
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of October 2023.

Commission File Number: 001-40065

IM Cannabis Corp.

(Exact Name of Registrant as Specified in Charter)

Kibbutz Gilil Yam, Central District, Israel 4690500

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IM CANNABIS CORP.

(Registrant)

Date: October 31, 2023

By: /s/ Oren Shuster

Name: Oren Shuster

Title: Chief Executive Officer and Director

EXHIBIT INDEX

<u>99.1</u>	<u>Notice & Access Document</u>
<u>99.2</u>	<u>Notice of Meeting</u>
<u>99.3</u>	<u>Management Information Circular dated October 19, 2023</u>
<u>99.4</u>	<u>Proxy</u>
<u>99.5</u>	<u>Voting information form (one Canadian and one US)</u>
<u>99.6</u>	<u>NI Supplemental Return card</u>
<u>99.7</u>	<u>Annual Financial Statements</u>
<u>99.8</u>	<u>Annual Management's Discuss and Analysis</u>



NOTICE-AND-ACCESS NOTIFICATION TO BENEFICIAL SHAREHOLDERS OF IM CANNABIS CORP.

You are receiving this notification because IM Cannabis Corp. (the “**Company**”) has elected to use the “notice-and-access” mechanism provided for under National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* to deliver to holders of common shares in the capital of IM Cannabis (“**Common Shares**”) who do not hold their Common Shares in their own name (referred to as “**Beneficial Shareholders**”) meeting materials in connection with the Company’s annual general meeting (the “**Meeting**”) to be held at the offices of the Company’s legal counsel, Garfinkle Biderman LLP, located at 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9 on Wednesday, December 6, 2023 at 10:00 a.m. (Toronto time).

This means that, rather than receiving paper copies of the Meeting materials in the mail, Beneficial Shareholders will have access to them online. These materials are available at:

1. <https://investors.imcannabis.com>; and
2. under the Company’s SEDAR+ profile at www.sedarplus.ca.

Notice-and-access will not be used for registered shareholders and registered shareholders will instead receive a paper copy of the Company’s management information circular dated October 19, 2023 prepared in connection with the Meeting (the “Circular”) and all proxy-related materials. The use of this alternative means of delivery for Beneficial Shareholders is more environmentally friendly as it helps reduce paper use and reduces the cost of printing and mailing materials to shareholders.

Alongside this notification, Beneficial Shareholders will still receive a form of proxy or voting instruction form enabling them to vote at the Meeting and a form to request copies of the Company’s annual and/or interim financial statements and the related management’s discussion and analysis (“**MD&A**”). Electronic copies of the notice of Meeting, Circular, a form of proxy, audited consolidated financial statements of the Company for the financial year ended December 31, 2022 and 2021 and related MD&A and this notification will be available at <https://investors.imcannabis.com> and under the Company’s profile on SEDAR+ at www.sedarplus.ca. Electronic copies of the Meeting materials will be available on the Company’s website for a period of one year.

Please review these online materials when voting. For more information about the notice-and-access procedures, please call Broadridge Investor Communication Solutions at 1-844-916-0609.

MEETING DATE AND LOCATION

WHEN: Wednesday, December 6, 2023 at 10:00 a.m. (Toronto time)

WHERE: 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9

The following items of business are described in the “Matters to be acted upon at the Meeting” section of the Circular:

	Matter	Refer to the Circular:
1.	Financial Statements: to receive and consider the consolidated audited financial statements of the Company for the financial years ended December 31, 2022 and 2021 and the auditors’ report thereon.	See page 6
2.	Fixing the Number of Directors: to fix the number of directors of the Company at five.	See page 6
3.	Election of Directors: to elect the directors of the Company for the ensuing year, as will be more particularly set forth in the accompanying instrument of proxy and Circular, each prepared for the purpose of the Meeting.	See pages 6 – 8
4.	Appointment of Auditor: to re-appoint Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as the auditor of the Company until the earlier of the close of the next annual meeting of shareholders or their earlier resignation or replacement, and to authorize board of directors of the Company to fix the auditors’ remuneration.	See page 8

SHAREHOLDERS ARE REMINDED TO VIEW THE MEETING MATERIALS PRIOR TO VOTING.

The Company has determined that Beneficial Shareholders with existing instructions on their account to receive paper materials will receive a paper copy of the Meeting materials.

WEBSITES WHERE MEETING MATERIALS ARE POSTED

The Circular provides additional information relating to the matters to be dealt with at the Meeting. In particular, for information concerning the items listed above, please see the section of the Circular entitled “Matters to be acted upon at the Meeting”. The full text of the proposals can be found in the Circular. These materials are available at:

1. <https://investors.imcannabis.com>; and
2. under the Company’s SEDAR+ profile at www.sedarplus.ca.

HOW TO VOTE YOUR COMMON SHARES

Beneficial Shareholders are asked to complete, date and sign your voting instruction form in advance of the Meeting and return it in the envelope provided for that purpose by phone at 1-800-474-7493(English) or 1-800-474-7501 (French) (Toll Free North America) or over the internet at www.proxyvote.com, in each case by 10:00 a.m. (Toronto time) on December 4, 2023, or in the event of an adjournment or postponement of the Meeting, 48 hours before the time of the adjourned or postponed Meeting (excluding Saturdays, Sundays and holidays). Votes cast electronically are in all respects equivalent to and will be treated in the exact same manner as, votes cast via a voting instruction form. Further details on the electronic voting process are provided in the voting instruction form.

HOW TO OBTAIN PAPER COPIES OF THE MEETING MATERIALS

Beneficial Shareholders may choose to receive paper copies of the Meeting materials by mail at no cost. In order for such Beneficial Shareholders to receive the paper copies of the Meeting materials in advance of any deadline for the submission of voting instructions and the date of the Meeting, it is recommended that requests be made as soon as possible but not later than November 17, 2023. If you do request the current materials, please note that another voting instruction form will not be sent; please retain your current one for voting purposes.

For Beneficial Shareholders to request paper copies of the Circular before the Meeting, go to www.proxyvote.com or call Toll Free, within North America – 1-877-907-7643 or direct, from Outside of North America – 303-562-9305 (English) and 303-562-9306 (French) and enter your control number, as indicated on your voting instruction form. The Circular and/or the annual report will be sent to you within three business days of receiving your request.

For Beneficial Shareholders to obtain paper copies of the materials after the Meeting, please call Toll Free, within North America – 1-877-907-7643 or direct, from Outside of North America – 303-562-9305 (English) and 303-562-9306 (French). The Circular and/or the annual report will be sent to you within 10 calendar days of receiving your request.

IM CANNABIS CORP.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual general meeting (the “**Meeting**”) of the holders of common shares of IM Cannabis Corp. (the “**Company**”) will be held at the offices of the Company’s legal counsel, Garfinkle Biderman LLP, located at 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9 on Wednesday, December 6, 2023 at 10:00 a.m. (Toronto time) for the following purposes:

1. to receive and consider the consolidated audited financial statements of the Company for the financial years ended December 31, 2022 and 2021 and the auditors’ report thereon (together, the “**Annual Financial Statements**”);
2. to fix the number of directors of the Company at five;
3. to elect the directors of the Company for the ensuing year, as will be more particularly set forth in the accompanying instrument of proxy (the “**Instrument of Proxy**”) and management information circular dated October 19, 2023 (the “**Circular**”), each prepared for the purpose of the Meeting;
4. to re-appoint Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as the auditor of the Company until the earlier of the close of the next annual meeting of shareholders or their earlier resignation or replacement, and to authorize board of directors of the Company (the “**Board**”) to fix the auditors’ remuneration; and
5. to transact such other business as may properly come before the Meeting or any adjournment thereof.

The specific details of the foregoing matters to be put before the Meeting are set forth in Circular accompanying this Notice of Meeting.

