
**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 September 30, 2024

or

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

For the transition period from _____ to _____
Commission File Number: 001-42115

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:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, par value \$0.0001 per share	SMTK	The Nasdaq Stock Market LLC

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 November 8, 2024, there were 1,780,472 of the registrant's shares of common stock outstanding.

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Item 1. Financial Statements

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

	September 30, 2024 (Unaudited)	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 1,783	\$ 8,836
Accounts receivable	—	268
Research and development tax credit receivable	1,163	610
Prepaid expenses and other current assets	804	811
Total current assets	3,750	10,525
Property, plant and equipment, net	353	455
Right-of-use assets, net	197	285
Other assets, non-current	6	7
Total assets	\$ 4,306	\$ 11,272
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,463	\$ 1,178
Lease liabilities, current	165	230
Other current liabilities	367	360
Total current liabilities	1,995	1,768
Lease liabilities, non-current	31	19
Warrant liability	—	1,372
Total liabilities	2,026	3,159
Commitments and contingencies (Note 7)	—	—
Stockholders' equity:		
Preferred stock, par value \$0.0001 per share, 10,000,000 shares authorized, 856 and 13,765 shares issued and outstanding, at September 30, 2024 and December 31, 2023, respectively	—	—
Common stock, par value \$0.0001 per share, 300,000,000 shares authorized, 1,780,472 and 889,668 shares issued and outstanding, at September 30, 2024 and December 31, 2023, respectively	—	—
Additional paid-in capital	113,374	104,757
Accumulated other comprehensive loss	(1,297)	(1,578)
Accumulated deficit	(109,797)	(95,066)
Total stockholders' equity	2,280	8,113
Total liabilities and stockholders' equity	\$ 4,306	\$ 11,272

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)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Revenue	\$ —	\$ 3	\$ 40	\$ 27
Cost of revenue	—	1	32	23
Gross profit	—	2	8	4
Other operating income	287	257	725	695
Operating expenses				
Research and development	1,504	1,568	3,938	4,104
Selling, general and administrative	1,578	1,268	4,784	4,025
(Gain)/loss on foreign currency transactions	43	118	75	186
Total operating expenses	<u>3,125</u>	<u>2,954</u>	<u>8,797</u>	<u>8,315</u>
Loss from operations	(2,838)	(2,695)	(8,064)	(7,616)
Non-operating income/(expense)				
Gain/(loss) on foreign currency transactions	—	(787)	(249)	248
Transaction costs allocable to warrants	—	—	—	(198)
Change in fair value of the warrant liability	—	458	672	461
Interest income/(expense)	(4)	2	5	8
Total non-operating income/(expense)	<u>(4)</u>	<u>(327)</u>	<u>428</u>	<u>519</u>
Loss before income taxes	(2,842)	(3,022)	(7,636)	(7,097)
Income tax expense	—	—	(1)	—
Net loss	<u>\$ (2,842)</u>	<u>\$ (3,022)</u>	<u>\$ (7,637)</u>	<u>\$ (7,097)</u>
Net loss	\$ (2,842)	\$ (3,022)	\$ (7,637)	\$ (7,097)
Other comprehensive loss:				
Foreign currency translation	125	850	281	(123)
Total comprehensive loss	<u>\$ (2,717)</u>	<u>\$ (2,172)</u>	<u>\$ (7,356)</u>	<u>\$ (7,220)</u>
Common share data:				
Basic net loss per common share*	\$ (0.86)	\$ (1.78)	\$ (2.49)	\$ (5.82)
Diluted net loss per common share*	\$ (0.86)	\$ (1.78)	\$ (4.80)	\$ (5.82)
Dividend per common share	\$ —	\$ —	\$ (2.31)	\$ —
Weighted average number of basic shares outstanding*	3,308,975	1,701,166	3,068,110	1,219,450
Weighted average number of diluted shares outstanding*	3,308,975	1,701,166	3,068,110	1,219,450

* 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	<u>3,592</u>	<u>\$ —</u>	<u>1,379,750</u>	<u>\$ —</u>	<u>\$ 112,007</u>	<u>\$ (1,596)</u>	<u>\$ (103,856)</u>	<u>\$ 6,555</u>
Stock-based compensation expense	—	—	—	—	207	—	—	207
Issuance of common stock to vendor	—	—	50,000	—	48	—	—	48
Conversion of Preferred stock into common stock	(2,486)	—	284,150	—	—	—	—	—
Exercise of warrants into common stock	—	—	8,000	—	3	—	—	3
Fair value of warrants reclassified from liability to equity	—	—	—	—	700	—	—	700
Foreign currency translation adjustment	—	—	—	—	—	174	—	174
Net loss	—	—	—	—	—	—	(3,099)	(3,099)
Balance at June 30, 2024	<u>1,106</u>	<u>\$ —</u>	<u>1,721,900</u>	<u>\$ —</u>	<u>\$ 112,965</u>	<u>\$ (1,422)</u>	<u>\$ (106,955)</u>	<u>\$ 4,588</u>
Stock-based compensation expense	—	—	—	—	257	—	—	257
Issuance of common stock to vendor	—	—	30,000	—	152	—	—	152
Conversion of Preferred stock into common stock	(250)	—	28,572	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	125	—	125
Net loss	—	—	—	—	—	—	(2,842)	(2,842)
Balance at September 30, 2024	<u>856</u>	<u>\$ —</u>	<u>1,780,472</u>	<u>\$ —</u>	<u>\$ 113,374</u>	<u>\$ (1,297)</u>	<u>\$ (109,797)</u>	<u>\$ 2,280</u>

SMARTKEM, INC.
Condensed Consolidated Statements of Stockholders' Equity (continued)
(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, 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
Stock-based compensation expense	—	—	—	—	119	—	—	119
Issuance of preferred stock, net of issuance costs	14,149	—	—	—	11,027	—	—	11,027
Foreign currency translation adjustment	—	—	—	—	—	(517)	—	(517)
Net loss	—	—	—	—	—	—	(2,027)	(2,027)
Balance at June 30, 2023	14,149	\$ —	773,991	\$ —	\$ 104,427	\$ (1,456)	\$ (90,642)	\$ 12,329
Stock-based compensation expense	—	—	—	—	119	—	—	119
Conversion of Preferred stock into common stock	(270)	—	30,859	—	—	—	—	—
Exercise of warrants into common stock	—	—	71,428	—	25	—	—	25
Foreign currency translation adjustment	—	—	—	—	—	850	—	850
Net loss	—	—	—	—	—	—	(3,022)	(3,022)
Balance at September 30, 2023	13,879	\$ —	876,278	\$ —	\$ 104,571	\$ (606)	\$ (93,664)	\$ 10,301

* 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)

