increase in research and development tax credits in the two quarters of 2022 resulted from a higher level of eligible expenditure compared to the comparable period of 2021.

Operating Expenses

US$000	Six Months Ended June 30, 2022	2021	Increase (Decrease) Amount	Percentage	% of total 2022	% of total 2021
Research and development	$ 2,802	$ 5,369	$ (2,567)	(48)%	52%	45%
Selling, general and administrative	2,611	5,328	(2,717)	(51)%	48%	44%
Transaction expenses	—	1,329	(1,329)	(100)%	0%	11%
Total operating expenses	$ 5,413	$ 12,026	$ (6,613)	(55)%	100%	100%

Operating expenses decreased $6.6 million, or 55%, to $5.4 million for the six months ended June 30, 2022, compared to $12.0 million for the comparable period of 2021.

Research and development expense, which represents 52% and 45% of our total operating expenses for the six months ended June 30, 2022 and 2021, respectively, decreased by $2.6 million to $2.8 million for the period, primarily due to a $2.9 million decrease in stock compensation expense, partially offset by a $0.3 million increase in expenses incurred in further developing core materials and in fabricating demonstrator devices to promote our technology to prospective customers and partners.

Selling, general and administrative expense, which represents 48% and 44% of our total operating expenses for the six months ended June 30, 2022 and 2021, respectively decreased by $2.7 million to $2.6 million for the period. This decrease was mainly due to a $3.0 million decrease in stock compensation expense offset by $0.3 million additional expense from the additional legal, accounting and insurance expenses of operating as a public company and from increased marketing and related expenses promoting our products.

Transaction costs of $1.3 million associated with the Exchange were incurred in the six-month period ended June 30, 2021. The Exchange was consummated during the first quarter of 2021 and no significant additional Exchange-related expenses were recorded thereafter.

Non-operating (expense)/income

	Six Months Ended June 30, 2022	December 31, 2021	Increase (Decrease) Amount	Percentage
Loss from operations	$ (4,826)	$ (11,338)	$ 6,512	(57)%
Non-operating (Expense)/Income				
Loss on foreign currency transactions	(1,638)	(412)	(1,226)	298 %
Interest expense	—	(19)	19	(100)%
Interest income	1	2	(1)	(50)%
Total non-operating expense	(1,637)	(429)	(1,208)	282 %
Loss before income taxes	(6,463)	(11,767)	5,304	(45)%
Income tax expense	—	—	—	—
Net Loss	$ (6,463)	$ (11,767)	$ 5,304	(45)%

Non-operating expenses for the six months ended June 30, 2022 increased by $1.2 million, or 282%, to $1.6 million, compared to $429 thousand for the six months ended June 30, 2021, as a result of higher losses on foreign currency transactions due to fluctuations in U.S. dollar/U.K. pound value arising from transactions denominated in foreign currencies and the translation of foreign currency denominated balances on intra-group loans.

Loss before income taxes was $6.5 million for the six months ended June 30, 2022, a decrease of $5.3 million, or 45%, compared to $11.8 million for the six months ended June 30, 2021. The decrease in loss before income taxes was attributable to the lower research and development expense and the lower selling, general and administrative expense, offset by higher non-operating expense as described in the preceding paragraphs.

Liquidity and Capital Resources

To date, we have funded our liquidity and capital requirements primarily with proceeds from the private sale of our equity and debt securities and borrowing against our research and development credits. On January 27, 2022, we sold an aggregate of 1,000,000 shares of our common stock to existing investors at a price of $2.00 per share for total gross proceeds of $2.0 million. As of June 30, 2022, our cash and cash equivalents were $7.8 million compared with $12.2 million as of December 31, 2021.

We believe that our existing cash as of June 30, 2022 will be sufficient to fund our operations through to April 2023 if we continue to spend as forecasted to, and that we will require additional capital to continue our operations and research and development activity thereafter.

There can be no assurance, however, that such financing will be available when needed, if at all, or on acceptable terms and conditions. The precise amount and timing of the funding needs cannot be determined accurately at this time, and will depend on a number of factors, including the market demand for our products, the quality of product development efforts, management of working capital, and the continuation of normal payment terms and conditions for purchase of services.