The Board has fixed October 19, 2023 as the record date (the “**Record Date**”) for the determination of shareholders entitled to notice of and to vote at the Meeting and at any adjournment or postponement thereof. Only shareholders whose names have been entered in the register of shareholders at the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting.

The Company reserves the right to take any additional measures that it deems necessary or advisable in relation to the Meeting, including changing the time, date or location of the Meeting. Changes to the Meeting time, date or location and/or means of holding the Meeting may be announced by way of press release. Please monitor the Company’s press releases as well as its website at <https://investors.imcannabis.com>. The Company does not intend to prepare or mail an amended Circular in the event of changes to the Meeting format.

The Company strongly encourages each shareholder to submit an Instrument of Proxy or voting instruction form in advance of the Meeting using one of the methods described below and in the Circular. Registered shareholders should complete, date and sign an Instrument of Proxy in advance of the Meeting and return it in the envelope provided for that purpose to Computershare Trust Company of Canada (“**Computershare**”), 8th Floor, 100 University Ave, Toronto, Ontario M5J 2Y1, by courier, by mail, by phone at 1-866-732-8683 (Toll Free North America) / 312-588-4290 (International Direct Dial) or by electronic voting through www.investorvote.com in each case by 10:00 a.m. (Toronto time) on December 4, 2023, or in the event of an adjournment or postponement of the Meeting, 48 hours before the time of the adjourned or postponed Meeting (excluding Saturdays, Sundays and holidays). Votes cast electronically are in all respects equivalent to, and will be treated in the exact same manner as, votes cast via a paper Instrument of Proxy. Further details on the electronic voting process are provided in the Instrument of Proxy.

Beneficial shareholders who receive the Meeting materials through their broker or other intermediary should complete and return their Instrument of Proxy or voting information form in accordance with the instructions provided by their broker or intermediary. **Shareholders are reminded to review the Circular prior to voting.**

The Board has, by resolution, fixed 10:00 a.m. (Toronto time) on December 4, 2023, or in the event of an adjournment or postponement of the Meeting, 48 hours before the time of the adjourned or postponed Meeting (excluding Saturdays, Sundays and holidays), as the time before which Instruments of Proxy to be used or acted upon at the Meeting, or any adjournment or postponement thereof, must be deposited with the Company's transfer agent and registrar, Computershare. Alternatively, an Instrument of Proxy may be given to the Chair of the Meeting at which the Instrument of Proxy is to be used. Late Instruments of Proxy may be accepted or rejected by the Chair of the Meeting in his or her discretion, and the Chair is under no obligation to accept or reject any particular late Instrument of Proxy.

The Company has elected to use the "notice-and-access" mechanism provided for under National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* to deliver the Meeting materials to non-registered shareholders, including this Notice of Meeting, the Circular, the Annual Financial Statements and accompanying management's discussion and analysis (the "**Annual MD&A**"). This means that, rather than receiving paper copies of the Meeting materials in the mail, non-registered Shareholders as of the Record Date will have access to electronic copies of the Meeting materials at <https://investors.imcannabis.com> and under the Company's SEDAR+ profile at www.sedarplus.ca. The Meeting materials will remain on the Company's website for a period of one year. Notice-and-access will not be used for the registered shareholders and registered shareholders will instead receive a paper copy of the Meeting materials and all proxy related materials in the mail.

Non-registered Shareholders as of the Record Date will receive a package in the mail containing information explaining how to access and review the Meeting materials electronically and how to request a paper copy of such materials free of charge, and an Instrument of Proxy or a voting instruction form so that non-registered shareholders can vote their common shares. In addition, the package will include a place to request copies of the Annual Financial Statements, Annual MD&A and a consent for electronic delivery.

Prior to the Meeting and for up to one year thereafter, those non-registered shareholders who wish to receive paper copies of the Meeting materials may request them by calling Toll Free, within North America – 1-877-907-7643 or direct, from Outside of North America – 303-562-9305 (English) and 303-562-9306 (French). If a request for paper copies is received before the Meeting, the Meeting materials will be sent to such non-registered shareholders at no cost within three business days of the request. If a request for paper copies is received on or after the Meeting, and within one year of the Meeting materials being filed, the Meeting materials will be sent to such non-registered shareholders within 10 calendar days after receiving the request. To receive paper copies of the Meeting materials in advance of the proxy deposit deadline, your request should be received no later than November 17, 2023.

DATED at Kibbutz Gilil-Yam, Israel, this 19th day of October 2023.

BY ORDER OF THE BOARD

"Oren Shuster"

Oren Shuster
Chief Executive Officer and Director

IM CANNABIS CORP.**MANAGEMENT INFORMATION CIRCULAR****SOLICITATION OF PROXIES**

This management information circular (this “Circular”) is furnished in connection with the solicitation, by or on behalf of the management (“Management”) of IM Cannabis Corp. (the “Company”), of proxies to be used at the Company’s annual general meeting (the “Meeting”) of the holders of common shares of the Company (“Common Shares”) to be held at the time and place and for the purposes set forth in the accompanying notice of meeting (the “Notice of Meeting”). References in this Circular to the Meeting includes any adjournment(s) hereof. It is expected that the solicitation will be primarily by mail, but proxies may also be solicited personally, by advertisement or by telephone, by directors, officers or employees of the Company without special compensation, or by the Company’s transfer agent, Computershare Investor Services Inc. (“Computershare”) at nominal cost. The cost of solicitation will be borne by the Company.

The information contained herein is provided as of October 19, 2023, unless indicated otherwise. No person has been authorized to give any information or make any representation in connection with matters to be considered at the Meeting other than those contained in this Circular and, if given or made, any such information or representation must not be relied upon as having been authorized by the Company or its Management. Unless otherwise indicated herein, all dollar amounts are expressed in Canadian dollars and all references to “\$” are to Canadian dollars.

APPOINTMENT OF PROXYHOLDERS

The person(s) designated by Management in the enclosed form of proxy are officers of the Company and the Company’s legal counsel. **Each shareholder has the right to appoint as proxyholder a person or company (who need not be a shareholder of the Company) other than the person(s) or company(ies) designated by Management in the enclosed form of proxy to attend and act on the shareholder’s behalf at the Meeting or at any adjournment thereof.** Such right may be exercised by inserting the name of the person or company in the blank space provided in the enclosed form of proxy or by completing another form of proxy.

Registered shareholders who are unable to attend the Meeting in person are requested to read this Circular and the form of proxy which accompanies the Notice of Meeting and to complete, sign, date and deliver the form of proxy, together with the power of attorney or other authority, if any, under which it was signed to the Company’s transfer agent, Computershare, 8th Floor, 100 University Ave, Toronto, Ontario M5J 2Y1, by courier, by mail, by phone at 1-866-732-8683 (Toll Free North America) / 312-588-4290 (International Direct Dial) or by electronic voting through www.investorvote.com in each case by 10:00 a.m. (Toronto time) on December 4, 2023, or in the event of an adjournment or postponement of the Meeting, 48 hours before the time of the adjourned or postponed Meeting (excluding Saturdays, Sundays and holidays). Votes cast electronically are in all respects equivalent to and will be treated in the exact same manner as, votes cast via a paper form of proxy.

Non-registered shareholders who receive this Circular and the form of proxy or voting instruction form through an intermediary must deliver the proxy or voting instruction form in accordance with the instructions given by such intermediary. To be effective, proxies must be received by Computershare not later than Monday, December 4, 2023 at 10:00 a.m. (Toronto time), or in the case of any adjournment of the Meeting not later than 48 hours prior to the meeting, excluding Saturdays, Sundays and holidays, or any adjournment thereof.

REVOCATION OF PROXIES

A shareholder who has given a form of proxy may revoke it as to any matter on which a vote has not already been held pursuant to its authority by an instrument in writing executed by the shareholder or by the shareholder’s attorney duly authorized in writing or, if the shareholder is a corporation, by an officer or attorney thereof duly authorized and deposited at either the above mentioned office of Computershare by no later than 48 hours prior to the Meeting, excluding Saturdays, Sundays and holidays, or any adjournment or postponement thereof, or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof. Notwithstanding the foregoing, if a registered shareholder attends personally at the Meeting, such shareholder may revoke the proxy and vote in person.

