
**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 March 31, 2024

or

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

For the transition period from _____ to _____
Commission File Number: 000-56181

SmartKem, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

85-1083654
(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of May 20, 2024, there were 1,438,324 of the registrant's shares of common stock outstanding.

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Item 1. Financial Statements

SMARTKEM, INC. **Condensed Consolidated Balance Sheets** **(Unaudited)** (in thousands, except number of shares and per share data)

	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 7,251	\$ 8,836
Accounts receivable	—	268
Research and development tax credit receivable	807	610
Prepaid expenses and other current assets	1,082	811
Total current assets	9,140	10,525
Property, plant and equipment, net	388	455
Right-of-use assets, net	223	285
Other assets, non-current	6	7
Total assets	\$ 9,757	\$ 11,272
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,038	\$ 1,178
Lease liabilities, current	174	230
Other current liabilities	367	360
Total current liabilities	2,579	1,768
Lease liabilities, non-current	4	19
Warrant liability	619	1,372
Total liabilities	3,202	3,159
Commitments and contingencies (Note 7)	—	—
Stockholders' equity:		
Preferred stock, par value \$0.0001 per share, 10,000,000 shares authorized, 3,592 and 13,765 shares issued and outstanding, at March 31, 2024 and December 31, 2023, respectively	—	—
Common stock, par value \$0.0001 per share, 300,000,000 shares authorized, 1,379,750 and 889,668 shares issued and outstanding, at March 31, 2024 and December 31, 2023, respectively*	—	—
Additional paid-in capital	112,007	104,757
Accumulated other comprehensive loss	(1,596)	(1,578)
Accumulated deficit	(103,856)	(95,066)
Total stockholders' equity	6,555	8,113
Total liabilities and stockholders' equity	\$ 9,757	\$ 11,272

* reflects a one-for-thirty-five (1:35) reverse stock split effected on September 21, 2023

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

SMARTKEM, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(in thousands, except number of shares and per share data)

	Three Months Ended March 31,	
	2024	2023
Revenue	\$ —	\$ 16
Cost of revenue	—	16
Gross profit	—	—
Other operating income	202	269
Operating expenses		
Research and development	1,276	1,279
Selling, general and administrative	1,362	1,433
Loss on foreign currency transactions	13	111
Total operating expenses	2,651	2,823
Loss from operations	(2,449)	(2,554)
Non-operating income/(expense)		
Gain/(loss) on foreign currency transactions	(6)	502
Change in fair value of the warrant liability, net	753	—
Interest income	6	4
Total non-operating income/(expense)	753	506
Net loss	\$ (1,696)	\$ (2,048)
Net loss	\$ (1,696)	\$ (2,048)
Other comprehensive loss:		
Foreign currency translation	(18)	(456)
Total comprehensive loss	\$ (1,714)	\$ (2,504)
Common share data:		
Basic net loss per common share*	\$ (0.62)	\$ (2.45)
Diluted net loss per common share*	\$ (3.21)	\$ (2.45)
Dividend per common share	\$ (2.59)	\$ —
Weighted average number of basic shares outstanding*	2,735,375	835,718
Weighted average number of diluted shares outstanding*	2,735,375	835,718

* reflects a one-for-thirty-five (1:35) reverse stock split effected on September 21, 2023

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

SMARTKEM, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share data)

	Preferred Stock \$0.0001 par value		Common stock \$0.0001 par value		Additional paid-in capital	Accumulated other comprehensive income / (loss)	Accumulated deficit	Total Stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2024	13,765	\$ —	889,668	\$ —	\$ 104,757	\$ (1,578)	\$ (95,066)	\$ 8,113
Stock-based compensation expense	—	—	—	—	107	—	—	107
Issuance of stock awards	—	—	3,400	—	21	—	—	21
Issuance of common stock to vendor	—	—	50,000	—	53	—	—	53
Conversion of Preferred stock into common stock	(3,817)	—	436,294	—	—	—	—	—
Exchange of Preferred stock into common stock warrants	(6,356)	—	—	—	—	—	—	—
Deemed dividend on extinguishment of Preferred stock	—	—	—	—	7,069	—	(7,094)	(25)
Cashless exercise of warrants into common stock	—	—	388	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	(18)	—	(18)
Net loss	—	—	—	—	—	—	(1,696)	(1,696)
Balance at March 31, 2024	3,592	\$ —	1,379,750	\$ —	\$ 112,007	\$ (1,596)	\$ (103,856)	\$ 6,553

	Preferred Stock \$0.0001 par value		Common stock \$0.0001 par value		Additional paid-in capital	Accumulated other comprehensive income / (loss)	Accumulated deficit	Total Stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2023	—	\$ —	771,054	\$ —	\$ 92,933	\$ (483)	\$ (86,567)	\$ 5,883
Stock-based compensation expense	—	—	—	—	293	—	—	293
Issuance of common stock to vendor	—	—	2,937	—	55	—	—	55
Foreign currency translation adjustment	—	—	—	—	—	(456)	—	(456)
Net loss	—	—	—	—	—	—	(2,048)	(2,048)
Balance at March 31, 2023	—	\$ —	773,991	\$ —	\$ 93,281	\$ (939)	\$ (88,615)	\$ 3,727

* reflects a one-for-thirty-five (1:35) reverse stock split effected on September 21, 2023

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

SMARTKEM, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2024	2023
Cash flow from operating activities:		
Net loss	\$ (1,696)	\$ (2,048)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	63	42
Stock-based compensation expense	129	293
Issuance of common stock to vendor	53	55
Right-of-use asset amortization	60	56
Gain/(loss) on foreign currency transactions	19	(391)
Change in fair value of the warrant liability, net	(753)	—
Change in operating assets and liabilities:		
Accounts receivable	267	29
Research and development tax credit receivable	(202)	(211)
Prepaid expenses and other current assets	(264)	(340)
Accounts payable and accrued expenses	822	293
Lease liabilities	(69)	(43)
Income tax payable	—	(22)
Other current liabilities	—	(146)
Net cash used in operating activities	(1,571)	(2,433)
Effect of exchange rate changes on cash	(14)	(102)
Net change in cash	(1,585)	(2,535)
Cash, beginning of period	8,836	4,235
Cash, end of period	<u>\$ 7,251</u>	<u>\$ 1,700</u>
Supplemental disclosure of cash and non-cash investing and financing activities		
Issuance of common shares for consulting services	\$ 53	\$ 55

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

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION, BUSINESS, LIQUIDITY AND BASIS OF PRESENTATION

Organization

SmartKem, Inc. (the “Company”) formerly known as Parasol Investments Corporation (“Parasol”), was formed on May 13, 2020, and is the successor of SmartKem Limited, which was formed under the Laws of England and Wales. The Company was founded as a “shell” company registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with no specific business plan or purpose until it began operating the business of SmartKem Limited following the closing of the transactions contemplated by the Securities Exchange Agreement (the “Exchange Agreement”), dated February 21, 2021, 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 and which were purchased by Parasol for an aggregate purchase price of \$1.40, were exchanged for shares of Parasol common stock and SmartKem Limited became a wholly owned subsidiary of Parasol (the “Exchange”).