	Nine Months Ended September 30,	
	2024	2023
Cash flow from operating activities:		
Net loss	\$ (7,637)	\$ (7,097)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	194	122
Stock-based compensation expense	592	531
Issuance of common stock to vendor	253	55
Right-of-use asset amortization	201	197
Loss on foreign currency transactions	283	(66)
Transaction costs allocable to warrants	—	198
Change in fair value of the warrant liability	(672)	(461)
Change in operating assets and liabilities:		
Accounts receivable	269	(24)
Research and development tax credit receivable	(499)	697
Prepaid expenses and other current assets	43	(159)
Other non-current assets	1	—
Accounts payable and accrued expenses	149	713
Lease liabilities	(166)	(201)
Income tax payable	—	(23)
Other current liabilities	(20)	(102)
Net cash used in operating activities	(7,009)	(5,620)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(75)	(12)
Net cash used by investing activities	(75)	(12)
Cash flow from financing activities:		
Proceeds from the issuance of preferred stock in private placement	—	12,386
Proceeds from the issuance of warrants in private placement	—	1,763
Payment of issuance costs	—	(1,483)
Proceeds from the exercise of warrants	3	25
Net cash provided by financing activities	3	12,691
Effect of exchange rate changes on cash	28	(84)
Net change in cash	(7,053)	6,975
Cash, beginning of period	8,836	4,235
Cash, end of period	\$ 1,783	\$ 11,210
Supplemental disclosure of cash and non-cash investing and financing activities		
Issuance of common shares for consulting services	\$ 253	\$ 55
Initial classification of fair value of warrants	\$ —	\$ 1,837
Right-of-use asset and lease liability additions	\$ 82	\$ 50

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, GOING CONCERN 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 revolutionize the display industry. The Company’s patented TRUFLEX® liquid semiconductor polymers are used to make a new type of transistor that can be used in a number of display technologies including next generation microLED displays. 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 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. The Company entered into a technology transfer agreement (TTA) with the Industrial Technology Research Institute (ITRI) in Taiwan for product prototyping on its Gen2.5 fabrication line and it also 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.

Going Concern

The Company has incurred continuing losses including net losses of \$7.6 million for the nine months ended September 30, 2024. The Company’s cash as of September 30, 2024 was \$1.8 million with net cash used in operating activities of \$7.0 million for the nine months ended September 30, 2024. 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.

The Company expects that its cash and cash equivalents of \$1.8 million as of September 30, 2024, will not be sufficient to fund its operating expenses and capital expenditure requirements for the 12 months from the issuance of these financial statements and that the Company will require additional capital funding to continue

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

its operations and research development activity thereafter. 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.

There is substantial doubt that the Company will be able to pay its obligations as they fall due, and this substantial doubt is not alleviated by management plans. The condensed consolidated financial statements as of September 30, 2024 have been prepared assuming that the Company will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

Basis of Presentation

The unaudited interim condensed consolidated financial statements of the Company as of September 30, 2024 and December 31, 2023 and for the three and nine months ended September 30, 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 September 30, 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.

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

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.

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 Financial Accounting Standards Board ("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.

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>	September 30, 2024	December 31, 2023
Prepaid insurance	\$ 292	\$ 274
Research grant receivable	20	160
Prepaid facility costs	230	101
VAT receivable	201	104
Prepaid software licenses	44	24
Prepaid professional service fees	—	68
Other receivable and other prepaid expenses	17	80
Total prepaid expenses and other current assets	<u>\$ 804</u>	<u>\$ 811</u>

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

<i>(in thousands)</i>	September 30, 2024	December 31, 2023
Plant and equipment	\$ 1,662	\$ 1,584
Furniture and fixtures	113	108
Computer hardware and software	104	24
	1,879	1,716
Less: Accumulated depreciation	(1,526)	(1,261)
Property, plant and equipment, net	<u>\$ 353</u>	<u>\$ 455</u>

Depreciation expense was \$194.4 thousand and \$121.7 thousand for the nine months ended September 30, 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>	September 30, 2024	December 31, 2023
Accounts payable - trade	\$ 747	\$ 355
Payroll liabilities	404	375
VAT payable	116	—
Accrued expenses – audit & accounting fees	—	182
Accrued expenses – technical fees	33	91
Accrued expenses – other	163	175
Total accounts payable and accrued expenses	<u>\$ 1,463</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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease cost	\$ 58	\$ 70	\$ 193	\$ 209
Short-term lease cost	5	—	11	7
Variable lease cost	—	53	—	118
Total lease cost	<u>\$ 63</u>	<u>\$ 123</u>	<u>\$ 204</u>	<u>\$ 334</u>

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

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Research and development	\$ 58	\$ 113	\$ 193	\$ 312
Selling, general and administrative	5	10	11	22
Total lease cost	<u>\$ 63</u>	<u>\$ 123</u>	<u>\$ 204</u>	<u>\$ 334</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>	September 30, 2024	December 31, 2023
Assets		
Right of use assets - Operating Leases	\$ 197	\$ 285
Total lease assets	<u>\$ 197</u>	<u>\$ 285</u>
Liabilities		
Current liabilities:		
Lease liability, current - Operating Leases	\$ 165	\$ 230
Noncurrent liabilities:		
Lease liability, non-current - Operating Leases	31	19
Total lease liabilities	<u>\$ 196</u>	<u>\$ 249</u>

The Company had no right of use lease assets and lease liabilities for financing leases as of September 30, 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>	September 30,	
	2024	2023
Operating cash outflows from operating leases	\$ 166	\$ 201
Supplemental non-cash amounts of operating lease liabilities arising from obtaining right of use assets	\$ 82	\$ 50

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:

	September 30, 2024
Weighted average remaining lease term (in years) – operating leases	1.21
Weighted average discount rate – operating leases	9.39%

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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>	September 30,	
	2024	
2024	\$	123
2025		55
2026		23
2027		5
Total undiscounted lease payments		206
Less imputed interest		(10)
Total net lease liabilities	\$	196

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 "2023 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 (the "Amended and Restated Series A-1 Certificate of Designation") with the Secretary of State of Delaware designating 11,100 shares

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Notes to Condensed Consolidated Financial Statements

of Series A-1 Preferred Stock The following is a summary of the 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 (the "DGCL").

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, 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, (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.

Conversion

The Series A-1 Preferred Stock is convertible into common stock at any time at a conversion price of \$7.50, 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.

SMARTKEM, INC.
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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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Notes to Condensed Consolidated Financial Statements

(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 \$.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) 1,870,365 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 issued related to a placement agent fee. The fair value of this fee is \$1 thousand.

The Company had 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 could 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. Upon the Company's May 31, 2024 uplisting to the Nasdaq Capital Market the provisions relating to the adjustment in the number of shares were no longer in effect. Additionally, the Company re-evaluated the pre-specified volatility input and determined that this did not preclude the Warrants from being considered indexed to the Company's stock. As a result, the Warrants are accounted for as an equity instrument beginning on May 31, 2024.

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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 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 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.

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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 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 September 30, 2024, there were an aggregate of 856 shares of Series A-1 Preferred Stock outstanding. Pursuant to the terms of the Series A-2 Certificate of Designation, on May 30, 2024, the trading day immediately prior to the listing of the common stock on the Nasdaq Capital Market, the 2,411 then outstanding shares of Series A-2 Preferred Stock automatically converted into an aggregate of 275,576 shares of common stock. The Company filed a Certificate of Elimination with respect to the Series A-2 Certificate of Designation, pursuant to which, effective June 18, 2024, all matters set forth in the Series A-2 Certificate of Designation were eliminated from the Company's Amended and Restated Certificate of Incorporation.

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

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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 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 September 10, 2024, the Company issued 30,000 shares of common stock, as payment for 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	(8,400)		0.35	
Expired	—		—	
Warrants outstanding at September 30, 2024	<u>2,534,255</u>	\$0.35 - \$70.00	\$ 6.91	3.67

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 September 30, 2024	<u>787,931</u>	\$ 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 reserved for

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issuance under the 2021 Plan from 125,045 shares to 743,106 shares. The Company's Board of Directors 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 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.