In order to address our capital needs, including our planned research and development activities and other expenditures, we are assessing options for financing our working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. Adequate financing opportunities might not be available to us, when and if needed, on acceptable terms or at all.

The following table shows a summary of our cash flows for the six months ended June 30, 2022 and 2021:

US$000	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021 As restated	Increase (Decrease) Amount	Increase (Decrease) Percentage
Net cash used in operating activities	$ (5,651)	$ (6,029)	$ 378	(6)%
Net cash used by investing activities	(58)	(121)	63	(52)%
Net cash provided by financing activities	1,830	22,204	(20,374)	(92)%
Effect of exchange rate changes on cash	(590)	(387)	(203)	52 %
Net change in cash	(4,469)	15,667	(20,136)	(129)%
Cash, beginning of period	12,226	764	11,462	1,500 %
Cash, end of period	$ 7,757	$ 16,431	$ (8,674)	(53)%

Operating Activities

Net cash used in operating activities was $5.6 million for the six months ended June 30, 2022, compared to $6.0 million for the six months ended June 30, 2021, a decrease of $0.4 million, or 6%. The decrease resulted primarily from lower supplier payments as transaction expenses were largely settled in the six months ended June 30, 2021 offset by higher payroll payments in 2022 reflecting increases in headcount to support our sales and marketing activities and to operate as a public company.

Investing Activities

Net cash used in investing activities was $58 thousand for the six months ended June 30, 2022, compared to $121 thousand in the corresponding period of 2021. Net cash used in investing activities in the 2022 period resulted from purchase of laboratory and capital equipment to support our increasing research and development activity. In the future, we expect to continue to incur additional capital expenditures to support our research and development activities and wider business operations.

Financing Activities

Net cash provided by financing activities was $1.8 million for the six months ended June 30, 2022, compared to $22.2 million in the corresponding period of 2021, a decrease of $20.4 million, or 92%. During the first half of 2022, we consummated a private placement of our common stock resulting in net proceeds of $1.8 million. In connection with the Exchange in February 2021, we consummated a private placement resulting in net cash of $22.2 million in the first half of 2021.

Contractual Payment Obligations

Our principal commitments primarily consist of obligations under leases for office space and purchase commitments in the normal course of business for research & development facilities and services, communications infrastructure and administrative services. These will be funded from the company's cash balances and working capital.

	Payments Due by Period				
US$(000)	**2022**	**2023**	**2024**	**2025**	**Total**
Operating lease obligations	$ 137	$ 220	$ 219	$ 9	$ 585
Purchase obligations	502	523	62	-	1,087
	$ 639	$ 743	$ 281	$ 9	$ 1,672

Critical Accounting Policies and Estimates

Our unaudited interim condensed consolidated financial statements and the related notes thereto included in this Report are prepared in accordance with U.S. GAAP. The preparation of interim condensed consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. These estimates are developed based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operation, and cash flows will be affected. A summary of our critical accounting policies is presented in Note 2 Summary of Significant Accounting Policies to our unaudited interim condensed consolidated financial statements (Part I, Item 1 of this Form 10-Q). There were no material changes to our critical accounting policies during the three and six months ended June 30, 2022. A summary of our critical accounting estimates was presented in our management's discussion and analysis of financial condition and results of operations contained in our Annual Report on Form 10-K for the year ended December 31, 2021. There were no material changes to our critical accounting estimates during the three and six months ended June 30, 2022.

Going Concern Evaluation

Our unaudited interim condensed consolidated financial statements included elsewhere herein have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have financed our activities principally from the issuance of ordinary shares, and debt securities. We have experienced recurring losses since inception and expect to incur additional losses in the future in connection with research and development activities.

In the six months ended June 30, 2022, we raised net proceeds of $1.8 million through the sale of our common stock. As of June 30, 2022 we had $7.8 million of cash after funding net cash used in operations for the six month period ended June 30, 2022 of $5.6 million, $2.4 million of which was used in operation for the three months ended June 30, 2022.

We believe that our existing cash as of June 30, 2022 will be sufficient to fund our operations through to April 2023 and that we will require additional capital to continue our operations and research and development activity thereafter.