Business

The Company is seeking to reshape the world of electronics with its disruptive organic thin-film transistors (“OTFTs”) that have the potential to drive the next generation of displays. The Company’s patented TRUFLEX® semiconductor and dielectric inks, or electronic polymers, are used to make a new type of transistor that has the potential to revolutionize the display industry. The Company’s inks enable low temperature printing processes that are compatible with existing manufacturing infrastructure to deliver low-cost displays that outperform existing technology. The Company’s electronic polymer platform can be used in a number of display technologies including microLED, miniLED and AMOLED displays for next generation televisions, laptops, augmented reality (“AR”) and virtual reality (“VR”) headsets, smartwatches and smartphones. The Company develops its materials at its research and development facility in Manchester, UK and provides prototyping services at the Centre for Process Innovation (“CPI”) at Sedgefield, UK. It has a field application office in Taiwan. The Company has an extensive IP portfolio including 125 granted patents across 19 patent families and 40 codified trade secrets.

Risk and Uncertainties

The Company’s activities are subject to significant risks and uncertainties including the risk of failure to secure additional funding to properly execute the Company’s business plan. The Company is subject to risks that are common to companies in the development stage, including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, reliance on third party manufacturers, protection of proprietary technology and compliance with regulatory requirements.

The Company has access under a framework agreement to equipment which is used in the manufacturing of demonstrator products employing the Company’s inks. If the Company lost access to this fabrication facility, it would materially and adversely affect the Company’s ability to manufacture prototypes and demonstrate products for potential customers. The loss of this access could significantly impede the Company’s ability to engage in product development and process improvement activities. Alternative providers of similar services exist but would take effort and time to bring into the Company’s operations.

Liquidity

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.

The Company has incurred continuing losses including net losses of \$1.7 million for the three months ended March 31, 2024. The Company’s cash as of March 31, 2024 was \$7.3 million. The Company anticipates 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.

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

The Company expects that its cash and cash equivalents of \$7.3 million as of March 31, 2024, will be sufficient to fund its operating expenses and capital expenditure requirements into June 2025. It is possible this period could be shortened if there are any significant increases in spending or more rapid progress of development programs than anticipated.

The Company's future viability is dependent on its ability to raise additional capital to fund its operations. The Company will need to obtain additional funds to satisfy its operational needs and to fund its sales and marketing efforts, research and development expenditures, and business development activities. Until such time, if ever, as the Company can generate sufficient cash through revenue, management's plans are to finance the Company's working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. If the Company raises additional funds by issuing equity securities, the Company's existing security holders will likely experience dilution. If the Company borrows money, the incurrence of indebtedness would result in increased debt service obligations and could require the Company to agree to operating and financial covenants that could restrict its operations. If the Company enters into a collaboration, strategic alliance or other similar arrangement, it may be forced to give up valuable rights. There can be no assurance however that such financing will be available in sufficient amounts, when and if needed, on acceptable terms or at all. 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 and services, the quality of product development efforts, management of working capital, and continuation of normal payment terms and conditions for purchase of services. If the Company is unable to substantially increase revenues, reduce expenditures, or otherwise generate cash flows for operations, then the Company will need to raise additional funding.

Basis of Presentation

The unaudited interim condensed consolidated financial statements of the Company as of March 31, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and 2023 should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "Annual Report"), which was filed with the Securities and Exchange Commission (the "SEC") on March 27, 2024 and may also be found on the Company's website (www.smartkem.com). In these notes to the interim condensed consolidated financial statements the terms "us," "we" or "our" refer to the Company and its consolidated subsidiaries.

These interim condensed consolidated financial statements are unaudited and were prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim reporting and with the SEC's instructions to Form 10-Q and Article 10 of Regulation S-X. They include the accounts of all wholly owned subsidiaries and all significant inter-company accounts and transactions have been eliminated in consolidation. Amounts are presented in thousands, except number of shares and per share data.

The preparation of interim condensed consolidated financial statements requires management to make assumptions and estimates that impact the amounts reported. These interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's results of operations, financial position and cash flows for the interim periods ended March 31, 2024 and 2023; however, certain information and footnote disclosures normally included in our audited consolidated financial statements included in our Annual Report have been condensed or omitted as permitted by GAAP. It is important to note that the Company's results of operations and cash flows for interim periods are not necessarily indicative of the results of operations and cash flows to be expected for a full fiscal year or any interim period.

Reverse Stock Split

All share numbers and per share amounts presented in these financial statements, including these footnotes reflect a one-for-thirty-five (1:35) reverse stock split effected on September 21, 2023.

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than the policies listed below, there have been no material changes to the Company's significant accounting policies as set forth in Note 3 Summary of Significant Accounting Policies to the consolidated financial statements included in the Company's Annual Report.

The Company records, when necessary, deemed dividends for: (i) the exchange of preferred shares for pre-funded warrants, based on the fair value of the pre-funded warrants in excess of the carrying value of the preferred shares and (ii) the amendment of preferred stock accounted for as an extinguishment, based on the fair value of the preferred stock immediately before and after the amendments.

Management's Use of Estimates

The preparation of consolidated financial statements in conformity with 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in the Company's consolidated financial statements relate to the valuation of common stock, fair value of stock options and fair value of warrant liabilities. 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 consolidated financial statements, actual results may materially vary from these estimates.

Recent Accounting Pronouncements

In November 2023, the FASB issued Accounting Standards Update (ASU) No. 2023-07, *Segment Reporting* (Topic 280), *Improvements to Reportable Segment Disclosures* which will require companies to disclose significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"). The pronouncement is effective for annual filings for the year ended December 31, 2024. The Company is still assessing the impact of the adoption of this standard but does not expect it to have a material impact on its results of operations, financial position or cash flows.

On December 14, 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures* which applies to all entities subject to income taxes. The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to provide more detailed income tax disclosures. For public business entities (PBEs), the new requirements will be effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is still assessing the impact of the adoption of this standard but does not expect it to have a material impact on its results of operations, financial position or cash flows.

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

<i>(in thousands)</i>	March 31, 2024	December 31, 2023
Prepaid insurance	\$ 444	\$ 274
Research grant receivable	195	160
Prepaid facility costs	166	101
VAT receivable	176	104
Prepaid software licenses	60	24
Prepaid professional service fees	5	68
Other receivable and other prepaid expenses	36	80
Total prepaid expenses and other current assets	<u>\$ 1,082</u>	<u>\$ 811</u>

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

<i>(in thousands)</i>	March 31, 2024	December 31, 2023
Plant and equipment	\$ 1,569	\$ 1,584
Furniture and fixtures	107	108
Computer hardware and software	24	24
	1,700	1,716
Less: Accumulated depreciation	(1,312)	(1,261)
Property, plant and equipment, net	<u>\$ 388</u>	<u>\$ 455</u>

Depreciation expense was \$63.2 thousand and \$42.2 thousand for the three months ended March 31, 2024 and 2023, respectively and is classified as research and development expense.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

<i>(in thousands)</i>	March 31, 2024	December 31, 2023
Accounts payable	\$ 1,180	\$ 355
Payroll liabilities	534	375
Accrued expenses – audit & accounting fees	—	182
Accrued expenses – legal fees	90	—
Accrued expenses – technical fees	79	91
Accrued expenses – other professional service fees	57	—
Accrued expenses – other	98	175
Total accounts payable and accrued expenses	<u>\$ 2,038</u>	<u>\$ 1,178</u>

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.