NOTICE-AND-ACCESS

As permitted by Canadian securities regulators, the Company is sending meeting-related materials to shareholders who do not hold their Common Shares in their own name (referred to in this Circular as “**Beneficial Shareholders**”) using “notice-and-access” provisions provided for under National Instrument 54-101 –*Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”). This means that, rather than receiving paper copies of the Meeting materials in the mail, Beneficial Shareholders will have access to them online. Notice-and-access will not be used for registered shareholders and registered shareholders will instead receive a paper copy of this Circular and all proxy-related materials in the mail.

All Beneficial Shareholders entitled to receive the Meeting materials will receive a notice-and-access notification (the “**N&A Notice**”) along with a form of proxy. In addition, the package will include a form to request copies of the Company’s annual and/or interim financial statements and the related management’s discussion and analysis (“**MD&A**”). Electronic copies of the Notice of Meeting, this Circular, a form of proxy, the N&A Notice, the audited consolidated financial statements of the Company for the financial year ended December 31, 2022 and 2021 and the related MD&A will be available at <https://investors.imcannabis.com> and under the Company’s profile on SEDAR+ at www.sedarplus.ca. Beneficial Shareholders are reminded to review these online materials when voting. Electronic copies of the Meeting materials will be available on the Company’s website for a period of one year. For more information about the notice-and-access procedures, please call Broadridge Investor Communication Solutions at 1-844-916-0609. Beneficial Shareholders may choose to receive paper copies of the Meeting materials by mail at no cost. In order for such Beneficial Shareholders to receive the paper copies of the Meeting materials in advance of any deadline for the submission of voting instructions and the date of the Meeting, it is recommended that requests be made as soon as possible but not later than November 17, 2023. If you do request the current materials, please note that another voting instruction form will not be sent; please retain your current one for voting purposes.

For Beneficial Shareholders to request paper copies of this Circular before the Meeting, go to www.proxyvote.com or call Toll Free, within North America – 1-877-907-7643 or direct, from Outside of North America – 303-562-9305 (English) and 303-562-9306 (French) and enter your control number, as indicated on your voting instruction form. This Circular and/or the annual report will be sent to you within three business days of receiving your request.

For Beneficial Shareholders to obtain paper copies of the materials after the Meeting, please call Toll Free, within North America – 1-877-907-7643 or direct, from Outside of North America – 303-562-9305 (English) and 303-562-9306 (French). This Circular and/or the annual report will be sent to you within 10 calendar days of receiving your request.

ADVICE TO SHAREHOLDERS

Voting in Person at the Meeting

The Meeting will not be open to the general public and will be limited to registered shareholders and duly appointed proxyholders only. Registered shareholders may vote in-person at the Meeting or by proxy, and beneficial shareholders may vote by proxy. Please monitor the Company’s website for additional information and instructions. Changes to the Meeting time, date or location and/or means of holding the Meeting may be announced by way of press release. Please monitor the Company’s press releases as well as its website at <https://investors.imcannabis.com>. The Company does not intend to prepare or mail an amended Circular in the event of changes to the Meeting format.

The Company strongly encourages each shareholder to submit a form of proxy or voting instruction form in advance of the Meeting using one of the methods described below and in this Circular. Registered shareholders should complete, date and sign a proxy form in advance of the Meeting and return it in the envelope provided for that purpose to the Company c/o Computershare Trust Company of Canada, 8th Floor, 100 University Ave, Toronto, Ontario M5J 2Y1, by courier, by mail, by phone at 1-866-732-8683 (Toll Free North America) / 312-588-4290 (International Direct Dial) or by electronic voting through www.investorvote.com in each case by 10:00 a.m. (Toronto time) on December 4, 2023, or in the event of an adjournment or postponement of the Meeting, 48 hours before the time of the adjourned or postponed Meeting (excluding Saturdays, Sundays and holidays). Votes cast electronically are in all respects equivalent to and will be treated in the exact same manner as, votes cast via a proxy form. Further details on the electronic voting process are provided in the form of proxy. Alternatively, a proxy form may be given to the Chair of the Meeting at which the proxy form is to be used. Late forms of proxy may be accepted or rejected by the Chair of the Meeting in his or her discretion, and the Chair is under no obligation to accept or reject any particular late form of proxy. Beneficial Shareholders who receive the Meeting materials through their broker or other intermediary should complete and return their form of proxy or voting instruction form in accordance with the instructions provided by their broker or intermediary. Please also refer to “Beneficial Shareholders” below. **Shareholders are reminded to review this Circular prior to voting.**

A registered shareholder whose name has been provided to Computershare will appear on a list of shareholders prepared for purposes of the Meeting. To vote in person at the Meeting each registered shareholder will be required to register for the Meeting by identifying themselves at the registration desk. Beneficial Shareholders must appoint themselves as a proxyholder to vote in person at the Meeting. Please also refer to “Advice to Beneficial Shareholders” below.

Voting of Proxies

On any ballot that may be called for, the Common Shares represented by a properly executed proxy given in favour of the person(s) designated by Management in the enclosed form of proxy will be voted or withheld from voting in accordance with the instructions given on the form of proxy, and if the shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting or any adjournment thereof. As of the date of this Circular, Management is not aware of any such amendment, variation or other matter to come before the Meeting. However, if any amendments or variations to matters identified in the Notice of Meeting or any other matters which are not now known to Management should properly come before the Meeting or any adjournment thereof, the Common Shares represented by properly executed proxies given in favour of the person(s) designated by Management in the enclosed form of proxy will be voted on such matters pursuant to such discretionary authority.

Advice to Beneficial Shareholders

The information set forth in this section is of importance to many shareholders, as a substantial number of shareholders do not hold Common Shares in their own name. In many cases, Common Shares beneficially owned by a holder are registered (a) in the name of an intermediary that the Beneficial Holder deals with in respect of the Common Shares. Intermediaries include banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFFs, RESPs and similar plans, or (b) in the name of a depository (such as Clearing and Depository Services Inc. or “CDS”). Beneficial Holders should note that only proxies deposited by shareholders who are registered shareholders (that is, shareholders whose names appear on the records maintained by the registrar and transfer agent for the Common Shares as registered holders of Common Shares) will be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a Beneficial Holder by a broker, those Common Shares will, in all likelihood, not be registered in the shareholder’s name. Such Common Shares will more likely be registered under the name of the shareholder’s broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for CDS, which acts as nominee for many Canadian brokerage firms). Common Shares held by brokers (or their agents or nominees) on behalf of a broker’s client can only be voted at the direction of the Beneficial Holder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the broker’s clients. **Therefore, each Beneficial Holder should ensure that voting instructions are communicated to the appropriate person well in advance of the Meeting.**

In accordance with the requirements of NI 54-101, the Company is using notice-and-access to send proxy-related materials for use in connection with the Meeting to Beneficial Shareholders using the “indirect” sending procedures set out in NI 54-101. Accordingly, the Company has distributed copies of the Notice of Meeting, this Circular and the form of proxy (collectively, the “**Meeting Materials**”) to CDS and intermediaries for onward distribution to Beneficial Shareholders.

Existing regulatory policy requires brokers and other intermediaries to forward meeting materials to Beneficial Holders, unless the Beneficial Holder has waived the right to receive them and seek voting instructions from Beneficial Holders in advance of shareholders’ meetings. The various brokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by Beneficial Holders in order to ensure that their Common Shares are voted at the Meeting.