The Company did not issue any options during the three months ended September 30, 2024. During the nine months ended September 30, 2024, the Company issued options for 568,000 shares of common stock to employees, directors and consultants. The option vesting periods range from immediate to three years, have an exercise price of \$6.50 and expire on the ten-year anniversary of the grant date.

The following table reflects share activity under the share option plans for the nine months ended September 30, 2024:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Weighted- Average Fair Value at Grant Date	Aggregate Intrinsic Value <i>(in thousands)</i>
Options outstanding at January 1, 2024	70,411	\$ 63.07	7.28	\$ 33.98	
Exercised	—	—			
Cancelled/Forfeited	(5,865)	70.00			
Expired	—	—			
Granted	568,000	6.50			
Options outstanding at September 30, 2024	<u>632,546</u>	\$ 12.21	9.44	\$ 3.48	
Options exercisable at September 30, 2024	<u>241,831</u>	\$ 18.49	8.92		\$ 29.47

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

<i>(in thousands)</i>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2024	2023	2024	2023
Research and development	\$ 79	\$ 49	\$ 175	\$ 168
Selling, general and administration	178	70	396	363
Total	<u>\$ 257</u>	<u>\$ 119</u>	<u>\$ 571</u>	<u>\$ 531</u>

Total compensation cost related to non-vested stock option awards not yet recognized as of September 30, 2024 was \$0.0 million and will be recognized on a straight-line basis through the end of the vesting periods in June 2027. 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.

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

<i>(in thousands, except share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss - basic	\$ (2,842)	\$ (3,022)	\$ (7,637)	\$ (7,097)
Preferred stock dividends	—	—	(7,094)	—
Net loss - diluted	<u>\$ (2,842)</u>	<u>\$ (3,022)</u>	<u>\$ (14,731)</u>	<u>\$ (7,097)</u>
Weighted average shares outstanding - basic*	<u>3,308,975</u>	<u>1,701,166</u>	<u>3,068,110</u>	<u>1,219,450</u>
Weighted average shares outstanding - diluted*	<u>3,308,975</u>	<u>1,701,166</u>	<u>3,068,110</u>	<u>1,219,450</u>
Net loss per common share - basic*	\$ (0.86)	\$ (1.78)	\$ (2.49)	\$ (5.82)
Net loss per common share - diluted*	\$ (0.86)	\$ (1.78)	\$ (4.80)	\$ (5.82)
Dividend per common share	\$ -	\$ -	(2.31)	-

* 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 September 30, 2024 and 2023 because their effects would be anti-dilutive:

	September 30,	
	2024	2023
Common stock warrants	1,772,829	1,772,829
Assumed conversion of preferred stock	97,866	1,586,258
Stock options	632,546	70,657
Total	<u>2,503,241</u>	<u>3,429,744</u>

At September 30, 2024, the Company had 61,587 pre-funded warrants, 761,426 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 and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Weighted average shares issued	1,759,618	868,619	1,527,473	805,808
Weighted average pre-funded and penny warrants	1,549,357	832,547	1,540,637	413,641
Weighted average shares outstanding	<u>3,308,975</u>	<u>1,701,166</u>	<u>3,068,110</u>	<u>1,219,450</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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Research and development	\$ 23	\$ 23	\$ 64	\$ 67
Selling, general and administration	19	18	55	50
Total	<u>\$ 42</u>	<u>\$ 41</u>	<u>\$ 119</u>	<u>\$ 117</u>

SMARTKEM, INC.
Notes to Condensed Consolidated Financial Statements

12. FAIR VALUE MEASUREMENTS

The table below presents activity within Level 3 of the fair value hierarchy, our liabilities carried at fair value during the nine months ended September 30, 2024:

<i>(in thousands)</i>	Warrant Liability
Balance at January 1, 2024	\$ 1,372
Total change in the liability included in earnings	(672)
Reclass from liability to equity	(700)
Balance at September 30, 2024	<u>\$ —</u>

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 initially accounted for the warrants as derivative instruments in accordance with ASC 815, adjusting the fair value at the end of each reporting period. Upon the Company's uplisting to the Nasdaq Capital Market on May 31, 2024 certain provisions within the warrant agreements were no longer in effect. As a result, the warrants are accounted for as an equity instrument with the balance of the derivative liability on May 31, 2024 being transferred to Additional Paid-In Capital.

The fair value of the common warrants was determined by using an option pricing model assuming the following:

	May-24	December 31
	2024	2023
Expected term (years)	4.05	4.46
Risk-free interest rate	4.55%	3.81%
Expected volatility	50.0%	50.0%
Expected dividend yield	0.0%	0.0%

Additionally, the Company had determined that the warrant liability was most appropriately 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 was most appropriately classified within Level 3 of the fair value hierarchy.

The following tables present information about the Company's financial assets and liabilities that have been measured at fair value as of December 31, 2023 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)	December 31, 2023
Liabilities:				
Warrant liability	\$ —	\$ —	\$ 1,372	\$ 1,372
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,372</u>	<u>\$ 1,372</u>

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 ability to comply with the continued listing requirements of Nasdaq;
- 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 revolutionize the display industry. Our patented TRUFLEX® liquid semiconductor polymers are used to make a new type of transistor that can be used in a number of display technologies, including next generation microLED displays. Our inks enable low temperature printing processes that are compatible with existing manufacturing infrastructure to deliver low-cost displays that outperform existing technology.

We develop our materials at our research and development facility in Manchester, UK, and provide prototyping services at the Centre for Process Innovation (“CPI”) at Sedgefield, UK. We have entered into a technology transfer agreement (TTA) with the Industrial Technology Research Institute (“ITRI”) in Taiwan for product prototyping on its Gen2.5 fabrication line. We also 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 \$7.6 million and \$7.1 million for the nine months ended September 30, 2024 and 2023. As of September 30, 2024, our accumulated deficit was \$109.8 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 and nine months ended September 30, 2024

Three months ended September 30, 2024 compared with three months ended September 30, 2023

Revenue and Cost of revenue

We had no revenue or cost of revenue in the three months ended September 30, 2024. We had revenue of \$3.0 thousand and cost of revenue of \$1.0 thousand in the same period of 2023. Both revenues and related cost of

revenue are a result of sales of OTFT backplanes and TRUFLEX® materials for customer assessment and development purposes.

Other operating income

Other operating income was \$0.3 million in the three months ended September 30, 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.

Operating expenses

Operating expenses were \$3.1 million for each of the three months ended September 30, 2024 and 2023.

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 53.1% of the total operating expenses for the three months ended September 30, 2024 and 2023, respectively. Research and development expenses decreased \$64 thousand for the three months ended September 30, 2024 compared to the same period for the prior year. This decrease is primarily related to lower personnel expenses, 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 50.5% and 42.9% of our total operating expenses for the three months ended September 30, 2024 and 2023, respectively. Selling, general and administrative expenses increased by \$0.3 million for the three months ended September 30, 2024 compared to the same period for the prior year. This increase was primarily a result of an increase in personnel expenses as well as professional service fees primarily related to business development initiatives.