The Company is not the lessor in any lease agreement, and no related party transactions for lease arrangements have occurred.

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

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

<i>(in thousands)</i>	Three Months Ended March 31,	
	2024	2023
Operating lease cost	\$ 65	\$ 64
Short-term lease cost	6	4
Variable lease cost	—	45
Total lease cost	<u>\$ 71</u>	<u>\$ 113</u>

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

<i>(in thousands)</i>	Three Months Ended March 31,	
	2024	2023
Research and development	\$ 65	\$ 104
Selling, general and administrative	6	9
Total lease cost	<u>\$ 71</u>	<u>\$ 113</u>

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

<i>(in thousands)</i>	March 31, 2024	December 31, 2023
Assets		
Right of use assets - Operating Leases	\$ 223	\$ 285
Total lease assets	<u>\$ 223</u>	<u>\$ 285</u>
Liabilities		
Current liabilities:		
Lease liability, current - Operating Leases	\$ 174	\$ 230
Noncurrent liabilities:		
Lease liability, non-current - Operating Leases	4	19
Total lease liabilities	<u>\$ 178</u>	<u>\$ 249</u>

The Company had no right of use lease assets and lease liabilities for financing leases as of March 31, 2024 and December 31, 2023.

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

<i>(in thousands)</i>	March 31,	
	2024	2023
Operating cash outflows from operating leases	\$ 69	\$ 43

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 leases as of the period ended:

	March 31, 2024
Weighted average remaining lease term (in years) – operating leases	0.76
Weighted average discount rate – operating leases	6.28%

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

Remaining maturities of the Company's operating leases, excluding short-term leases, are as follows:

<i>(in thousands)</i>	March 31, 2024
2024	\$ 167
2025	19
Total undiscounted lease payments	186
Less imputed interest	(8)
Total net lease liabilities	\$ 178

7. 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 interim condensed consolidated financial statements.

8. STOCKHOLDERS' EQUITY

Reverse Stock Split

At the Company's Annual Meeting of Stockholders held on August 25, 2023 (the "Annual Meeting"), the Company's stockholders approved a proposal to approve and adopt an amendment to the Company's Amended and Restated Certificate of Incorporation to effect a reverse stock split of its shares of common stock, issued and outstanding or reserved for issuance, at a specific ratio within a range from 1-for-30 to 1-for-60, inclusive, prior to the first anniversary of stockholder approval of the proposal, and to grant authorization to the Board of Directors to determine, in its sole discretion, whether to effect the reverse stock split, as well as its specific timing and ratio. On September 19, 2023, the Company's Board of Directors adopted resolutions to effect as soon as reasonably practicable the reverse split of the issued and outstanding shares of the Common Stock at a ratio of 1-for-35.

On September 19, 2023, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation (the "Charter Amendment") to effect a reverse stock split of the issued and outstanding shares of the Company's common stock, \$0.01 par value per share, at a ratio of 1-for-35 to be effective as of September 21, 2023 at 12:01 a.m., New York City time (the "Reverse Stock Split"). The Charter Amendment did not change the par value or any other terms of the common stock.

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.

Series A-1 Preferred Stock

On June 14, 2023, the Company filed a Certificate of Designation of Preferences, Rights and Limitations with the Secretary of State of the State of Delaware designating 18,000 shares out of the authorized but unissued shares of its preferred stock as Series A-1 Preferred Stock with a stated value of \$1,000 per share (the "Series A-1 Certificate of Designation"). On January 29, 2024, the Company filed an Amended and Restated Certificate of Designation of Preferences, Rights and Limitation with the Secretary of State of Delaware designating 11,100 shares of Series A-1 Preferred Stock. The following is a summary of the

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

principal amended and restated terms of the Series A-1 Preferred Stock as set forth in the Amended and Restated Series A-1 Certificate of Designation:

Dividends

The holders of Series A-1 Preferred Stock will be entitled to dividends, on an as-if converted basis, equal to and in the same form as dividends actually paid on shares of Common Stock, when and if actually paid. In addition, in the event that on the 18th month anniversary of the Closing Date, the trailing 30-day VWAP (as defined in the Series A-1 Certificate of Designation) is less than the then-effective Series A-1 Conversion Price, the Series A-1 Preferred Stock will begin accruing dividends at the annual rate of 19.99% of the stated value thereof (the "Series A-1 Dividend"). The Series A-1 Dividend would be paid in cash, or, at the option of the Company if certain equity conditions are met, in shares of Common Stock at a price per share equal to ninety percent (90%) of the trailing 10-day VWAP for the last 10 trading date prior to the date the Series A-1 Dividend is paid.

Voting Rights

The shares of Series A-1 Preferred Stock have no voting rights, except to the extent required by the Delaware General Corporation Law.

As long as any shares of Series A-1 Preferred Stock are outstanding, the Company may not, without the approval of a majority of the then outstanding shares of Series A-1 Preferred Stock which must include AIGH Investment Partners LP and its affiliates ("AIGH") for so long as AIGH is holding at least \$1,500,000 in aggregate stated value of Series A-1 Preferred Stock acquired pursuant to the Purchase Agreement (a) alter or change the powers, preferences or rights given to the Series A-1 Preferred Stock, (b) alter or amend the Amended and Restated Certificate of Incorporation (the "Charter"), the Series A-1 Certificate of Designation, the Series A-2 Certificate of Designation (as defined below) or the bylaws of the Company (the "Bylaws") in such a manner so as to materially adversely affect any rights given to the Series A-1 Preferred Stock, (c) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a Liquidation (as defined below) senior to, or otherwise pari passu with, the Series A-1 Preferred Stock, other than 3,050 shares of Series A-2 Preferred Stock of the Company, (d) increase the number of authorized shares of Series A-1 Preferred Stock, (e) issue any Series A-1 Preferred Stock except pursuant to the Purchase Agreement, or (f) enter into any agreement to do any of the foregoing.

Liquidation

Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary (a "Liquidation"), the then holders of the Series A-1 Preferred Stock are entitled to receive out of the assets available for distribution to stockholders of the Company an amount equal to 100% of the stated value, plus any accrued and unpaid dividends thereon and any other fees or liquidated damages then due and owing thereon, prior and in preference to the Common Stock or any other series of preferred stock (other than the Series A-2 Preferred Stock).

Conversion

The Series A-1 Preferred Stock is convertible into Common Stock at any time at a conversion price of \$87.50, subject to adjustment for certain anti-dilution provisions set forth in the Series A-1 Certificate of Designation (the "Series A-1 Conversion Price"). Upon conversion the shares of Series A-1 Preferred Stock will resume the status of authorized but unissued shares of preferred stock of the Company.