The voting instruction form supplied to such Beneficial Holders by their broker (or the agent of the broker) is substantially similar to the form of proxy provided directly to registered shareholders by the Company. However, its purpose is limited to instructing the registered shareholder (i.e., the broker or agent of the broker) on how to vote on behalf of the Beneficial Holder. The vast majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (“**Broadridge**”) in Canada. Broadridge typically prepares a machine-readable voting instruction form, mails those forms to Beneficial Holders and asks Beneficial Holders to return the forms to Broadridge, or otherwise communicate voting instructions to Broadridge (by way of the Internet or telephone, for example). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Holder who receives a Broadridge voting instruction form cannot use that form to vote Common Shares directly at the Meeting. The voting instruction forms must be returned to Broadridge (or instructions respecting the voting of Common Shares must otherwise be communicated to Broadridge) well in advance of the Meeting in order to have the Common Shares voted. If you have any questions respecting the voting of Common Shares held through a broker or other intermediary, please contact that broker or other intermediary for assistance.**

Although a Beneficial Holder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of his or her broker, CDS or another intermediary, the Beneficial Holder may attend the Meeting as proxyholder and vote the Common Shares in that capacity. **Beneficial Holders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder, should enter their own names in the blank space on the voting instruction form provided to them and return the same to their broker (or the broker’s agent) in accordance with the instructions provided by such broker.**

Beneficial Holders fall into two categories – those who object to their identity being known to the issuers of securities which they own (“**OBOs**”) and those who do not object to their identity being made known to the issuers of the securities which they own (“**NOBOs**”). Subject to the provisions of NI 54-101, issuers may request and obtain a list of their NOBOs from intermediaries directly or via their transfer agent and may obtain and use the NOBO list for the distribution of proxy-related materials to such NOBOs. The Company will not be distributing Meeting Materials directly to NOBOs. If you are a NOBO and the Company or Computershare has sent the meeting materials directly to you, your name, address and information about your holdings of Common Shares have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding the Common Shares on your behalf. The Company’s OBOs may be contacted by their respective intermediaries. The Company does not intend to pay for intermediaries to deliver the meeting materials to OBOs and OBOs will not receive the meeting materials unless their intermediary assumes the cost of delivery.

All references to shareholders in this Circular and the accompanying form of proxy and Notice of Meeting are to registered shareholders unless specifically stated otherwise.

VOTING OF COMMON SHARES

Voting of Common Shares

The voting securities of the Company consists of Common Shares. As at the close of business on October 19, 2023, the Company had 13,394,136 Common Shares outstanding, each carrying the right to one vote per Common Share. Except as otherwise noted in this Circular, a simple majority of the votes cast at the Meeting, whether in person, by proxy or otherwise, will constitute approval of any matter submitted to a vote. All shareholders have the right to vote for directors. The persons named in the accompanying form of proxy will vote the Common Shares in respect of which they are appointed in accordance with the direction of the shareholder appointing them. **In the absence of such direction, those Common Shares will be voted in favour of (“FOR”) all resolutions.**

Record Date and Quorum

The Board has fixed October 19, 2023 as the record date (the “**Record Date**”) for the purpose of determining holders of Common Shares entitled to receive notice of and to vote at the Meeting. Any holder of Common Shares of record at the close of business on the Record Date is entitled to vote the Common Shares registered in such shareholder’s name at that date on each matter to be acted upon at the Meeting.

The quorum for the transaction of business at a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting.

Principal Shareholders

Other than as described below, to the knowledge of the directors and executive officers of the Company, and based on the Company’s review of the records maintained by Computershare, electronic filings with SEDAR+ and insider reports filed with System for Electronic Disclosure by Insiders (“**SEDI**”), as at the date of this Circular, no person beneficially owned, directly or indirectly, or exercised control or direction over 10% or more of the voting rights attached to the outstanding Common Shares of the Company, on a non-diluted basis:

Name	Aggregate Number of Common Shares	Percentage of Outstanding Common Shares
Oren Shuster	1,872,564 ⁽¹⁾	13.98% ⁽²⁾

Note

- (1) 1,872,564 Common Shares are held by Oren Shuster directly and 153 Common Shares are held indirectly by Ewave Group Ltd., a privately-held entity jointly owned by Mr. Shuster of which Mr. Shuster owns and controls 50% of the outstanding voting shares.
- (2) As at the date of this Circular, the Company had 13,394,136 Common Shares issued and outstanding.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No director or senior officer of the Company or any associate of the foregoing has any substantial interest, direct or indirect, by way of beneficial ownership of Common Shares or otherwise in the matters to be acted upon at the Meeting, except for any interest arising from the ownership of Common Shares where the Shareholder will receive no extra or special benefit or advantage not shared on a pro rata basis by all holders of Common Shares.

MATTERS TO BE ACTED UPON AT THE MEETING

1. Financial Statements

The consolidated audited financial statements of the Company for the years ended December 31, 2022 and 2021, together with the auditors' report thereon, (together, the **"Annual Financial Statements"**) will be received at the Meeting. No vote will be taken on the Annual Financial Statements. The Annual Financial Statements have been provided to each shareholder entitled to receive a copy of the Notice of Meeting and this Circular and who requested a copy of the Annual Financial Statements. The Annual Financial Statements are also available on the Company's website at <https://investors.imcannabis.com> and under the Company's SEDAR+ profile at www.sedarplus.ca.

2. Fixing the Number of Directors

The term of office for each director is from the date of the Meeting at which he is elected until the annual meeting next following or until his or her successor is duly elected or appointed. At the Meeting, the shareholders will be asked to consider and, if thought fit, approve an ordinary resolution fixing the number of directors to be elected at the Meeting at five.

In the absence of a contrary instruction, the person(s) designated by Management in the enclosed form of proxy intend to vote FOR the fixing of the size of the Board at five.

3. Election of Directors

At the Meeting, a board of five directors will be proposed to be elected for a term that will expire upon the earlier of the next annual meeting of shareholders or upon their successor being duly elected or appointed, unless his or her office is earlier vacated (the **"Proposed Board"**). Management has been informed that each of the proposed nominees listed below is willing to serve as a director if elected. Management does not contemplate that any of the individuals of the proposed nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the Common Shares represented by properly executed proxies given in favour of such nominee(s) may be voted by the person(s) designated by Management in the enclosed form of proxy, in their discretion, in favour of another nominee.

The following table sets forth certain information regarding the Proposed Board, their respective positions with the Company, principal occupations or employment during the last five years, the dates on which they became directors of the Company and the approximate number of Common Shares beneficially owned by them, directly or indirectly, or over which control or direction is exercised by them as of the date of this Circular:

Name of Nominee, Current Position with the Company, and Province/State and Country of Residence	Present and Principal Occupation, Business or Employment for Previous 5 years ⁽¹⁾	Director Since	Number of Common Shares beneficially owned, controlled or directed ⁽²⁾⁽⁷⁾
Oren Shuster ⁽⁵⁾ Chairman and Chief Executive Officer Ra'anana, Israel	Chairman and Chief Executive Officer of the Company; Founder and Chief Executive Officer of I.M.C. Holdings Ltd. ("IMC Holdings").	October 11, 2019	1,872,564 ⁽⁶⁾ (13.98%)
Marc Lustig Executive Chairman and Director West Vancouver, British Columbia, Canada	Executive Chairman and a director of the Company since December 2020.	October 11, 2019	930,635 (6.95%)
Moti Marcus ⁽³⁾⁽⁴⁾⁽⁵⁾ Director Tel Aviv, Israel	Director of the Company. Chief Executive Officer of Packer Quality Metals Ltd.	September 12, 2022	Nil (0%)
Einat Zakariya ⁽³⁾⁽⁴⁾⁽⁵⁾ Director Herzliya, Israel	Director of the Company. Chief Executive Officer and Partner of Liv Residence Ltd., a subsidiary of Ewave Holdings Ltd.; Chief Executive Officer and Partner of Ewave Nadlan International Investments Ltd.	September 12, 2022	61,200 (0.46%)
Brian Schinderle ⁽³⁾⁽⁴⁾ Director Illinois, USA	Director of the Company. Founder and Manager of Solidum Capital since 2017.	February 22, 2021	Nil (0%)

Notes

- (1) Information furnished by the respective director nominees.
- (2) Voting securities of the Company beneficially owned, or controlled or directed, directly or indirectly as of the date of this Circular. Information regarding voting securities held does not include voting securities issuable upon the exercise of options, warrants or other convertible securities of the Company. Information in the table above is derived from the Company's review of insider reports filed with SEDI and from information furnished by the respective director nominees.
- (3) Member of the audit committee of the Company (the "Audit Committee").
- (4) Member of the Company's compensation committee (the "Compensation Committee").
- (5) Member of the governance and nomination committee of the Company (the "Governance and Nomination Committee").
- (6) 1,872,564 Common Shares are held by Oren Shuster directly and 153 Common Shares are held indirectly by Ewave Group Ltd., a privately-held entity jointly owned by Mr. Shuster of which Mr. Shuster owns and controls 50% of the outstanding voting shares.
- (7) As at the date of this Circular, the Company had 13,394,136 Common Shares issued and outstanding.