Non-Operating income/(expense)

We had a gain of \$0.5 million for the three months ended September 30, 2023 related to the valuation of the warrant liability, with no similar gain in the same period of 2024. We recorded a loss on foreign currency of \$0.8 million for the three months ended September 30, 2023, with no similar loss in the same period of 2024.

Nine months ended September 30, 2024 compared with nine months ended September 30, 2023

Revenue and Cost of revenue

We had revenue of \$40.0 thousand and cost of revenue of \$32.0 thousand in the nine months ended September 30, 2024. We had revenue of \$27.0 thousand and cost of revenue of \$23.0 thousand in the same period of 2023. Both revenues and related cost of revenue for the nine months ended September 30, 2024 and 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 \$0.7 million in the nine months ended September 30, 2024, compared to \$0.7 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.

Operating expenses

Operating expenses were \$8.8 million for the nine months ended September 30, 2024, compared to \$8.3 million in the same period of 2023, an increase of \$0.5 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 44.8% and 49.4% of the total operating expenses for the nine months ended September 30, 2024 and 2023, respectively. Research and development expenses decreased \$0.1 million for the

nine months ended September 30, 2024 compared to the same period for the prior year. This decrease is primarily related to lower personnel expenses, 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 54.4% and 48.4% of our total operating expenses for the nine months ended September 30, 2024 and 2023, respectively. Selling, general and administrative expenses increased by \$0.8 million for the nine months ended September 30, 2024 compared to the same period for the prior year. This increase was primarily a result of an increase in personnel expenses as well as professional service fees primarily related to the NASDAQ uplisting and business development initiatives.

Non-Operating income/(expense)

We recorded a gain of \$0.7 million related to the valuation of the warrant liability for the nine months ended September 30, 2024 compared to a gain of \$0.5 million for the same period in 2023. We had transaction costs of \$0.2 million related to a private placement financing for the nine months ended September 30, 2023 with no similar costs in the same period of 2024. We recorded a loss on foreign currency transactions of \$0.2 million for the nine months ended September 30, 2024 compared to gain of \$0.2 million in the same period in 2023.

Liquidity and Capital Resources

As of September 30, 2024, our cash and cash equivalents were \$1.8 million compared with \$8.8 million as of December 31, 2023. We believe this will not be sufficient to fund our operating expenses and capital expenditure requirements for the 12 months from the issuance of these financial statements and that we will require additional capital funding to continue our operations and research development activity. 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 expected cash payments over the next twelve months include (a) \$1.6 million to satisfy accounts payable and accrued expenses and (b) \$0.2 million to satisfy the lease liabilities. Additional expected cash payments beyond the next twelve months include \$31 thousand of lease liabilities.

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 our 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 \$7.0 million for the nine months ended September 30, 2024, compared to \$5.6 million for the nine months ended September 30, 2023, an increase of \$1.4 million. The increase is related to the payout of bonuses and payments made related to the NASDAQ uplisting and business development initiatives.

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 and 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 (“GAAP”), 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 September 30, 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 September 30, 2024 financial statements contained in this Form 10-Q reflect the appropriate accounting for this transaction and no prior financial statements were impacted.

Remediation

In connection with the preparation of its quarterly report for the three and nine months ended September 30, 2024 management continues to implement measures designed to ensure that the control deficiency contributing to the material weakness is remediated, such that the controls are designed, implemented, and operating effectively.

While we believe that these actions will be sufficient to remediate the material weakness, it will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed prior to the end of fiscal 2024.

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.

If we fail to meet all applicable Nasdaq Capital Market requirements and Nasdaq determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock and the market price of our common stock could decrease and our ability to access the capital markets could be negatively impacted.

Our common stock is listed on The Nasdaq Capital Market. There can be no assurance that we will be able to continue to maintain compliance with the Nasdaq continued listing requirements, and if we are unable to maintain compliance with the continued listing requirements, including the \$1.00 minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2) and the minimum stockholders' equity requirement of \$2.5 million set forth in Nasdaq Listing Rule 5550(b)(1), our shares may be delisted from Nasdaq, which could reduce the liquidity of our common stock materially and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, employees, suppliers, customers and business development opportunities. Such a delisting likely would impair your ability to sell or purchase our common stock when you wish to do so. Further, if we were to be delisted from Nasdaq, our common stock may no longer be recognized as a "covered security," and we would be subject to regulation in each state in which we offer our securities. Thus, delisting from Nasdaq could adversely affect our ability to raise additional financing through the public or private sale of equity securities, would significantly impact the ability of investors to trade our securities and would negatively impact the value and liquidity of our common shares.

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

We have recognized recurring losses, and as of September 30, 2024, had an accumulated deficit of \$109.8 million. We anticipate operating losses to continue for the foreseeable future due to, among other things, costs related to research funding, further development of our technology and products and expenses related to the commercialization of our products. These efforts may be more costly than we expect, and we may not be able to generate revenue to offset our increased operating expenses. We expect our cash and cash equivalents of \$1.8 million as of September 30, 2024 to be insufficient to meet our operating expenses and capital expenditure requirements for at least 12 months from the filing of this 10-Q. Our forecast of the period of time through which our current financial resources will be adequate to support our operations and the costs to support our general and administrative and research and development activities are forward-looking statements and involve risks and uncertainties. Our consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

Our ability to continue as a going concern is dependent on our ability to raise additional working capital through public or private equity or debt financings or other sources, which may include collaborations with third parties. There can be no assurance, however, that such financing will be available, on acceptable terms and conditions, 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 our ability to generate significant revenue, the market demand for our products, the quality of product development efforts including potential joint collaborations, management of working capital, and the continuation of normal payment terms and conditions for purchase of services.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our working capital requirements through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making

acquisitions or capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or products, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or other arrangements when needed, we may be required to delay, limit, reduce or terminate commercialization, our research and product development, or grant rights to develop and market our products that we would otherwise prefer to develop and market ourselves, it may also impact our ability to continue as a going concern. The perception that we may not be able to continue as a going concern may cause others to choose not to deal with us due to concerns about our ability to meet our contractual obligations.

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

On September 10, 2024, we issued 30,000 shares of common stock to a consultant with a value of \$152.4 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 September 30, 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 of the Company's Quarterly Report on Form 10-Q filed on August 12, 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)
10.1*†	Joint Development Agreement, dated July 26, 2024, by and between SmartKem Limited and Shanghai Chip Foundation Semiconductor Technology Co., Ltd.
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: November 8, 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)

Joint Development Agreement

- (1) SmartKem Limited; and
- (2) Shanghai Chip Foundation Semiconductor Technology Co., Ltd.

Dated 26-July 2024

This Agreement is made on 26 July 2024

Between

- (1) **SmartKem Limited** (company number: 06652152) whose registered office is at Manchester Technology Center Hexagon Tower, Delaunays Road, Blackley, Manchester, England, M9 8GQ ("**SmartKem**"); and
- (2) **Shanghai Chip Foundation Semiconductor Technology Co., Ltd.** incorporated and registered in Shanghai with company number 91310115320754901T whose registered office is Room 507-2, Building 3, No. 111 Xiangke Road, China (Shanghai) Pilot Free Trade Zone ("**Chip Foundation**").

each a "**party**" and together referred to as "**parties**".