Conversion at the Option of the Holder

The Series A-1 Preferred Stock is convertible at the then-effective Series A-1 Conversion Price at the option of the holder at any time and from time to time.

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Notes to Condensed Consolidated Financial Statements

Mandatory Conversion at the Option of the Company

So long as certain equity conditions are satisfied, the Company may give notice requiring the holders to convert all of the outstanding shares of Series A-1 Preferred Stock into shares of Common Stock at the then-effective Series A-1 Conversion Price.

Beneficial Ownership Limitation

The Series A-1 Preferred Stock cannot be converted to Common Stock if the holder and its affiliates would beneficially own more than 4.99% (or 9.99% at the election of the holder) of the outstanding common stock. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99% upon notice to us, provided that any increase in this limitation will not be effective until 61 days after such notice from the holder to us and such increase or decrease will apply only to the holder providing such notice.

Preemptive Rights

No holders of Series A-1 Preferred Stock will, as holders of Series A-1 Preferred Stock, have any preemptive rights to purchase or subscribe for Common Stock or any of our other securities.

Redemption

The shares of Series A-1 Preferred Stock are not redeemable by the Company.

Negative Covenants

As long as any Series A-1 Preferred Stock is outstanding, unless the holders of more than 50% in stated value of the then outstanding shares of Series A-1 Preferred Stock shall have otherwise given prior written consent (which must include AIGH for so long as AIGH is holding at least \$1,500,000 in aggregate stated value of Series A-1 Preferred Stock acquired pursuant to the Purchase Agreement), the Company cannot, subject to certain exceptions, (a) enter into, create, incur, assume, guarantee or suffer to exist any indebtedness, (b) enter into, create, incur, assume or suffer to exist any liens, (c) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of its Common Stock, Common Stock equivalents or junior securities, (d) enter into any transaction with any affiliate of the Company which would be required to be disclosed in any public filing with the Commission, unless such transaction is made on an arm's-length basis and expressly approved by a majority of the disinterested directors of the Company, (e) declare or pay a dividend on junior securities or (f) enter into any agreement with respect to any of the foregoing.

Trading Market

There is no established trading market for any of the Series A-1 Preferred Stock, and we do not expect a market to develop. We do not intend to apply for a listing for any of the Series A-1 Preferred Stock on any securities exchange or other nationally recognized trading system. Without an active trading market, the liquidity of the Series A-1 Preferred Stock will be limited.

Series A-2 Preferred Stock

On June 14, 2023, the Company filed a Certificate of Designation of Preferences, Rights and Limitations with the Secretary of State of the State of Delaware designating 18,000 shares out of the authorized but unissued shares of its preferred stock as Series A-2 Preferred Stock with a stated value of \$1,000 per share

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(the “Series A-2 Certificate of Designation”). The following is a summary of the principal terms of the Series A-2 Preferred Stock as set forth in the Series A-2 Certificate of Designation:

Dividends

The holders of Series A-2 Preferred Stock will be entitled to dividends, on an as-if converted basis, equal to and in the same form as dividends actually paid on shares of Common Stock, when and if actually paid.

Voting Rights

The shares of Series A-2 Preferred Stock have no voting rights, except to the extent required by the DGCL.

As long as any shares of Series A-2 Preferred Stock are outstanding, the Company may not, without the approval of a majority of the then outstanding shares of Series A-2 Preferred Stock (a) alter or change the powers, preferences or rights of the Series A-2 Preferred Stock, (b) alter or amend the Charter, the Series A-2 Certificate of Designation or the Bylaws in such a manner so as to materially adversely affect any rights given to the Series A-2 Preferred Stock, (c) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a liquidation senior to, or otherwise *pari passu* with, the Series A-2 Preferred Stock or (d) enter into any agreement to do any of the foregoing.

Liquidation

Upon a Liquidation, the then holders of the Series A-2 Preferred Stock are entitled to receive out of the assets available for distribution to stockholders of the Company an amount equal to 100% of the stated value, plus any accrued and unpaid dividends thereon and any other fees or liquidated damages then due and owing thereon, prior and in preference to the Common Stock or any other series of preferred stock (other than the Series A-1 Preferred Stock).

Conversion

The Series A-2 Preferred Stock is convertible into Common Stock at any time at a conversion price of \$8.75, subject to adjustment for certain anti-dilution provisions set forth in the Series A-2 Certificate of Designation (the “Series A-2 Conversion Price”). Upon conversion the shares of Series A-2 Preferred Stock will resume the status of authorized but unissued shares of preferred stock of the Company.

Conversion at the Option of the Holder

The Series A-2 Preferred Stock is convertible at the then-effective Series A-2 Conversion Price at the option of the holder at any time and from time to time.

Automatic Conversion

On the trading day immediately preceding the date on which shares of Common Stock commence trading on the NYSE American, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market or the New York Stock Exchange all, but not less than all, of the outstanding shares of Series A-2 Preferred Stock shall automatically convert, without any action on the part of the holder thereof and without payment of any additional consideration, into that number of shares of Common Stock determined by dividing the stated of such share of Series A-2 Preferred Stock by the then applicable Series A-2 Conversion Price.

Beneficial Ownership Limitation

The Series A-2 Preferred Stock cannot be converted to common stock if the holder and its affiliates would beneficially own more than 4.99% (or 9.99% at the election of the holder) of the outstanding common stock. However, any holder may increase or decrease such percentage to any other percentage not in excess

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of 9.99% upon notice to us, provided that any increase in this limitation will not be effective until 61 days after such notice from the holder to us and such increase or decrease will apply only to the holder providing such notice.

Preemptive Rights

No holders of Series A-2 Preferred Stock will, as holders of Series A-2 Preferred Stock, have any preemptive rights to purchase or subscribe for Common Stock or any of our other securities.

Redemption

The shares of Series A-2 Preferred Stock are not redeemable by the Company.

Trading Market

There is no established trading market for any of the Series A-2 Preferred Stock, and the Company does not expect a market to develop. The Company does not intend to apply for a listing for any of the Series A-2 Preferred Stock on any securities exchange or other nationally recognized trading system. Without an active trading market, the liquidity of the Series A-2 Preferred Stock will be limited.

Series A-1 and A-2 Preferred Stock and Class A and Class B Warrant Issuances

On June 14, 2023, the Company and certain investors entered into a securities purchase agreement (the “Purchase Agreement”) pursuant to which the Company sold an aggregate of (i) 9,229 shares of Series A-1 Convertible Preferred Stock at a price of \$1,000 per share (the “Series A-1 Preferred Stock”), (ii) 2,950 shares of the Company’s Series A-2 Convertible Preferred Stock at a price of \$1,000 per share (“Series A-2 Preferred Stock” and together with the Series A-1 Preferred Stock, the “Preferred Stock”), (iii) Class A Warrants to purchase up to an aggregate of 1,391,927 shares of common stock (the “Class A Warrant”), and (iv) Class B Warrants to purchase up to an aggregate of 798,396 shares of common stock (the “Class B Warrant” and together with the Class A Warrant, the “Warrants”) for aggregate gross proceeds of \$12.2 million (the “June 2023 PIPE”). In addition, 34,286 Class B Warrants were issued in lieu of cash payments for consulting services related to the offering. The fair value of the service provided was \$59 thousand.