Corporate Cease Trade Orders or Bankruptcies

No person proposed to be nominated for election as a director at the Meeting is or has been, within the preceding ten years, a director, chief executive officer or chief financial officer of any company (including the Company) that:

- (a) was the subject of a cease trade or similar order, or an order that denied such company access to any exemptions under applicable securities legislation that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer, or
- (b) was the subject of a cease trade or similar order, or an order that denied such company access to any exemptions under applicable securities legislation that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No person proposed to be nominated for election as a director at the Meeting is or has been, within the preceding ten years, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No person proposed to be nominated for election as a director at the Meeting is or has, within the preceding ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

No proposed director of the Company has been subject to any: (a) penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

It is the intention of the persons named in the enclosed form of proxy, if not expressly directed to the contrary in such form of proxy, to vote such proxies FOR the election of each of the members of the Proposed Board specified above as directors of the Company, to serve for a term that will expire upon the earlier of the next annual meeting of shareholders or upon their successor being duly elected or appointed. If, prior to the Meeting, any vacancies occur in the proposed nominees herein submitted, the persons named in the enclosed form of proxy intend to vote FOR the election of any substitute nominee or nominees recommended by Management and FOR each of the remaining proposed nominees.

4. Appointment of Independent Auditors

Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global (“**Kost**”) is the current auditor of the Company and has held this position since January 16, 2020. At the Meeting, shareholders will be asked to vote for the reappointment of Kost, as the Company’s auditor, to hold office until the next annual general meeting of the shareholders, at a remuneration to be fixed by the Audit Committee. Approval of the reappointment of the auditor will require a majority of the votes cast in respect thereof by shareholders present in person or by proxy at the Meeting.

In the absence of a contrary instruction, the person(s) designated by Management in the enclosed form of proxy intend to vote FOR the reappointment of Kost as the auditor of the Company until the earlier of the close of the next annual meeting of shareholders or their removal by the Company, at a remuneration to be fixed by the Audit Committee.

5. Other Business

It is not known that any other matters will come before the Meeting other than as set forth above and in the Notice of Meeting accompanying this Circular, but if such should occur, the Management designees intend to vote on them in accordance with their best judgement, exercising discretionary authority with respect to amendments or variations of matters identified in the Notice of Meeting and other matters which may properly come before the Meeting or any adjournment thereof.

STATEMENT OF EXECUTIVE COMPENSATION

On May 19, 2023, the Company filed a statement of executive compensation in accordance with National Instrument 51-102 –*Continuous Disclosure Obligations* (“**NI 51-102**”) and Form 51-102F6 –*Statement of Executive Compensation* under NI 51-102 (“**Form 51-102F6**”), the entirety of which is reproduced below. Such disclosure has been conformed to this Circular and is current as of May 19, 2023, unless stated otherwise.

Under applicable securities legislation, the Company is required to disclose certain financial and other information relating to the compensation of the Chief Executive Officer (“**CEO**”), the Chief Financial Officer (“**CFO**”) and each of the three most highly compensated executive officers of the Company, including any of its subsidiaries, whose total compensation was more than \$150,000 for the financial year of the Company ended December 31, 2022, other than the CEO and CFO (collectively the “**Named Executive Officers**”), and for the directors of the Company.

Compensation Discussion and Analysis

Introduction

The Compensation Discussion and Analysis section sets out the objectives of the Company’s executive compensation arrangements, the Company’s executive compensation philosophy and the application of this philosophy to the Company’s executive compensation arrangements.

When determining the compensation arrangements for the Named Executive Officers, the Board considers the objectives of: (i) retaining an executive critical to the success of the Company and the enhancement of shareholder value; (ii) providing fair and competitive compensation; (iii) balancing the interests of Management and shareholders of the Company; and (iv) rewarding performance, both on an individual basis and with respect to the business in general.

Benchmarking

In determining the compensation level for each executive, the Board looks at factors such as the relative complexity of the executive's role within the organization, the executive's performance and potential for future advancement, the compensation paid by other companies in the same industry as the Company, and pay equity considerations.

Elements of Compensation

The compensation paid to executive officers in any year consists of three (3) primary components:

1. base salary;
2. cash bonuses; and/or
3. long-term incentives.

The Company believes that making a significant portion of executive officers' compensation based on long-term incentives supports the Company's executive compensation philosophy, as these forms of compensation allow those most accountable for the Company's long-term success to acquire and hold Common Shares. The key features of these three primary components of compensation are discussed below:

1. Base Salary

Base salary recognizes the value of an individual to the Company based on his or her role, skill, performance, contributions, leadership and potential. It is critical in attracting and retaining executive talent in the markets in which the Company competes for talent. Base salaries for executive officers are reviewed annually. Any change in the base salary of an executive officer is generally determined by an assessment of such executive's performance, a consideration of competitive compensation levels in companies similar to the Company and a review of the performance of the Company as a whole and the role such executive officer played in such corporate performance.

2. Cash Bonuses

Cash bonuses for the executive officers are determined by reference to the Company's actual performance relative to objectives and individual contributions toward such performance. All awards made to executive officers are subject to the review and approval of the Compensation Committee and the Board and are examined in absolute terms as well as in relation to peer company performance.

3. Long Term Incentives

Long term incentives, such as options of the Company (the "**Options**") and restricted share units of the Company (the "**RSUs**") are provided to focus Management's attention on corporate performance over a period of time longer than one year in recognition of long term horizons for return on investments and strategic decisions. The number of Options and/or RSUs given to each executive officer is determined by his or her position, past contribution and potential future contributions to the Company and the number and terms of Options and RSU awards previously granted to the executive officer. The securities based awards granted under the stock option plan (the "**Stock Option Plan**") and the restricted share unit plan (the "**RSU Plan**") and together with the Stock Option Plan, the "**Securities Based Compensation Arrangements**") are reviewed by the Compensation Committee. The Compensation Committee determines a meaningful level of award for executive officers of the Company. The number of Options and RSUs are also influenced by the number of officers and key employees in the current year and the likelihood of grants in future years to officers and key employees since the aggregate number of Common Shares available for issuance pursuant to all Securities Based Compensation Arrangements cannot exceed 10% of the Company's issued Common Shares on a rolling basis.

Other than the Securities Based Compensation Arrangements, the Company does not have any other long-term incentive plans pursuant to which securities or cash compensation is intended to serve as an incentive for performance over a period greater than one financial year.

The Compensation Committee and the Board have not formally assessed the implications of the risks associated with the Company's compensation policies and practices.

Under the stock trading policy adopted by the Company on November 26, 2020, as amended from time to time, executive officers and directors are strongly discouraged but are not prohibited from purchasing financial instruments; however, the Company does not have any policies which prohibit the purchase of financial instruments that are designed to hedge or offset a decrease in market value of equity securities granted as compensation.