Background:

- (A) SmartKem designs and supplies high-performance organic semiconductor formulations and OTFT (as defined below) interlayer materials, enabling low-power, robust, flexible, and lightweight electronics. The technology platform includes high-mobility organic semiconductor molecules and inks capable of driving OTFT backplanes used in electronic displays and other applications. SmartKem also has access to processing services for manufacturing OTFT backplanes using its materials.
- (B) Chipfoundation have three core technologies with independent intellectual property rights. Namely: Dielectric Patterned Sapphire Substrate (DPSS) technology, lateral epitaxial overgrowth of GaN on DPSS technology, chemical lift off GaN from DPSS technology. DPSS technology and lateral epitaxial overgrowth technology can realize high crystal quality of GaN. Chemical lift off GaN from DPSS technology can realize lift off of GaN epilayer from Sapphire Substrates without any damage and facilitate high yield massive transfer of Micro LEDs from sapphire substrates. It provides total solutions for the numerous engineering problems faced in the current miniaturization development process of Micro LED chips.
- (C) Conventional MicroLED displays require Laser-Assisted Bonding (LAB) or eutectic bonding to form ohmic contacts between LED chips and driving backplanes, which leads to significant yield loss. OTFT has an intrinsic low-temperature processing feature, providing a different method to join the LED and TFT backplane, known as Chip-First Redistribution Layer (RDL) Technology. By using Chip-First RDL, metal interconnections can be formed on top of the LED using organic dielectric as sidewall encapsulation. This allows the P-N pad from the LED to be significantly enlarged, reducing the difficulties of photolithography alignment. Low-temperature OTFTs, formed on top, serve as the active-matrix driving circuitry.
- (D) It is the intention of the parties that Chipfoundation will provide a custom MicroLED solution to Smartkem to realize the proposed new structure of the MicroLED display. Smartkem will develop a proprietary organic dielectric formulation to help Chipfoundation establish its MIP (MicroLED in Package) product portfolio.

It is agreed as follows:

1. **Definitions and interpretation**

1.1 In this Agreement, unless the context otherwise requires, the following definitions shall apply:

"Affiliate" in relation to a party, any entity that directly or indirectly controls, is controlled by, or is under common control with that party from time to time.

"Agreement" means this agreement (including any schedule or annexure to it and any document in agreed form).

"Background Intellectual Property" any Intellectual Property, other than Foreground Intellectual Property, that is used in connection with the Project. The parties acknowledge and agree that the Smartkem Technology shall be deemed to be the Background Intellectual Property of Smartkem, and Chip foundation Technology shall be deemed to be the Background Intellectual Property of Chip foundation.

"Business Day" means a day other than a Saturday, a Sunday, a public or bank holiday in England.

"Commencement Date" means the date of this Agreement.

"Confidential Information" means all confidential information which is disclosed, or made available, directly or indirectly by one party to the other whether before, on or after the date of this Agreement, and whether orally, in writing, in electronic form or other media, which relates to a party's business including without limitation its products, operations, processes, plans or intentions, developments, trade secrets, know-how, market opportunities, personnel, suppliers and customers of the party disclosing it, any other information which is identified as being of a confidential nature or would appear to a reasonable person to be confidential and all information derived from any of the above together with the existence or provisions of the Agreement and any negotiations relating to it.

"Extended Term" has the meaning set out in clause [8](#).

"Final Report" means the written report prepared and agreed the parties at the completion of each Project, as more fully described in clause [2.6](#).

"Foreground Intellectual Property" any Intellectual Property that arises in connection with the performance of the Project, or is obtained or developed by, either party, or a contractor acting on either party's behalf, in the performance of the Project.

"Improvement" means any improvement, enhancement or modification.

"Initial Term" has the meaning set out in clause [8](#).

"Intellectual Property" means patents, utility models, rights to inventions, copyright and related rights, moral rights, trade marks and service marks, business names and domain names, rights in get-up, goodwill and the right to sue for passing off or unfair competition, rights in designs, database rights, rights to use, and protect the confidentiality of, confidential information (including know-how and trade secrets), semiconductor topography rights, image rights, rights in personality and similar rights, plant variety rights, and all other intellectual property rights, in each case whether registered or unregistered and including all applications and rights to apply for and be granted, renewals or extensions of, and rights to claim priority from, such rights and all similar or equivalent rights or forms of protection which subsist or will subsist now or in the future in any part of the world.

"Losses" means all losses, costs, claims, demands, actions, proceedings, fines, penalties, awards, liabilities, damages, compensation, settlements, expenses and/or professional costs and/or charges."

"Materials" means the

1) OTFT backplanes provided by SmartKem, organic semiconductors, organic dielectrics, surface treatment materials, passivation materials and adhesion promoters, but excluding Processes.

2) MicroLEDs provided by Chip foundation, MicroLED chips, COC1, COC2, LED chips on different substrates and its sequence

"Owning Party" has the meaning set out in clause [7.7\(i\)](#).

"OTFT" means organic TFTs.

"Process(es)" means methods of deposition and/or treatment of materials, devices or functional layers, including material deposition, thermal and/or chemical treatment, lateral patterning, (de-)doping, etching, surface treatment, curing, or any combinations of them.

"Project" means the project between SmartKem and Chip foundation to develop Chip-first MicroLED prototype. Which including Active-matrix OTFTs and MIP module (MicroLED in Package), details of which are set out in Schedule 2, which shall be deemed completed as set out in clause [2.6](#).

"Project Costs" has the meaning set out in clause [3](#).

"Representatives" means as defined in clause [6.2\(a\)](#).

"SmartKem Technology" means any Technology belonging to or used by SmartKem in relation to high performance organic semiconductor formulations and TFT interlayer materials which enable low power, robust, flexible, lightweight electronics and that are disclosed to Chip

foundation in connection with the Project, including any Technology belonging to or used by Smartkem which is embodied in or otherwise forms part of the Materials.

" **Chipfoundation Technology**" means any Technology belonging to or used by Chip foundation in relation to MicroLED chips and mass transfer which enable high performance MicroLED display and that are disclosed to SmartKem in connection with the Project, including any Technology belonging to or used by Chip foundation which is embodied in or otherwise forms part of the Materials.

"**Technology**" means all inventions, designs, information, know-how, specifications, formulae, data, processes, methods, techniques and other technology.

"**Term**" means the Initial Term, and any Extended Term.

"**TFT**" means thin-film transistor.

"**MicroLED**" means Micro Light Emitting Diode.

"**COC1 , COC2**" means Chip on Carrier 1 or Chip on Carrier 2 , alias by Chip foundation

1.2 In this Agreement, unless the context otherwise requires:

- (a) words in the singular include the plural and vice versa;
- (b) a reference to a statute or statutory provision includes:
 - (i) any subordinate legislation (as defined in section 21(1), Interpretation Act 1978) made under it; and
 - (ii) any statute or statutory provision which modifies, consolidates, re-enacts or supersedes it whether such statute or statutory provision comes into force before or after the date of this Agreement;
- (c) a reference to:
 - (i) any party includes its successors in title and permitted assigns; and
 - (ii) a party, clause and schedule is to a party to, a clause of and a schedule to this Agreement;
 - (iii) a person includes any individual, firm, body corporate, association or partnership, government or state (whether or not having a separate legal personality);
- (d) the words "includes" or "including" shall be construed as illustrative only and shall not limit the generality of the preceding words; and
- (e) if there is any conflict or inconsistency between any clause of this Agreement and any schedule to this Agreement, the clause shall prevail.