On June 22, 2023, in a second closing of the June 2023 PIPE, the Company sold an aggregate of (i) 1,870.36596 Series A-1 Preferred Stock, (ii) 100 shares of Series A-2 Preferred Stock, and (iii) Class A Warrants to purchase up to an aggregate of 225,190 shares of Common Stock pursuant to the Purchase Agreement for aggregate gross proceeds of \$2.0 million. In addition, 8,572 Class B Warrants were issued in lieu of cash payments for consulting services related to the offering. The fair value of the service provided was \$15 thousand.

Each Class A Warrant has an exercise price of \$8.75 and each Class B Warrant has an exercise price of \$0.35, both subject to adjustments in accordance with the terms of the Warrants. The Warrants expire five years from the issuance date.

There were an additional 127,551 warrants issues related to a placement agent fee. The fair value of this fee is \$31 thousand.

The Company has accounted for the Class A and Class B Warrants as derivative instruments in accordance with ASC 815, Derivatives and Hedging. The Company classified the Warrants as a liability because they cannot be considered indexed to the Company’s stock due to provisions that, in certain circumstances, adjust the number of shares to be issued if the exercise price is adjusted and the existence of a pre-specified volatility input to the Black-Scholes calculation which could be used to calculate consideration in the event of a Fundamental Transaction, as defined in the agreements.

The Company received net proceeds after expenses of \$12.7 million. Of the net proceeds, the Company allocated an estimated fair value of \$1.8 million to the Warrants. The Company also expensed \$0.2 million of

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issuance costs that were allocated to the warranty liability during the three and six months ended June 30, 2023. The terms of the June 2023 PIPE include a number of restrictions on our operations and on our ability to raise additional capital. The Purchase Agreement, among other things, provides that, for a period ending on June 14, 2024, we may not use cash from operating activities (as defined under GAAP) of more than an average of \$2.8 million for any consecutive three-month period (subject to certain exceptions). This provision may cause us to delay certain actions that may benefit our business and may prevent us from pursuing potentially favorable business opportunities, even if a majority of our board of directors believes such actions or opportunities are in the best interest of our company and our stockholders.

Under the terms of the Purchase Agreement, for a period ending on December 15, 2025, in the event that we issue common stock or common stock equivalents in a subsequent financing (as defined in the Purchase Agreement), the significant purchasers (defined in the Purchase Agreement as a purchaser acquiring at least 1,000 shares of Series A-1 Preferred Stock) will have the right to purchase up to 40% of the securities sold in the subsequent financing. This provision may make it more difficult for us to raise additional capital because other investors may want to provide all, or a larger portion of the capital provided in the subsequent financing or may be unwilling to co-invest with one or more of the significant purchasers or may be unwilling to commit to provide financing without knowing how much of the subsequent financing will be provided by the significant purchasers.

In addition, during such period, the Company may not issue common stock or common stock equivalents in a subsequent financing with an effective price per share of common stock that is or may become lower than the then-effective conversion price of the Series A-1 Preferred Stock without the consent of the significant purchasers, which must include AIGH Investment Partners LP and its affiliates for so long as they are holding at least \$1,500,000 in aggregate stated value of Series A-1 Preferred Stock acquired pursuant to the Purchase Agreement. This provision may prevent the Company from obtaining additional capital on market terms even if a majority of the Company's board of directors believes that the terms of the subsequent financing are in the best interests of the Company and its stockholders. This provision may also have the effect of increasing the cost of obtaining additional capital either because the significant purchasers refuse to consent to any such subsequent financing unless provided by them on terms approved by them or because the Company is required to provide additional consideration to such significant purchasers in exchange for their consent.

In the event that the Company issues common stock or common stock equivalents in a subsequent financing prior to the time the common stock is listed on a national securities exchange, the Purchase Agreement provides that if a significant purchaser reasonably believes that any of the terms and conditions of the subsequent financing are more favorable to an investor in the subsequent financing than the terms of the June 2023 PIPE, such significant purchaser has the right to require the Company to amend the terms of the June 2023 PIPE to include such more favorable term for such significant purchaser. This provision may make it more expensive to obtain additional capital prior to an uplisting because it permits any significant purchaser to "cherry pick" the terms of the subsequent financing and to require any term deemed to be more favorable to be included retroactively in the terms of the June 2023 PIPE. This provision also potentially creates uncertainty around the terms of a subsequent financing because the significant purchasers have the right to review terms of a completed subsequent financing before deciding which, if any, of the terms thereof they find more favorable to them.

The Purchase Agreement provides that, until June 14, 2025, a significant purchaser may participate in a subsequent transaction by exchanging some or all of its Series A-1 Preferred Stock having a stated value equal to its subscription amount in the subsequent financing. This provision may adversely affect the amount of capital the Company raises in a subsequent financing, as it permits a significant purchaser to roll its existing investment into the new financing rather than being required to invest cash. This provision also has the potential to make it more difficult for the Company to raise additional capital as other investors may want to provide all or a larger portion of the capital provided in the subsequent financing or may require the Company to raise a minimum amount of new capital or may be unwilling to commit to provide financing without knowing how much of the subsequent financing will be provided by the significant purchasers in cash.

If the Company is unable to raise additional capital when needed, the Company may be required to delay, limit, reduce or terminate commercialization, its research and product development, or grant rights to develop and

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market its products that the Company would otherwise prefer to develop and market itself and may have a material adverse effect on the Company's business, financial condition and results of operations.

Consent, Conversion and Amendment Agreement

On January 26, 2024, the Company entered into a Consent, Conversion and Amendment Agreement (the "Consent Agreement") with each holder of the Series A-1 Preferred Stock (each a "Holder" and together, the "Holders"). Pursuant to the Consent Agreement, each Holder converted, subject to the terms and conditions of the Consent Agreement, 90% of its Series A-1 Preferred Stock (the "Conversion Commitment") into shares of Common Stock or Class C warrants (each a "Class C Warrant") covering the shares of Common Stock that would have been issued to such Holder but for the Beneficial Ownership Limitation (the "Exchange"). The Class C Warrants have an exercise price of \$0.0001, were exercisable upon issuance and will expire when exercised in full.

Under the Consent Agreement, the Company issued (i) 412,293 shares of Common Stock and (ii) Class C Warrants to purchase up to 726,344 shares of Common Stock upon the conversion or exchange of an aggregate of 9,963 shares of Series A-1 Preferred Stock. 1,106 shares of Series A-1 Preferred Stock remain outstanding after giving effect to the transactions contemplated by the Consent Agreement.