There can be no assurance, however, that such financing will be available when needed, if at all, or on acceptable terms and conditions. The precise amount and timing of the funding needs cannot be determined accurately at this time, and will depend on a number of factors, including the market demand for our products, the quality of product development efforts, management of working capital, and the continuation of normal payment terms and conditions for purchase of services.

In order to address our capital needs, including our planned research and development activities and other expenditures, we are assessing options for financing our working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. Adequate financing opportunities might not be available to us, when and if needed, on acceptable terms or at all.

If we are unable to obtain additional financing in sufficient amounts or on acceptable terms, we will be forced to delay, reduce or eliminate some or all of its research and development programs and product portfolio expansion, which could adversely affect our operating results or business prospects. Although management continues to pursue these plans, there is no assurance that we will be successful in obtaining sufficient funding on terms acceptable to us to fund continuing operations, if at all. After considering the uncertainties, management consider it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements. The accompanying unaudited interim condensed consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Constant Currency

Changes in our financial results include the impact of changes in foreign currency exchange rates. For the three and six-month periods ended June 30, 2022 and 2021, we did not include the impact of constant currency within this Quarterly Report on Form 10-Q as foreign exchange did not have a significant impact on our reported USD amounts for these periods.

JOBS Act Accounting Election

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act, or the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to either early adopt or delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Inherent Limitations on Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) pursuant to Rule 13a-15 of the Exchange Act.

The Company has determined that it made an error in the presentation and accounting of its consolidated statement of cash flows in the Company's annual and interim consolidated financial statements during 2021 and 2022. The management of the company has assessed its accounting policies as well as the presentation and accounting for the gain and loss on foreign currency and has concluded that it was necessary to restate its previously issued financial statements for the correction of this error related to incorrect classification of gain and loss on foreign currency in effect of exchange rate changes on cash instead of including such non-cash unrealized gains and losses in cash flows from operating activities. The effect of this error was to overstate net cash used in operating activities and effect of exchange rate changes on cash by $ 412 thousand for the six months ended June 30, 2021, respectively. The errors and the required restatement had no effect on the Company's cash flows from investing activities, financing activities, net changes in cash or cash and cash equivalents as of June 30, 2021 and had no impact on the Company's consolidated balance sheet, statements of operations and comprehensive loss and stockholders' equity as of and for the three- and six-month periods ended June 30, 2021.

As a result, we determined that there was a material error in the cash flow statement that required a restatement of the financial statement for the fiscal year ended December 31, 2021 and to our Form 10-Qs for the periods ended September 30, 2021 and March 31, 2022 (including comparative information for March 31, 2021) to restate the previously issued financial statements, with comparatives for June 30, 2021 restated in this Form 10-Q for the period ended June 30, 2022. This was due to inadequate design and implementation of controls to evaluate and monitor the presentation and compliance with accounting principles generally accepted in the United States of America related to the cash flow statement. Accordingly, management has determined that this control deficiency constitutes a material weakness and, as a result, management has concluded that, as of June 30, 2022, our internal control over financial reporting was not effective based on the criteria in Internal Control Integrated Framework (2013) issued by the COSO.

Based upon, and as of the date of, this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2022 were not effective.

Remediation Plan for Material Weakness

Management is actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness. The remediation plan includes enhancement of our existing monitoring and review controls over the preparation of financial statements, including designing and documenting additional procedures, reconciliations and analysis to evaluate and monitor presentation of the cash flow statement. We can provide no assurance that our remediation efforts described herein will be successful and that we will not have material weaknesses in the future.

Under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of our internal control environment, as well as to policies and procedures to improve the overall effectiveness of internal controls during the period ending December 31, 2022.

Notwithstanding the material weakness in our internal control over financial reporting, we have concluded that the condensed consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Changes in Internal Control Over Financial Reporting

Other than the material weakness discussed above, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In light of the restatement of our financial statements included in this Form 10-Q, we plan to enhance our existing monitoring and review controls over the preparation of financial statements.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Our risk factors are described in the "Risk Factors" section of our 2021 Form 10-K. Except as set forth below, there have been no material changes to the risk factors disclosed in the Form 10-K.

Our recurring losses from operations have raised substantial doubt regarding our ability to continue as a going concern.