2. **The Project**

2.1 Schedule 2 sets out details of the Project. The parties agree that Schedule 1 may be amended by mutual written agreement at any time.

2.2 Each party shall:

- (a) use its commercially reasonable endeavours to complete its part of the Project and the work allocated to it by such date set out in Schedule 2, or otherwise agreed in writing; and
- (b) promptly provide the other party with such information reasonably required to enable the requesting party to conduct the work allocated to it in Schedule 2.

2.3 The parties shall each appoint a project manager to assume overall responsibility for their respective roles and obligations under this Agreement. The parties' respective project managers shall meet as often as is required at intervals and locations as agreed between the parties from time to time:

- (a) discuss and co-ordinate all development work in respect of the Project with a view to ensuring the due and proper completion of the Project in accordance with such dates set out in Schedule 2, and quality standards as may be agreed between the parties;
 - (b) agree any changes to the Project including any updates to Schedule 2, the work allocation and any deadlines. No such changes shall become binding on either party until agreed by the parties in accordance with clause [17](#);
 - (c) review the capability of each party;
 - (d) seek to resolve any issues arising. The parties' respective project managers shall use all reasonable endeavours to resolve issues arising under this Agreement, but shall refer all problems which are outside their ordinary authority to resolve to appropriate members of the parties' senior management;
 - (e) identify in writing on behalf of the parties any Background Intellectual Property used, or to be used, in performing the Project, prior to or as soon as reasonably practicable following its disclosure in the course of the Project;
 - (f) discuss such other matters as may be agreed between the parties from time to time; and
 - (g) prepare and agree the Final Report.
- 2.4 Either party may replace its appointed project manager at any time on prior written notice to the other party.
- 2.5 Without prior written consent from the other party, each party shall not provide/display the Project to third party. If there is any need to display the Project, the parties agree to reach a prior mutual consent.
- 2.6 The Project shall be considered to have been completed upon 31st December 2025. On completion of the Project (Phase 1 SOW), the parties shall jointly inspect and evaluate the work performed and shall jointly produce and sign a Final Report in respect of the Project, incorporating such details as may be agreed between the parties from time to time.
- 2.7 After the completion of the Project, each party shall preserve one (1) set of the Demo, If one party's demo being damaged, such party can borrow the other party's demo through prior consent.
3. **Project Costs**
- 3.1 Project Cost set in Schedule 3 . Beyond of Schedule 3 , Each party shall be responsible for its own costs in the preparation, execution and implementation of this Agreement including those incurred in connection with the Project, including all shipping costs, labour costs and travel expenses ("**Project Costs**").
4. **Ownership of Intellectual Property**
- 4.1 *Background Intellectual Property*
- 4.2 The parties agree that:
- (a) all Background Intellectual Property is and shall remain the exclusive property of the party owning it (or, where applicable, the third party from whom its right to use the Background Intellectual Property has derived); and
 - (b) participation in the Project shall not affect any rights of ownership of any Background Intellectual Property which shall at all times remain with the party which is contributing such Background Intellectual Property to the Project (or its licensors) and nothing in this Agreement shall grant or shall be deemed to grant impliedly or otherwise, ownership of or (save as specifically provided for herein) rights of use of such Background Intellectual Property to either party.
- 4.3 *Foreground Intellectual Property*
- 4.4 Subject to clauses [4.5](#) and [5](#), each party shall be the owner of the Foreground Intellectual Property it develops in connection with the Project
- 4.5 The Parties agree each Party shall be the sole owner of:

- (a) all Foreground Intellectual Property which constitutes an improvement in relation to the Smartkem Technology or other technology that is the subject of Smartkem's Background Intellectual Property. Chip foundation hereby assigns to Smartkem all present and future right title and interest in any such Intellectual Property; and
 - (b) all Foreground Intellectual Property which constitutes an improvement in relation to the Chip foundation Technology or other technology that is the subject of Chip foundation 's Background Intellectual Property. Smartkem hereby assigns to Chip foundation all present and future right title and interest in any such Intellectual Property; and
 - (c) all Intellectual Property developed by Smartkem independently of this Agreement, or without any involvement of Chip foundation; and
 - (d) all Intellectual Property developed by Chip foundation independently of this Agreement, or without any involvement of Smartkem.
- 4.6 In respect of any Foreground Intellectual Property assigned to SmartKem or Chip foundation under clause [4.5\(a\)](#), [4.5\(a\)](#) the other Party shall (and shall procure that its Permitted Subcontractors shall) obtain from all authors of any copyright work which form part of such Foreground Intellectual Property absolute, irrevocable and unconditional waivers in relation to all moral rights which subsist in such copyright work by virtue of Chapter 4 of the Copyright, Designs and Patents Act 1988 and, so far as is legally possible, any broadly equivalent rights such authors may have in any territory of the world ("**Moral Rights**").
- 4.7 Each party shall promptly give written notice to the other party of any actual, threatened or suspected infringement of any party's Background Intellectual Property or any Foreground Intellectual Property, or any unauthorised use of either party's Background Intellectual Property.
- 4.8 Subject to clause [4.4](#), the parties agree that, to the extent that a party appoints any sub-contractor to perform its obligations (which shall be subject always to clause [13](#)) such party shall ensure that any Foreground Intellectual Property arising from the work of such sub-contractor shall be assigned to it absolutely and that any Foreground Intellectual Property so arising shall be disclosed to it promptly.
5. **Licences of Intellectual Property**
- Each party grants to the other parties the licences set out in Schedule 1 of this Agreement. To the extent a party is permitted to grant sub-licenses under Schedule 1, such party shall ensure the sub-licensee complies at all times with the terms and conditions of this Agreement.
6. **Confidentiality**
- 6.1 The parties each undertake to keep confidential and not to disclose to any third party, or to use themselves other than for the purpose of the Project or as permitted under or in accordance with this Agreement (including without limitation for the purpose of compliance with its obligations under this Agreement and enjoying the benefit of the rights and licenses granted under Schedule 1), any Confidential Information disclosed to it (whether directly or indirectly by another party, or Affiliates.
- 6.2 Each party may disclose the other party's Confidential Information:
- (a) to its employees, officers, representatives, contractors, subcontractors or advisers ("**Representatives**") who need to know such information for the purposes of carrying out the party's obligations under this Agreement. Each party shall ensure that its Representatives to whom it discloses the other party's Confidential Information comply with this clause 6; and
 - (b) as may be required by law, a court of competent jurisdiction or any governmental or regulatory authority.
- 6.3 The obligations contained in this clause 6 shall survive the expiry or termination of this Agreement for any reason, but shall not apply to any Confidential Information which:
- (a) is publicly known at the time of disclosure to the receiving party; or
 - (b) becomes publicly known otherwise than through a breach of this Agreement by the receiving party, its officers, employees, agents or contractors; or