Pursuant to the Consent Agreement, the Company and the Holders agreed to amend and restate the Certificate of Designation of Preferences, Rights and Limitations for the Series A-1 Preferred Stock (the "Amended and Restated Series A-1 Certificate of Designation") to (i) make certain adjustments to reflect the Reverse Split, (ii) remove all voting rights, except as required by applicable law, (iii) increase the stated value of the Series A-1 Preferred Stock to \$10,000 from \$1,000, and (iv) adjust the conversion price of the Series A-1 Preferred Stock to \$87.50 as a result of the increase in stated value. The Consent Agreement, the Registration Rights Agreement, the Amended and Restated Series A-1 Certificate of Designation and the form of Class C Warrant, are attached as Exhibits 10.1, 10.2, 3.1 and 4.2 to the Form 8-K filed with the SEC on January 29, 2024.

The Company credited additional paid in capital \$7.1 million for deemed dividends as a result of (i) the exchange of Series A-1 Preferred Shares for Series C Warrants, based on the fair value of the Series C Warrants in excess of the carrying value of the preferred shares and (ii) the amendment of Series A-1 Preferred Stock accounted for as an extinguishment, based on the fair value of the Series A-1 Preferred Stock immediately before and after the amendments. The Company estimated the fair value of the deemed dividend related to the exchange of Series A-1 Preferred Stock for Series C Warrants as part of the fair value model utilized to value all the securities issued in the transaction with the stock price input estimated as of the January 26, 2024, transaction date. The Company estimated the fair value of the deemed dividend related to the amendment of preferred stock using an option pricing model based on the following assumptions: (1) dividend yield of 19.99%, (2) expected volatility of 50.0%, (3) risk-free interest rate of 4.15%, and (4) expected life of 10.0 years.

As of March 31, 2024, there was an aggregate of 1,106 shares of Series A-1 and 2,486 shares of Series A-2 Preferred Stock outstanding, respectively.

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 Charter and the Company's 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, constitutes a quorum for the transaction of business at all meetings of the stockholders.

Dividends

The Company has never paid any cash dividends to stockholders and do not anticipate paying any cash dividends to stockholders in the foreseeable future. Any future determination to pay cash dividends will be at

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the discretion of the 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.

Common Stock Issued to Vendors for Services

On March 7, 2024, the Company issued 50,000 shares of common stock, as payment for financial consulting services.

Common Stock Warrants

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

	Number of Shares	Exercise Price per Share	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Warrants outstanding at January 1, 2024	2,542,655	\$0.35 - \$70.00	\$ 6.89	4.43
Issued	—		—	
Exercised	(400)		0.35	
Expired	—		—	
Warrants outstanding at March 31, 2024	2,542,255	\$0.35 - \$70.00	\$ 6.89	4.17

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, 2024	61,587	\$ 0.3500
Issued	726,344	0.0001
Exercised	—	
Expired	—	
Pre-funded warrants outstanding at March 31, 2024	787,931	\$ 0.02745

9. SHARE-BASED COMPENSATION:

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 65,000 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) 65,000 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.

At the 2023 Annual Meeting, the Company's stockholders approved an amendment (the "2021 Plan Amendment") to the Company's 2021 Plan, increasing the number of the shares of common stock, par value \$0.0001 per share ("Common Stock"), reserved for issuance under the 2021 Plan from 125,045 shares to 743,106 shares. The Company's Board of Directors (the "Board") had previously approved the 2021 Plan Amendment, subject to stockholder approval.

Determining the appropriate fair value of share-based awards requires the input of subjective assumptions, including the fair value of the Company's common stock, 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

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option awards. The assumptions used in calculating the fair value of share-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, the share-based compensation expense could be materially different for future awards.

There were no options granted under the 2021 Plan for the three months ended March 31, 2024 and 2023.

There were 3,400 shares of Common Stock granted and no shares granted under the 2021 Plan during the three months ended March 31, 2024 and 2023, respectively.

The following table reflects share activity under the share option plans for the three months ended March 31, 2024:

	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, 2024	70,411	\$ 63.07	7.28	\$ 33.98	
Exercised	—	—			
Cancelled/Forfeited	(491)	70.00			
Expired	—				
Granted	—	—			
Options outstanding at March 31, 2024	69,920	\$ 63.02	7.04	\$ 33.98	
Options exercisable at March 31, 2024	46,347	\$ 59.47	6.56		\$ 78.24

Stock-based compensation is included in the unaudited interim condensed consolidated statements of operations as follows:

	Three Months Ended March 31,	
(in thousands)	2024	2023
Research and development	\$ 42	\$ 70
Selling, general and administration	65	223
Total	\$ 107	\$ 293

Total compensation cost related to non-vested stock option awards not yet recognized as of March 31, 2024 was \$0.6 million and will be recognized on a straight-line basis through the end of the vesting periods in July 2026. The amount of future stock option compensation expense could be affected by any future option grants or by any forfeitures.

10. NET LOSS PER COMMON SHARE:

Basic net loss per share is determined by dividing net loss by the weighted average shares of common stock outstanding during the period, without consideration of potentially dilutive securities, except for those shares that are issuable for little or no cash consideration. Diluted net loss per share is determined by dividing net loss by diluted weighted average shares outstanding. Diluted weighted average shares reflects the dilutive effect, if any, of potentially dilutive common shares, such as stock options and warrants calculated using the treasury stock method. In periods with reported net operating losses, all common stock options and warrants are generally deemed anti-dilutive such that basic net loss per share and diluted net loss per share are equal.

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<i>(in thousands, except share data)</i>	Three Months Ended March 31,	
	2024	2023
Net loss - basic	\$ (1,696)	\$ (2,048)
Preferred stock dividends	(7,094)	—
Net loss - diluted	<u>\$ (8,790)</u>	<u>\$ (2,048)</u>
Weighted average shares outstanding - basic*	<u>2,735,375</u>	<u>835,718</u>
Weighted average shares outstanding - diluted*	<u>2,735,375</u>	<u>835,718</u>
Net loss per common share - basic*	\$ (0.62)	\$ (2.45)
Net loss per common share - diluted*	\$ (3.21)	\$ (2.45)
Dividend per common share	\$ (2.59)	\$ -

* reflects a one-for-thirty-five (1:35) reverse stock split effected on September 21, 2023

The following potentially dilutive securities were excluded from the computation of earnings per share as of March 31, 2024 and 2023 because their effects would be anti-dilutive:

	March 31,	
	2024	2023
Common stock warrants	3,330,186	89,748
Assumed conversion of preferred stock	410,587	—
Stock options	69,920	80,084
Total	<u>3,810,693</u>	<u>169,832</u>

At March 31, 2024, the Company had 61,587 pre-funded warrants, 769,426 Class B Warrants and 726,344 Class C Warrants outstanding. The following table provides a reconciliation of the weighted average shares outstanding calculation for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Weighted average shares issued	1,217,723	773,773
Weighted average pre-funded and penny warrants	1,517,652	61,945
Weighted average shares outstanding	<u>2,735,375</u>	<u>835,718</u>

11. DEFINED CONTRIBUTION PENSION:

The Company operates a defined contribution pension scheme for its UK employees. 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:

<i>(in thousands)</i>	Three Months Ended March 31,	
	2024	2023
Research and development	\$ 21	\$ 22
Selling, general and administration	16	18
Total	<u>\$ 37</u>	<u>\$ 40</u>

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12. FAIR VALUE MEASUREMENTS

The table below presents activity within Level 3 of the fair value hierarchy, our liabilities carried at fair value for the quarter ended March 31, 2024:

<i>(in thousands)</i>	Warrant Liability
Balance at January 1, 2024	\$ 1,372
Fair value of warrant issued in Private Placement Offering	—
Total change in the liability included in earnings	(753)
Balance at March 31, 2024	\$ 619

The valuation of the warrants was determined using option pricing models. These models use inputs such as the underlying price of the shares issued at the measurement date, expected volatility, risk free interest rate and expected life of the instrument. Since our common stock was not publicly traded until February 2022 there has been insufficient volatility data available. Accordingly, we have used an expected volatility based on historical common stock volatility of our peers. The Company has accounted for them as derivative instruments in accordance with ASC 815, adjusting the fair value at the end of each reporting period.