Stock Option Plan

The Stock Option Plan was approved by the shareholders of the Company at the annual and special meeting of shareholders held on July 28, 2021 and replaced the previous stock option plan of the Company (the "**Predecessor Stock Option Plan**"). The Predecessor Stock Option Plan continues to exist but only for the purpose of governing the terms of Options that were granted under the Predecessor Stock Option Plan prior to the adoption of the Stock Option Plan.

The purpose of the Stock Option Plan is to provide the Company with the advantages of the incentive inherent in equity ownership on the part of directors, executive officers, employees and consultants (collectively, the "**Eligible Persons**") who are responsible for the continued success of the Company; to create in those Eligible Persons a proprietary interest in, and a greater concern for, the welfare and success of the Company; to encourage Eligible Persons to remain with the Company and any subsidiaries; and to attract new employees, directors, officers and consultants.

The Stock Option Plan will be administered by the Board, and the Board may delegate its powers, rights and obligations to a committee. The Compensation Committee will be responsible for determining which directors, officers, employees and consultants shall be granted Options.

The Board will have the authority to grant Options to Eligible Persons and subject to the policies of the Canadian stock exchange upon which the Common Shares principally trade, will determine the terms and conditions applicable to the exercise of those Options including the number of Common Shares issuable under each Option, the exercise price, the expiry date, vesting conditions, if any, the nature and duration of the restrictions, if any, to be imposed on the sale or other disposition of Common Shares acquired on exercise of the Option, and the events, if any, that give rise to a termination or expiry of the Option participant's rights under the Option, and the period in which such termination or expiry can occur. Notwithstanding the foregoing, the maximum term of any Option granted under the Stock Option Plan will be ten years. The Stock Options Plan provides for a cashless exercise procedure.

The total number of Common Shares that may be reserved for issuance to all directors and executive officers as a group under the Stock Option Plan and any other Securities Based Compensation Arrangements, in aggregate, will not exceed, at any time, or within any 12-month period, 10% of the issued and outstanding Common Shares, on a non-diluted basis, as at the date of grant of any Options under the Stock Option Plan.

The total number of Common Shares that may be reserved for issuance and granted to any one Executive (as defined in the Stock Option Plan) under the Stock Option Plan and all other Securities Based Compensation Arrangements, in aggregate, will not exceed at any time, or within a 12-month period, 5% of the issued and outstanding Common Shares, on a non-diluted basis, as at the date of grant of any Options under the Stock Option Plan.

The total number of Common Shares that may be reserved for issuance and granted to persons engaging in investor relations activities under the Stock Option Plan and all other Securities Based Compensation Arrangements, in aggregate, will not exceed at any time, or within a 12-month period, 1% of the issued and outstanding Common Shares, on a non-diluted basis, as at the date of grant of any Options under the Stock Option Plan.

Annual shareholder approval is not required for the Stock Option Plan. The Board may terminate the Stock Option Plan at any time in its absolute discretion, without shareholder approval. If the Stock Option Plan is terminated, no further Options will be granted, but the Options then outstanding will continue in full force and effect in accordance with the provisions of the Stock Option Plan until the time they are exercised or terminated or expire under the terms of the Stock Option Plan and the applicable Option agreement.

RSU Plan

The RSU Plan was approved by shareholders at a special meeting of shareholders held on December 16, 2020. The RSU Plan was established to provide a financial incentive for employees, consultants and directors of the Company, to devote their best efforts towards the long-term success of the Company's business, by aligning qualified participants' financial interests with those of the Company and its shareholders, to assist the Company in attracting and retaining individuals with top-level talent, passion, ability, and an overall commitment to the business of the Company, and to ensure that the total compensation provided to such participants is at competitive levels. Accordingly, the RSU Plan is intended to supplement the Company's other Securities Based Compensation Arrangements provided that the aggregate issuances under the RSU Plan and all other the Securities Based Compensation Arrangements do not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis immediately prior to the proposed grant of the applicable RSUs.

The RSU Plan provides that RSUs may be granted by the Board, or if delegated to a committee of the Board, by the Compensation Committee, to directors, executive officers, employees and consultants of the Company (each an "**RSU Participant**"). The Compensation Committee determines from time to time the RSU Participants to whom RSUs are granted and the provisions and restrictions with respect to such grant. The Compensation Committee takes into consideration the present and potential contributions of and the services rendered by the particular RSU Participant to the success of the Company and any other factors which the Compensation Committee deems appropriate and relevant.

Each RSU entitles the RSU Participant, subject to the RSU Participant's satisfaction of any conditions, restrictions or limitations imposed under the RSU Plan or RSU grant letter, to receive: (i) one previously unissued Common Share for each RSU; or (ii) a cash payment equal to the number of RSUs multiplied by the fair market value of one Common Share on the vesting date; or (iii) a combination of (i) and (ii), as determined by the Board or Compensation Committee, on the date when the RSU is fully vested. Concurrent with the determination to grant RSUs to a RSU Participant, the Compensation Committee also determines the vesting schedule applicable to such RSUs, which shall extend no later than December 15th of the third calendar year following the calendar year in which the grant occurred in respect of the RSUs.

RSU grants are subject to additional limitations under the terms of the RSU Plan. Unless permitted by the Canadian Securities Exchange (the "CSE") or approved by disinterested shareholders:

- (a) the maximum number of RSUs available for grant to any one person under the RSU Plan and any other Securities Based Compensation Arrangements of the Company in a 12 month period is 5% of the total number of Common Shares then outstanding on a non-diluted basis; and
- (b) the maximum number of Common Shares issuable to insiders of the Company (as a group) under the RSU Plan, together with any other Common Shares issuable under any other Securities Based Compensation Arrangements, shall not exceed at any time or within any 12 month period, 10% of the issued and outstanding Common Shares on a non-diluted basis at the time of grant.

Further, the total number of Common Shares issuable to any RSU Participant performing investor relations activities over any 12 month period, pursuant to the RSU Plan and together with any other Common Shares issuable under any other Securities Based Compensation Arrangements, cannot exceed 1% of the issued and outstanding number of Common Shares then outstanding on a non-diluted basis at the time of grant.

The Board or the Compensation Committee, as the case may be, may terminate, discontinue or amend the RSU Plan at any time, provided that, without the consent of an RSU Participant, such termination, discontinuance or amendment may not in any manner adversely affect such RSU Participant's rights under any RSU granted to such RSU Participant under the RSU Plan.

The Board or the Compensation Committee may, subject to the receipt of shareholder approval and the receipt of any regulatory approval including any stock exchange approval (where required), make the following amendments to the RSU Plan or RSUs under the RSU Plan:

- (a) increase the number of Common Shares which may be issued pursuant to the RSU Plan, other than by virtue of a change in Common Shares, whether by reason of a stock dividend, consolidation, subdivision or reclassification which adjustment may be made by the Board or Compensation Committee for the number of Common Shares available under the RSU Plan and the number of Common Shares subject to RSUs;
- (b) amend the definition of "Participant" under the RSU Plan which would have the potential of narrowing, broadening or increasing insider participation;
- (c) amendments to cancel and reissue RSUs;
- (d) amendments to the list of amendments to the RSU Plan or RSUs requiring requisite regulatory and shareholder approval and those subject to requisite regulatory approval (where required) but not subject to shareholder approval;
- (e) amendments that extend the term of an RSU;
- (f) amendments to the participation limits including: the maximum number of shares issuable under the RSU Plan, limitations on grants of RSUs to any one person in a 12-month period, grants within a one year period to insiders, and the number of shares issuable to a person providing investor relations activities in any 12-month period; and
- (g) amendments to the RSU Plan that would permit RSUs, or any other right or interest of a RSU Participant under the RSU Plan, to be assigned or transferred, other than for normal estate settlement purposes.