- (c) can be proved by the receiving party to have reached it otherwise than by being communicated by the other party including:
 - (i) being known to it prior to disclosure;
 - (ii) having been developed by or for it wholly independently of the other party; or
 - (iii) having been obtained from a third party without any restriction on disclosure on such third party of which the recipient is aware, having made due enquiry;
 - (d) is required by law, regulation or order of a competent authority (including any regulatory or governmental body or securities exchange) to be disclosed by the receiving party, provided that, where legally permissible, the disclosing party is given prompt advance written notice of the intended disclosure (together with a copy of any relevant access request, court order, or other evidence giving rise to such belief) to enable the disclosing party to seek appropriate protective relief and/or to take steps to resist or narrow the scope of any required disclosure. The receiving party shall and shall procure that its Representatives shall co-operate with the disclosing party with respect to such matters and shall in any event ensure that it and its Representatives disclose only such Confidential Information as it has ascertained, after taking legal advice, it and its Representatives are legally compelled to disclose, and shall use all reasonable endeavours to ensure that all Confidential Information so disclosed is accorded confidential treatment in terms of this Agreement.
- 6.4 Except as provided for in this Agreement, each party acknowledges and agrees that except for the purpose of the Project, it will not acquire by implication or otherwise any right in or title to or licence in respect of a party's Confidential Information.
- 6.5 The parties agree that damages might not be a sufficient remedy to any breach of the terms of clause 6 and that as a result injunctive or other equitable relief may be claimed in respect of any breach or anticipated breach.
- 6.6 The obligations as to confidentiality in this Agreement shall survive any termination of this Agreement for a period of 5 (five) years.
- 6.7 The Background Intellectual Property of a party shall be deemed to be the Confidential Information of such party. Any Foreground Intellectual Property of a party shall be deemed to be the Confidential Information of such party.
7. **Warranties**
- 7.1 Each of the parties warrants that it has full power and authority to carry out the actions contemplated under this Agreement.
- 7.2 Each party shall:
 - (a) perform its duties and responsibilities in relation to the Project in a professional manner with reasonable skill and care, using suitably qualified personnel, and will use reasonable endeavours to achieve the objectives of the Project; and
 - (b) comply with all applicable laws, statutes, regulations and codes which may be relevant to the performance of the Project.
- 7.3 In relation to its Background Intellectual Property, Foreground Intellectual Property, or Confidential Information, each party gives no warranty as to its sufficiency, validity, accuracy, or fitness for purpose.
- 7.4 Each party warrants that it shall not knowingly supply any Background Intellectual Property, Foreground Intellectual Property, or Confidential Information in the knowledge that the use by the receiving party would infringe the rights of a third party.
- 7.5 Nothing in this Agreement shall constitute any representation or warranty that:
 - (a) any patent is valid or relevant to the Project;
 - (b) the exercise by the other party of rights granted under this Agreement will not infringe the rights of any person; or

- (c) either party shall bring or prosecute actions or suits against third parties for infringement.
- 7.6 Except as expressly provided in this Agreement, there are no conditions, warranties or other terms binding on the parties with respect to the actions contemplated by this Agreement including with respect to the use, sale or other disposition of products incorporating or made by use of any Materials, any Background Intellectual Property or any Foreground Intellectual Property. Any condition, warranty or other term in this regard which might otherwise be implied or incorporated into this Agreement, whether by statute, common law or otherwise, is, insofar as it is lawful to do so, hereby excluded.
- 7.7 Each party shall promptly give written notice to the other of: (a) any challenge to; or (b) any actual, suspected or threatened infringement of the other party's Intellectual Property by a third party; or (c) any other form of attack, charge or claim to which the other party's Intellectual Property may be subject, which in each case comes to its knowledge and in respect of Intellectual Property that is solely owned by one party. In each case:
- (i) the party that owns the Intellectual Property (the "**Owning Party**") shall, in its absolute discretion, decide what action, if any, to take;
 - (ii) the Owning Party shall have exclusive control over, and conduct of, all claims and proceedings;
 - (iii) the other party shall not make any admissions other than to the Owning Party and shall provide the Owning Party with all assistance that it may reasonably require in the conduct of any claims or proceedings; and
 - (iv) the Owning Party shall bear the cost of any proceedings and shall be entitled to retain all sums recovered in any action for its own account.
8. **Termination**
- 8.1 Subject to earlier termination in accordance with this clause 8, this Agreement shall come into force on the Commencement Date and shall continue in full force and effect for a period of [three years] from the Commencement date (the "**Initial Term**"), when it shall terminate automatically without notice, unless, the parties agree in writing prior to such termination that the term of the Agreement shall be extended for such period as may be agreed by the parties in writing ("**Extended Term**"). Unless it is further extended under this clause or terminated earlier in accordance with this clause 8, the Agreement shall terminate automatically without notice at the end of an Extended Term.
- 8.2 Without prejudice to any other rights or remedies, either party may, by written notice to the other, terminate this Agreement with immediate effect at any time after the happening of any of the following events:
- (a) the other party commits a material breach of this Agreement which is incapable of remedy; or
 - (b) the other party commits a material breach of this Agreement which is capable of remedy and fails to remedy such material breach within 30 (thirty) days after receiving written notice requiring it to remedy that material breach; or
 - (c) the other party repeatedly breaches this Agreement in such a manner as to reasonably justify the opinion that its conduct is inconsistent with it having the intention or ability to perform its obligations in accordance with this Agreement; or
 - (d) the other party is unable, deemed or declared to be unable, or admits inability to pay its debts as they fall due, suspends or threatens to suspend making payments on any of its debts by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors or the value of its assets is less than its liabilities (taking into account contingent and prospective liabilities); or
 - (e) any corporate action, legal proceedings or other procedure or step is taken against the other party in relation to: (i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise); or (ii) a composition, compromise, assignment or arrangement with any creditor; or (iii) the appointment of a

liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of the other party or any of its assets; or (iv) the enforcement of any security over any assets of the other party; or any analogous procedure or step is taken in any jurisdiction; or

- (f) the other party challenges or disputes the validity or ownership of any of the terminating party's Background Intellectual Property or Foreground Intellectual Property; or
- (g) the other party is in breach of any of its confidentiality obligations under clause 8; or

8.3 the parties may terminate this Agreement at any time by mutual written Agreement.

8.4 The licences granted to the parties under clause 5 and Schedule 1 of this Agreement (and, for the avoidance of doubt, any sublicences granted to Permitted Subcontractors) shall automatically cease upon termination or expiry of this Agreement, except to the extent that this Agreement expressly provides otherwise.

8.5 Termination in accordance with this clause 8 shall be without prejudice to the rights of the parties accrued at the date of termination.

8.6 On termination of any licences granted under this Agreement in accordance with this clause 8, each party shall immediately destroy all information and materials belonging to the other party (or at the request of such other party, return such information and materials) then in its or its Representatives possession, custody or control, including all Confidential Information of any other party relating to such licences. The party destroying or returning such information and materials, shall confirm in writing that it has done so, if so requested by the party who owns such information and materials.

9. Liability

9.1 Nothing in this Agreement shall exclude or limit or be deemed to exclude or limit a party's liability for: (a) death or personal injury caused by its negligence; or (b) for fraudulent misrepresentation; or (c) for any liability that cannot be excluded or limited by law; or (d) under any indemnity given by such party.

9.2 Subject to clause 9.1, the liability of either party to the other party for any breach, tort (including negligence), breach of statutory duty or otherwise arising out of or in connection with this Agreement, will not extend to any loss of profit, loss of revenue, loss of or corruption to data, loss of contracts, business or opportunity or other indirect, special or consequential loss or damage even if the party bringing an action, claim, dispute or proceedings has advised the other party of the possibility of such loss or damage or if they were within the other party's contemplation.