The fair value of the common warrants at March 31, 2024 was determined by using an option pricing model assuming the following:

	March 31, 2024	December 31 2023
Expected term (years)	4.21	4.46
Risk-free interest rate	4.20%	3.81%
Expected volatility	50.0%	50.0%
Expected dividend yield	0.0%	0.0%

Additionally, the Company has determined that the warrant liability should be classified within Level 3 of the fair-value hierarchy by evaluating each input for the option pricing models against the fair-value hierarchy criteria and using the lowest level of input as the basis for the fair-value classification as called for in ASC 820. There are six inputs: closing price of the Company's Common Stock on the day of evaluation; the exercise price of the warrants; the remaining term of the warrants; the volatility of the Company's stock over that term; annual rate of dividends; and the risk-free rate of return. Of those inputs, the exercise price of the warrants and the remaining term are readily observable in the warrant agreements. The annual rate of dividends is based on the Company's historical practice of not granting dividends. The closing price of SmartKem stock would fall under Level 1 of the fair-value hierarchy as it is a quoted price in an active market (ASC 820-10). The risk-free rate of return is a Level 2 input as defined in ASC 820-10, while the historical volatility is a Level 3 input as defined in ASC 820. Since the lowest level input is a Level 3, the Company determined the warrant liability is most appropriately classified within Level 3 of the fair value hierarchy.

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The following tables present information about the Company's financial assets and liabilities that have been measured at fair value as of March 31, 2024 and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value. In general, the fair values were determined using Level 3:

Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	March 31, 2024
Liabilities:				
Warrant liability	\$ —	\$ —	\$ 619	\$ 619
Total liabilities	\$ —	\$ —	\$ 619	\$ 619
Equity:				
Deemed dividend on extinguishment of Preferred stock	\$ —	\$ —	\$ 7,094	\$ 7,094
Total Equity	\$ —	\$ —	\$ 7,094	\$ 7,094

Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2023
Liabilities:				
Warrant liability	\$ —	\$ —	\$ 1,372	\$ 1,372
Total liabilities	\$ —	\$ —	\$ 1,372	\$ 1,372

13. SUBSEQUENT EVENTS:

Preferred Stock Conversions

Subsequent to March 31, 2024, the Company issued 8,574 shares of the Company's common stock upon the conversion of 75 shares Series A-2 Preferred Stock.

Common Stock Issued to Vendors for Services

Subsequent to March 31, 2024, the Company issued 50,000 shares of common stock, as payment for financial consulting services.

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

The following discussion and analysis of the financial condition and results of operations of SmartKem, Inc. ("SmartKem" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto contained in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 to provide an understanding of its results of operations, financial condition and cash flows.

All references in this Quarterly Report to "we," "our," "us" and the "Company" refer to SmartKem, Inc., and its subsidiaries unless the context indicates otherwise.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition, liquidity, and results of operations. Words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "could," "would," "will," "may," "can," "continue," "potential," "should," and the negative of these terms or other comparable terminology often identify forward-looking statements. Statements in this Quarterly Report on Form 10-Q (this "Report") that are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements, including the risks discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "10-K") in Item 1A under "Risk Factors" and the risks detailed from time to time in our future reports filed with the Securities and Exchange Commission (the "SEC"). 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 needs for additional financing;
- our ability to obtain additional funds for our operations and our intended use of any such funds;
- our ability to 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 Jumpstart Our Business Startups Act (the “JOBS Act”) 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; and
- other risks and uncertainties, including those listed under the caption “Risk Factors” in our 10-K.

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” in our 10-K and in this Report and elsewhere in this Report.

Any forward-looking statement in this Report 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 Report and the documents that we reference in this Report 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.

Company Overview

We are seeking to reshape the world of electronics with our disruptive organic thin-film transistors (“OTFTs”) that have the potential to drive the next generation of displays. Our patented TRUFLEX® semiconductor and dielectric inks, or electronic polymers, can be used to make a new type of transistor that could have the potential to revolutionize the display industry. Our inks enable low temperature printing processes that are compatible with existing manufacturing infrastructure to deliver low-cost displays that outperform existing technology. Our electronic polymer platform can be used in a number of display technologies including microLED, miniLED and AMOLED displays for next generation televisions, laptops, augmented reality (“AR”) and virtual reality (“VR”) headsets, smartwatches, and smartphones.

We develop our materials at our research and provide prototyping services at the Centre for Process Innovation (“CPI”) at Sedgefield, UK. We have a field application office in Taiwan. We have an extensive IP portfolio including 125 granted patents across 19 patent families and 40 codified trade secrets.

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 \$1.7 million and \$2.1 million for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, our accumulated deficit was \$103.9 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.

Results of Operations for the three months ended March 31, 2024

Three months ended March 31, 2024 compared with three months ended March 31, 2023

Revenue and Cost of revenue

We did not have any revenue or cost of revenue in the three months ended March 31, 2024. We had revenue of \$16.0 thousand and cost of revenue of \$16.0 thousand in the same period of 2023. Both revenues and related cost

of revenue for three months ended March 31, 2023 are a result of sales of OTFT backplanes and TRUFLEX® materials for customer assessment and development purposes.

Other operating income

Other operating income was \$0.2 million in the three months ended March 31, 2024, compared to \$0.3 million in the same period of 2023. The primary source of the income is related to a research grant and research and development tax credits. The decrease is mainly due to a reduction in the allowable research and development expenses and a lowering of the tax credit rate to be applied to the allowable expenses of which both went into effect on April 1, 2023.

Operating expenses

Operating expenses were \$2.7 million for the three months ended March 31, 2024, compared to \$2.8 million in the same period of 2023, a decrease of \$0.1 million.

Research and development expenses are incurred for the development of TRUFLEX® inks to make OTFT circuits and consist primarily of payroll and technical development costs. The research and development expenses represent 48.1% and 45.3% of the total operating expenses for the three months ended March 31, 2024 and 2023, respectively. Research and development expenses decreased \$3 thousand for the three months ended March 31, 2024 compared to the same period for the prior year. This decrease is primarily related to lower personnel expenses due to a reduction in force in 2023 offset in part by higher technical service costs.