We have incurred recurring losses since inception and, as of June 30, 2022, had an accumulated deficit of $81.5 million. We anticipate operating losses to continue for the foreseeable future due to, among other things, costs related to research funding, further development of our technology and products and expenses related to the commercialization of our products, and it is possible we will never achieve profitability. As a result, our independent registered public accounting firm included an explanatory paragraph in its report on our consolidated financial statements as of and for the year ended December 31, 2021. Future reports on our consolidated financial statements may include an explanatory paragraph with respect to our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

We believe that our existing cash as of June 30, 2022 will be sufficient to fund our operations through to April 2023 and that we will require additional capital to continue our operations and research and development activity thereafter. There can be no assurance, however, that such financing will be available when needed, if at all, or on acceptable terms and conditions. The precise amount and timing of the funding needs cannot be determined accurately at this time, and will depend on a number of factors, including the market demand for our products, the quality of product development efforts, management of working capital, and the continuation of normal payment terms and conditions for purchase of services.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making acquisitions or capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or products, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or other arrangements when needed, we may be required to delay, limit, reduce or terminate commercialization, our research and product development, or grant rights to develop and market our products that we would otherwise prefer to develop and market ourselves, it may also impact our ability to continue as a going concern. The perception that we may not be able to continue as a going concern may cause others to choose not to deal with us due to concerns about our ability to meet our contractual obligations.

The ongoing COVID-19 pandemic and a supply shortage experienced by the semiconductor industry have disrupted and will likely continue to disrupt normal business activity, and may have an adverse effect on our results of operations.

The global spread of COVID-19 and the efforts to control it have disrupted, and reduced the efficiency of, normal business activities in much of the world. The pandemic has resulted in authorities around the world implementing numerous unprecedented measures such as travel restrictions, quarantines, shelter in place orders, factory and office shutdowns and vaccine mandates. COVID-19 measures have impacted, and will likely continue to impact, our operations and those of our customers, contract manufacturers, suppliers and logistics providers. At the same time, and to some extent relatedly, the global silicon semiconductor industry is experiencing a shortage in supply and difficulties in ability to meet customer demand. In particular, the recent government-mandated COVID-19 containment measures in China have impacted supply shipments and created ongoing risk and uncertainty. These issues have led to an increase in lead-times of the production of semiconductor chips and components.

We have experienced, and expect to continue to experience, disruption to parts of our semiconductor supply chain, including procuring necessary components and inputs, such as wafers and substrates, in a timely fashion, with suppliers increasing lead times or placing products on allocation and raising prices. We have also incurred higher costs to secure available inventory, or have extended our purchase commitments or placed non-cancellable orders with suppliers, which introduces inventory risk if our forecasts and assumptions are inaccurate. In addition, disruptions to commercial transportation infrastructure have increased delivery times for materials and components to our facilities and, in some cases, our ability to timely ship our products to customers.

We believe the global supply chain challenges and their adverse impact on our business will persist and the degree to which the pandemic ultimately impacts our business and results of operations will depend on future developments beyond our control.

We identified a material weakness in connection with our internal financial reporting controls. Although we are taking steps to remediate this material weakness, there is no assurance we will be successful in doing so in a timely manner, or at all, and we may identify other material weaknesses.

In August 2022, the Company determined that it made an error in the presentation and accounting of its consolidated statement of cash flows in the Company’s annual and interim consolidated financial statements during 2021 and 2022. The effect of this error was to overstate net cash used in operating activities for each reported period. The error and the required restatement had no effect on the Company’s cash flow from investing activities, financing activities, net change in cash or cash and cash equivalents as of the reporting date and had no impact on the Company’s consolidated balance sheet, statements of operations and comprehensive loss and the statements of equity.

As a result, we determined that there was a material error in the cash flow statement that required a restatement of the financial statements for the fiscal year ended December 31, 2021 and to our Form 10-Qs for the periods ended September 30, 2021 and March 31, 2022 (including comparative information for March 31, 2021) to restate the previously issued financial statements, with comparatives for June 30, 2021 restated in this Form 10-Q for the period ended June 30, 2022. This was due to inadequate design and implementation of controls to evaluate and monitor the presentation and compliance with accounting principles generally accepted in the United States of America related to the cash flow statement. Accordingly, management has determined that this control deficiency constitutes a material weakness and, as a result, management has concluded that, as of June 30, 2022, our internal control over financial reporting was not effective based on the criteria in Internal Control Integrated Framework (2013) issued by the COSO.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Effective internal control over financial reporting is necessary for us to provide reliable financial reporting. We continue to evaluate steps to remediate the material weakness. These remediation measures may be time consuming and costly and there is no assurance that these initiatives will ultimately have the intended effects.