The Board or the Compensation Committee may, subject to receipt of requisite regulatory approval (where required), but not subject to shareholder approval, in its sole discretion make all other amendments to the RSU Plan or RSUs under the RSU Plan that are not of the type contemplated above, including, without limitation:

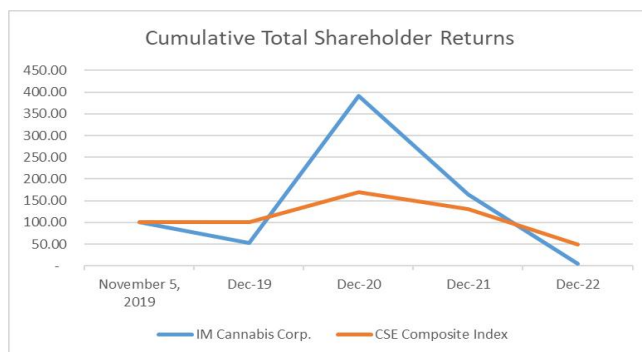
- (a) amendments of a housekeeping nature;
- (b) amendments to the vesting provisions of a RSU or the RSU Plan;
- (c) amendments to the definitions, other than such definitions noted above;
- (d) amendments to reflect changes to applicable securities laws; and
- (e) amendments to ensure that the RSUs granted under the RSU Plan will comply with any provisions respecting income tax and other laws in force in any country or jurisdiction of which a RSU Participant to whom a RSU has been granted may from time to time be a resident, citizen or otherwise subject to tax therein.

Except as otherwise may be expressly provided for under the RSU Plan or pursuant to a will or by the laws of descent and distribution, no RSU and no other right or interest of a RSU Participant is assignable or transferable, and any such assignment or transfer in violation of the RSU Plan is deemed to be null and void.

In the event there is any change in the Common Shares, whether by reason of a stock dividend, consolidation, subdivision or reclassification, an appropriate adjustment will be made by the Board or Compensation Committee in the number of Common Shares available under the RSU Plan and the number of Common Shares subject to any RSUs. If the foregoing adjustment results in a fractional Common Share, the fraction shall be rounded down to the nearest whole number. All such adjustments are conclusive, final and binding for all purposes of the RSU Plan.

Performance Graph

The following graph compares the cumulative total shareholder return by comparing a \$100 investment in Common Shares on November 5, 2019 (the date the Company commenced trading on the CSE following the completion of its reverse takeover transaction with IMC Holdings) to the cumulative shareholder return of the CSE Composite Index for the same period.



	November 5, 2019	December 2019	December 2020	December 2021	December 2022
IM Cannabis Corp.	100.00	53.04	391.56	164.58	5.07
CSE Composite Index	100.00	99.79	170.08	130.95	48.66

The Board is of the view that the Management, including each of the Named Executive Officers, delivered excellent value to shareholders since the completion of the Company's reverse takeover transaction and beginning of trading on the CSE on November 5, 2019. As evidenced by the performance graph above, the Common Shares outperformed the CSE Composite Index during such period; however, the trend shown in the above graph does not necessarily correspond to the Company's compensation to its Named Executive Officers for such period. The Board considered the high-quality contributions by each executive in achieving notable milestones in business development and execution of the Company's strategic plans. Executive compensation during this period is reflective of the dedication and loyalty to grow the Company and to continue towards its goal of becoming a leading global premium cannabis producer and purveyor.

Share-Based and Option-Based Awards

The Company recognizes the importance of share-based and option-based awards for retaining employees and keeping them motivated. New grants to employees are made based on the role and position of the employee, with consideration given to the limits imposed by the Company's Securities Based Compensation Arrangements.

The role of the Compensation Committee is to review Management's recommendations and provide feedback related to security based compensation. During the years 2020 and 2021, the Company retained the services of PricewaterhouseCoopers ("PwC") and Niagara Street HR Consulting Inc. ("Niagara"), respectively, to provide guidance on the compensation of top Management and directors and followed these guidance in 2022.

Compensation Governance

The Compensation Committee

The Compensation Committee is responsible for, among other things, developing and monitoring the Company's overall approach to compensation issues and implementing and administering a system of compensation that provides for competitive base salaries. The Compensation Committee conducts an annual review of the Company's compensation issues and practices, including corporate goals and objectives relative to the compensation of the CEO and other senior officers, and makes a comprehensive set of recommendations to the Board during each calendar year. The Compensation Committee is comprised of three independent directors, being Mr. Moti Marcus, Ms. Einat Zakariya, and Mr. Brian Schinderle. During meetings of the Compensation Committee, the primary goal as they relate to compensation matters are to ensure that the compensation provided to the Named Executive Officers and other senior officers and executives are determined with regard to the Company's business strategies and objectives, such that the financial interest of the executive officers are aligned with the financial interest of shareholders, and to ensure that their compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives. The Company uses the benchmark method in order to determine the compensation for its directors and executive officers. Under the benchmark method, more than ten similar companies are reviewed in order to ensure that compensation to directors and executive officers is within the market range.

The Board looks to the past experience of each director in determining the composition of the Compensation Committee and strives to include a range of skills and experiences when making appointments to ensure the Compensation Committee is comprised of directors that act independently and think analytically about the Company's compensation practices. As a whole, each of the members of the Compensation Committee have direct experience and skills relevant to their responsibilities in executive compensation, including with respect to enabling such directors in making informed decisions on the suitability of the Company's compensation policies and practices.

Executive Compensation-Related Fees

"Executive Compensation-Related Fees" consist of fees for professional services billed by each consultant or advisor, or any of its affiliates, that are related to determining compensation for any of the Company's directors and executive officers. In August 2020, the Company retained PwC to act as its compensation advisor and to build a compensation plan for the Company's directors and executive officers. PwC billed the Company \$14,000 in Executive Compensation-Related Fees for the year ended December 31, 2020. Niagara billed the Company \$50,000 in Executive Compensation-Related Fees for the year ended December 31, 2021. There were no Executive Compensation-Related Fees for the year ended December 31, 2022.

All Other Fees

"All Other Fees" consist of fees for services that are billed by each consultant or advisor mentioned above and which are not reported under "Executive Compensation-Related Fees". Neither PwC nor Niagara billed the Company for any other fees during the fiscal year ended December 31, 2022.

Summary Compensation Table

The following table (presented in accordance with Form 51-102F6 under NI 51-102) sets out all direct and indirect compensation for, or in connection with, services provided to the Company and its subsidiaries for the three most recently completed financial years of the Company in respect of the Named Executive Officers of the Company.

Name and Principal Position	Year ⁽¹⁾	Salary (\$)	Share-Based Awards (\$)	Option-Based Awards (\$) ⁽⁷⁾	Non-Equity Incentive Plan Compensation (\$)		All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plans	Long-Term Incentive Plans		
Oren Shuster ⁽¹⁾ <i>CEO and Director</i>	2022	506,244	Nil	1,110,057	Nil	Nil	Nil	1,616,301
	2021	515,731	Nil	1,388,455	121,000	Nil	Nil	2,025,186
	2020	424,492	Nil	202,743	110,000	Nil	4,577	741,812
Shai Shemesh ⁽²⁾ <i>CFO</i>	2022	321,950	Nil	307,636	Nil	Nil	Nil	629,586
	2021	300,607	Nil	408,653	82,500	Nil	Nil	791,760
	2020	249,960	Nil	112,390	75,000	Nil	Nil	437,350
Marc Lustig <i>Executive Chairman and Director⁽³⁾ (6)</i>	2022	282,480	558,538	50,089	Nil	Nil	Nil	891,107
	2021	264,000	1,286,498	329,846	Nil	Nil	Nil	1,880,344
	2020	90,000	Nil	1,059,085	Nil	Nil	500,000	1,649,085
Michael Ruscetta <i>CEO of a subsidiary⁽⁴⁾</i>	2022	128,497	Nil	464,310	Nil	Nil	Nil	597,807
	2021	201,250	Nil	675,719	175,000	Nil	Nil	1,051,969
	2020	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Howard Steinberg <i>CEO of a subsidiary⁽⁵⁾</i>	2022	704,688	Nil	464,310	Nil	Nil	Nil	1,168,998
	2021	480,000	Nil	675,719	400,000	Nil	Nil	1,555,719
	2020	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes

(1) Mr. Shuster was appointed CEO and director of the Company on October 11, 2019. Mr. Shuster does not earn consideration for his role as a director of the Company.