10. Subject to clause 9.1 and clause 9.2, the maximum total aggregate liability of a party to the other party for loss and damage under or in connection with this Agreement or its subject matter due to that party's breach, tort (including negligence), breach of statutory duty or otherwise howsoever arising shall not exceed five hundred thousand pounds (£500,000). The limitation of liability in this clause 10 shall not apply to: (i) any loss or damage suffered by a party as a result of infringement of such party's Intellectual Property; (ii) breach of the licences set out in Schedule 1; or (iii) breach of such party's confidence (whether or not in breach of clause 6) by another party. Non-solicitation

Each party agrees during the term of this Agreement and for a period of 3 year following its termination, not to solicit or induce any officer, employee, agent or contractor of the other party or any of its Affiliates involved with the Project to terminate their employment or engagement with the other or its Affiliates (as appropriate).

11. Notices

11.1 Any notice to be given to a party under this Agreement shall be in writing in English signed by or on behalf of the party giving it, and shall be delivered personally, or sent by recorded delivery (or international equivalent, where required), to the address of the party set out on page 1 of this Agreement. In addition, notices may be sent by email to the following email addresses:

Notices sent to Smartkem: []

Notices sent to Chip foundation: []

- 11.2 Either party may, by a notice given in accordance with this clause, change its address for the purposes of this clause.
- 11.3 A notice shall be deemed to have been served:
- (a) at the time of delivery if delivered personally (unless received after 5pm in which case it shall be deemed served on the next Business Day);
 - (b) 2 Business Days after posting in the case of an address in the United Kingdom and 5 Business Days after posting for any other address;
 - (c) if sent by email, at the time of transmission.
- 11.4 If deemed receipt under clause 11.3 would occur outside business hours in the place of receipt, it shall be deferred until business hours resume. In this clause, business hours shall be deemed to mean 9.00am to 5.00pm Monday to Friday on a day that is not a public holiday in the place of receipt. This clause 11 does not apply to the service of any proceedings or other documents in any legal action or, where applicable, any arbitration or other method of dispute resolution.
12. **No partnership or agency**
Nothing in this Agreement is intended to or shall operate to create a partnership or joint venture between the parties, or to authorise either party to act as agent for the other and neither party shall have authority to act in the name of or on behalf of the other, or to enter into any commitment or make any representation or warranty or otherwise bind the other in any way.
13. **Assignment and subcontracting**
No party may assign, transfer, charge or otherwise encumber, declare a trust over or deal with in any other manner this Agreement or any right, benefit or interest under it, or subcontract any of its obligations under it, without the prior written consent of the other parties, except to the extent expressly set out in this Agreement.
14. **Cumulative remedies**
Save as expressly provided in this Agreement, the rights and remedies provided under this Agreement are in addition to, and not exclusive of, any rights or remedies provided by law.
15. **Exclusion of third party rights**
Unless expressly provided in this Agreement, no term of this Agreement is enforceable by any person who is not a party to it whether pursuant to the Contracts (Rights of Third Parties) Act 1999 or otherwise.
16. **Severance**
- 16.1 If any court or competent authority finds that any provision of this Agreement (or part of any provision) is invalid, illegal or unenforceable, that provision (or part) shall, to the extent required, be deemed to be deleted, and the validity and enforceability of the other provisions of this Agreement shall not be affected.
- 16.2 If any invalid, unenforceable or illegal provision of this Agreement would be valid, enforceable and legal if some part of it were deleted, the parties shall negotiate in good faith to amend such provision such that, as amended, it is legal, valid and enforceable, and, to the greatest extent possible, achieves the parties' original commercial intention.
17. **Variation**
Except as expressly set out in this Agreement, no purported variation of this Agreement shall be valid unless it is in writing (which excludes email) and signed by or on behalf of each party.
18. **Waiver**
No failure or delay by a party to enforce or exercise any right or remedy under this Agreement or by law shall be deemed to be a waiver of that or any other right or remedy, nor shall it operate so as to bar the enforcement or exercise of that or any other right or remedy at any time subsequently. Any waiver of any breach of this Agreement shall not be deemed to be a waiver of any subsequent breach.

19. **Entire agreement**

19.1 This Agreement constitutes the entire agreement and understanding of the parties with respect to the subject matter of this Agreement and supersedes any prior agreements, representations, understandings or arrangements between the parties (oral or written) in relation to such subject matter. Each party acknowledges that:

- (a) upon entering into this Agreement, it does not rely, and has not relied, upon any representation (whether negligent or innocent), statement or warranty made or agreed to by any person (whether a party to this Agreement or not) except those expressly set out in this Agreement; and
- (b) the only remedy available in respect of any misrepresentation or untrue statement made to it shall be a claim for damages for breach of contract under this Agreement.

19.2 Nothing in this clause 19 shall limit or exclude any liability for fraud.

20. **Counterparts**

This Agreement may be executed in any number of counterparts and by the parties in separate counterparts, but shall not be effective until each party has executed at least one counterpart. Each counterpart, when executed, shall be an original of this Agreement and all counterparts shall together constitute one instrument.

21. **Further assurance**

At its own expense, each party shall, and shall use reasonable endeavours to procure that any necessary third party shall, promptly execute all such documents and do all such other acts as are necessary to give full effect to this Agreement.

22. **Publicity**

22.1 No party shall make or permit any person connected with it to make any announcement concerning this Agreement or its subject matter or to make use of any logo, trademark, service mark or business or trading name of any other party except as expressly required or permitted by this Agreement or as required by law or any competent regulatory body, without the prior written approval of the other party/parties such approval not to be unreasonably withheld or delayed.

22.2 Notwithstanding clause [22.1](#), the parties permit to make a public announcement upon signature of this Agreement, the wording of which is to be agreed by the parties in writing.

23. **Force Majeure**

Neither party shall be in breach of this Agreement nor liable for delay in performing, or failure to perform, any of its obligations under this Agreement if such delay or failure results from events, circumstances or causes beyond its reasonable control.

24. **Governing law and jurisdiction**

24.1 This Agreement and any dispute or claim (whether contractual or non-contractual) arising out of or in connection with it, its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales.

24.2 Each party irrevocably agrees that the courts of Singapore shall have exclusive jurisdiction to settle any dispute or claim (whether contractual or non-contractual) arising out of or in connection with this Agreement, its subject matter or formation.

This Agreement has been entered into on the date appearing at the head of page 1.

Signed for and on behalf of SmartKem Limited

Signature: /s/ Maosheng Hao
Name: Maosheng Hao
Position: CEO and Chairman
Date: 9/6/2024

**Signed for and on behalf of
Shanghai Chip Foundation Semiconductor Technology Co., Ltd.**

Signature: /s/ Ian Jenks
Name: Ian Jenks
Position: CEO
Date: 8/20/2024

SCHEDULE 1
Licences of
Intellectual
Property

SCHEDULE 2
Project Details

SCHEDULE 3
Project Costs (Financial Matters)

**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: November 8, 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: November 8, 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 nine months ended September 30, 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: November 8, 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 nine months ended September 30, 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: November 8, 2024

By: /s/ Barbra C. Keck

Name: Barbra C. Keck

Title: Chief Financial Officer