If we are not able to comply with the requirements of the Sarbanes-Oxley Act or if we are unable to maintain effective internal control over financial reporting, we may not be able to produce timely and accurate financial statements or guarantee that information required to be disclosed by us in the reports that we file with the SEC, is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. Any failure of our internal control over financial reporting or disclosure controls and procedures could cause our investors to lose confidence in our publicly reported information, cause the market price of our stock to decline, expose us to sanctions or investigations by the SEC or other regulatory authorities, or impact our results of operations.

We can give no assurance that the measures we are taking and plan to take in the future will remediate the material weakness identified or that any additional material weaknesses or restatements of financial results will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting or circumvention of these controls. In addition, even if we are successful in strengthening our controls and procedures, in the future those controls and procedures may not be adequate to prevent or identify irregularities or errors or to facilitate the fair presentation of our financial statements.

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

On May 27, 2022, the Company issued 22,473 shares of common stock at a value of $2.225 per share to a consultant. Such issuance was exempt from registration under 4(a)(2) of the Securities Act of 1933, as amended and Regulation D promulgated thereunder.

On June 29, 2022, the Company issued 360,000 shares of common stock at a value of $2.00 per share to a consultant. Such issuance was exempt from registration under 4(a)(2) of the Securities Act of 1933, as amended and Regulation D promulgated thereunder.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

EXHIBIT INDEX

Exhibit No.	Description
2.1 *	Share Exchange Agreement, dated as of February 23, 2021, among the Registrant, SmartKem Limited and the shareholders of SmartKem Limited (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 24, 2021)
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed on February 24, 2021)
3.2	Amended and Restated Bylaws of the Registrant, as currently in effect (incorporated by reference to Exhibit 3.4 to the Company's Current Report on Form 8-K filed on February 24, 2021)
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1††	Certification of Chief 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH†	Inline XBRL Taxonomy Extension Schema Document
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104†	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Annexes, schedules and/or exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant hereby undertakes to furnish supplementally a copy of any of the omitted schedules and exhibits to the SEC on a confidential basis upon request.

† Filed herewith.

†† This certification is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

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, duly authorized.

Date: August 22, 2022

SMARTKEM, INC.

By:	/s/ Ian Jenks
Name:	Ian Jenks
Title:	President, Chief Executive Officer (Principal Executive Officer)

By:	/s/ Robert Bahns
Name:	Robert Bahns
Title:	Executive Vice President, Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ian Jenks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SmartKem, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the 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 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 controls 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2022

By: /s/ Ian Jenks
Name: Ian Jenks
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert Bahns, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SmartKem, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the 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 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 controls 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2022

By: /s/ Robert Bahns
Name: Robert Bahns
Title: Chief Financial Officer

Exhibit 32.1

Certification of Chief 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 this Quarterly Report of SmartKem, Inc. (the "Company") on Form 10-Q for the three month period ended June 30, 2022 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, the undersigned, Ian Jenks, Chief Executive Officer of the Company, hereby certifies, to the knowledge of the undersigned, pursuant to 18 U.S.C. Section 1350, 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.

Date: August 22, 2022

By: /s/ Ian Jenks
Name: Ian Jenks
Title: Chief Executive Officer

Exhibit 32.2

Certification of Chief 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 this Quarterly Report of SmartKem, Inc. (the “Company”) on Form 10-Q for the three month period ended June 20, 2022 (the “Report”) as filed with the Securities and Exchange Commission on the date hereof, the undersigned, Robert Bahns, Chief Financial Officer of the Company, hereby certifies, to the knowledge of the undersigned, pursuant to 18 U.S.C. Section 1350, 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.

Date: August 22, 2022

By: /s/ Robert Bahns
Name: Robert Bahns
Title: Chief Financial Officer