Selling, general and administrative expenses consist primarily of payroll and professional services such as accounting, legal services and investor relations. These expenses represent 51.4% and 50.8% of our total operating expenses for the three months ended March 31, 2024 and 2023, respectively. Selling, general and administrative expenses decreased by \$71 thousand for the three months ended March 31, 2024 compared to the same period for the prior year. This decrease was primarily a result of a decrease in professional service fees related to investor relation consulting costs.

Non-Operating income/(expense)

We recorded a gain of \$0.8 million related to the valuation of the warrant liability for the three months ended March 31, 2024. There were no similar gains or losses during the same period of the prior year.

Liquidity and Capital Resources

As of March 31, 2024, our cash and cash equivalents were \$7.3 million compared with \$8.8 million as of December 31, 2023. We believe this will be sufficient to fund our operating expenses and capital expenditure requirements into June 2025. It is possible this period could be shortened if there are any significant increases in spending or more rapid progress of development programs than anticipated.

Our future viability is dependent on our ability to raise additional capital to fund our operations. We will need to obtain additional funds to satisfy our operational needs and to fund our sales and marketing efforts, research and development expenditures, and business development activities. Until such time, if ever, as we can generate sufficient cash through revenue, management's plans are to finance our working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. If we raise additional funds by issuing equity securities, our existing security holders will likely experience dilution. If we borrow money, the incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations. If we enter into a collaboration, strategic alliance or other similar arrangement, we may be forced to give up valuable rights. There can be no assurance however that such financing will be available in sufficient amounts, when and if needed, on acceptable terms or at all. 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 and services, the quality of product development efforts, management of working capital, and continuation of normal payment terms and conditions for purchase of services. If we are unable to substantially increase revenues, reduce expenditures, or otherwise generate cash flows for operations, then we will need to raise additional funding.

Cash Flow from Operating Activities

Net cash used in operating activities was \$1.6 million for the three months ended March 31, 2024, compared to \$2.4 million for the three months ended March 31, 2023, a decrease of \$0.8 million. The decrease is primarily related to the timing of payments made to vendors.

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. We expect to fund these commitments from our cash balances and working capital.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, which require our management to make estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on our own historical experience and other assumptions that we believe are reasonable after taking account of our circumstances and expectations for the future based on available information. We evaluate these estimates on an ongoing basis.

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Fair Value Measurements

GAAP emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Our fair value measurements are generally related to a warrant liability and amendments to preferred stock. The models used for these fair value calculations use inputs such as the underlying price of the shares issued at the measurement date, expected volatility, risk free interest rate and expected life of the instrument. Since our common stock is so thinly traded there is insufficient volatility data available. Accordingly, we have used an expected volatility based on historical common stock volatility of our peers.

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

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2024, because of the material weaknesses in internal control over financial reporting described below.

Material Weakness in Internal Control Over Financial Reporting

In connection with the preparation of the financial statements for the first quarter of 2024 a material weakness in the Company's internal control over financial reporting was identified relating to the complex financial reporting and accounting associated with the Consent, Conversion and Amendment Agreement the Company entered into on January 26, 2024, a non-cash item. None of the Company's filed financial statements are impacted. The March 31, 2024 financial statements contained in this Form 10-Q reflect the appropriate accounting for this transaction and no prior financial statements were impacted.

Changes in Internal Controls over Financial Reporting

Aside from the steps taken to address the material weakness discussed above, there were no other changes 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.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the 10-K, which could materially affect our business, financial condition or future results. The risks described in the 10-K may not be the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Except as set forth below there have been no material changes to the risk factors previously disclosed in the 10-K.

Certain of our partners are and many of our potential customers will be located in Taiwan, which increases the risk that a natural disaster, epidemic, labor strike, war or political unrest could have a material adverse effect on our business, financial condition and results of operations.

Certain of our partners, including The Industrial Technology Research Institute of Taiwan (“ITRI”), are located in Taiwan. In addition, we expect that many of our potential customers will be located in Taiwan, where the bulk of display manufacturing occurs. From time to time, Taiwan has been impacted by significant seismic activity in the area, including earthquakes and related aftershocks, and it is expected that similar events will happen in the future. Because of the relatively small size of Taiwan and the proximity of our partners and future customers to each other, earthquakes, tsunamis, fires, floods, other natural disasters, epidemics such as the COVID-19 outbreak, political unrest, war, labor strikes or work stoppages could simultaneously affect our partners’ production capability, our ability to supply our customers, and our customers’ ability to produce products incorporating our technology. As a result, we may be subject to unanticipated costs and delays that could have a material adverse effect on our business, financial condition and results of operations.

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 connection with the preparation of the financial statements for the first quarter of 2024 a material weakness in our internal control over financial reporting was identified relating to the complex financial reporting and accounting associated with the Consent, Conversion and Amendment Agreement we entered into on January 26, 2024, a non-cash item. None of the Company’s filed financial statements are impacted.

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 March 7, 2024, we issued 50,000 shares of common stock to a consultant with a value of \$53 thousand. Such issuances were exempt from registration under 4(a)(2) of the Securities Act and Regulation D promulgated thereunder.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None of the Company's directors and officers adopted, modified, or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's fiscal quarter ended March 31, 2024 (each as defined in Item 408 of Regulation S-K under the Securities Exchange Act of 1934, as amended).

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, as amended to date (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 27, 2024)
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)
3.3	Form of Class C Warrant (incorporated by reference to Exhibit 4.1 to the Company Current Report on Form 8-K filed on January 29, 2024)
10.1	Framework Supply Agreement, dated March 22, 2024, by and between SmartKem Limited and CPI Innovation Services Limited (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed on March 27, 2024)
10.2	Form of Consent Agreement (incorporated by reference to Exhibit 10.1 to the Company Current Report on Form 8-K filed on January 29, 2024)
10.3	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Company Current Report on Form 8-K filed on January 29, 2024)
31.1†	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1††	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2††	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.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: May 20, 2024

SMARTKEM, INC.

By: /s/ Ian Jenks
Name: Ian Jenks
Title: Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

By: /s/ Barbra C. Keck
Name: Barbra C. Keck
Title: Chief Financial Officer
(Principal Financial Officer)

**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 control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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: May 20, 2024

By: /s/ Ian Jenks

Name: Ian Jenks

Title: Chief Executive Officer

**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, Barbra C. Keck, 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 control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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: May 20, 2024

By: /s/ Barbra C. Keck

Name: Barbra C. Keck

Title: Chief Financial Officer

**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 months ended March 31, 2024 (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: May 20, 2024

By: /s/ Ian Jenks

Name: Ian Jenks

Title: Chief Executive Officer

**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 months ended March 31, 2024 (the “Report”) as filed with the Securities and Exchange Commission on the date hereof, the undersigned, Barbra C. Keck, 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: May 20, 2024

By: /s/ Barbra C. Keck

Name: Barbra C. Keck

Title: Chief Financial Officer