(2) Mr. Shemesh was appointed CFO of the Company on October 11, 2019

(3) Mr. Lustig was appointed Executive Chairman of the Company on December 29, 2020. Mr. Lustig does not earn consideration for his role as a director of the Company.

(4) Mr. Ruscetta is the CEO of Trichome Financial Corp. ("Trichome").

(5) Mr. Steinberg is the CEO of Trichome JWC Acquisition Corp ("TJAC") and MYM Nutraceuticals Inc. ("MYM"). Please see comment 4 above.

(6) On September 21, 2021 the Company granted Mr. Lustig 550,000 RSUs.

(7) The Company used the Black-Scholes pricing model as the methodology to calculate the grant date fair value, and relied on the following the key assumptions and estimates for each calculation under the following assumptions: (i) risk free interest rate of 0.42% to 1.97% (ii) expected dividend yield of 0%; (iii) expected volatility of 76.28% to 82.31%; and (iv) a term of 5 to 10 years. The Black-Scholes pricing model was used to estimate the fair value as it is the most accepted methodology.

Outstanding Option-Based Awards and Share-Based Awards

The following table is a summary of all outstanding option-based awards and share-based awards of Named Executive Officers as of December 31, 2022.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options ⁽¹⁾ (2) (#)	Option exercise price (\$) ⁽³⁾	Option expiration date	Value of unexercised in-the-money options ⁽³⁾ (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ⁽⁴⁾ (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Oren Shuster <i>CEO and Director</i>	6,250 75,000 50,000	40 58.7 16	June 9, 2025 May 19, 2026 January 4, 2029	Nil Nil Nil	Nil	Nil	Nil
Shai Shemesh <i>CFO</i>	3,750 20,165 6,250	40 58.7 16	June 9, 2025 May 19, 2026 April 7, 2029	Nil Nil Nil	Nil	Nil	Nil
Yael Harrosh <i>Chief Legal and Operations Officer</i>	3,750 18,707 5,000	40 58.7 16	June 9, 2025 May 19, 2026 January 4, 2029	Nil Nil Nil	Nil	Nil	Nil
Marc Lustig ⁽¹⁾ <i>Executive Chairman and Director</i>	67,500	16	September 11, 2029	Nil	13,757	17,884	53,616
Rinat Efrima <i>CEO of a subsidiary</i>	5,000	27.3	April 4, 2027	Nil	Nil	Nil	Nil
Richard Balla <i>CEO of a subsidiary</i>	3,750	16	July 7, 2029	Nil	Nil	Nil	Nil
Michael Ruscetta <i>CEO of a subsidiary</i>	23,250	100.2	March 18, 2026	Nil	Nil	Nil	Nil
Howard Steinberg <i>CEO of a subsidiary</i>	23,250	100.2	March 18, 2026	Nil	Nil	Nil	Nil

Notes

- (1) Mr. Lustig was appointed as board member on October 11, 2019, and as Executive Chairman on December 29, 2020.
- (2) Each Option entitles the holder to purchase one Common Share.
- (3) On November 17, 2022, the Company completed a consolidation of its Common Shares on a 10:1 basis. The figures reported in this table are presented on a 10:1 post-consolidation basis.
- (4) Calculated using the closing market price of the Common Shares on the CSE on December 31, 2022 of \$1.3 and subtracting the exercise price of in-the-money Options, including unvested. These Options have not been, and may never be, exercised and actual gains, if any, on exercise will depend on the value of the Common Shares on the date of exercise.
- (5) Calculated using the closing market price of the Common Shares on the CSE on December 31, 2022 of \$1.3.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth for each Named Executive Officer, the value of option-based awards and share-based awards that vested during the year ended December 31, 2022 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2022.

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Oren Shuster <i>CEO</i>	1,410,332	Nil	Nil
Shai Shemesh <i>CFO</i>	429,862	Nil	Nil
Yael Harrosh <i>Chief Legal and Operations Officer</i>	302,668	Nil	Nil
Marc Lustig <i>Executive Chairman and Director</i>	536,117	641,982	Nil
Rinat Efrima <i>CEO of a subsidiary</i>	Nil	Nil	Nil
Richard Balla <i>CEO of a subsidiary</i>	37	Nil	Nil
Michael Ruscetta <i>CEO of a subsidiary</i>	732,792	Nil	Nil
Howard Steinberg <i>CEO of a subsidiary</i>	732,792	Nil	Nil

PENSION PLAN BENEFITS

There are no pension plan benefits in place for the Named Executive Officers or the directors of the Company.

EXTERNAL MANAGEMENT COMPANIES

Except as described below, none of the Named Executive Officers or directors of the Company have been retained or employed by an external management company which has entered into an understanding, arrangement or agreement with the Company to provide executive management services to the Company, directly or indirectly.

Mr. Steinberg provides his services as the CEO of the Company's subsidiary, MYM, through a private company operating as an external management company.

Mr. Shuster provides his services as the CEO of the Company's subsidiary, IMC Holdings, through a private company operating as an external management company.

Mr. Lustig provides his services as the Executive Chairman of the Company, through a private company operating as an external management company.

Ms. Einat Zakaria provides her services as a director of the Company through a private company operating as an external management company.

Mr. Moti Marcus provides his services as a director of the Company through a private company operating as an external management company.

TERMINATION AND CHANGE OF CONTROL BENEFITS

Other than described below, no Named Executive Officer has entered an arrangement with the Company or a subsidiary of the Company that provide for payments to the Named Executive Officers in connection with any termination or change of control beyond any payment that a Named Executive Officer may be entitled to pursuant to applicable employment standard law:

Oren Shuster

As at December 31, 2022, Mr. Shuster performed the services of CEO of the Company, through a private company acting as an external management company (**Shuster Management Company**). The Shuster Management Company was paid a monthly fee of \$42,000 per month (plus VAT). Either the Company (through its subsidiary) or the Shuster Management Company may terminate the agreement at any time for any reason upon three months' notice with continuing payments during such notice period. The Company, through its subsidiary, may terminate the agreement forthwith for cause without notice. As of March 2022, Mr. Shuster performs the services of CEO of the Company under substantially similar terms.

Michael Ruscetta

The Company's subsidiary, Trichome, entered into an executive employment contract with Mr. Ruscetta effective May 4, 2018. Under this contract Mr. Ruscetta is entitled to base salary compensation of \$175,000 per annum, cash incentive award equal to 100% of the base salary, and certain grants of securities based awards that are subject to vesting conditions. In the event that Mr. Ruscetta is terminated for cause, Trichome may terminate Mr. Ruscetta's employment without notice and securities based awards, whether vested or unvested, will immediately terminate. If Mr. Ruscetta is terminated without cause or Trichome is subject to a change of control in which over 50% of the voting shares of Trichome is acquired, directly or indirectly, by any person and Mr. Ruscetta is terminated in connection with such change of control, Mr. Ruscetta will be provided with notice or pay in lieu of notice equal to ongoing payment of base salary, pro-rata average bonus and continuation of benefits coverage for a period equal to six months plus one month for every year of service completed after May 7, 2019. If Mr. Ruscetta is terminated without cause, vested securities based awards will continue on their terms and unvested securities based awards will terminate. If Trichome is subject to a change of control, all unvested securities will be payable in accordance with their terms.

Howard Steinberg

Mr. Steinberg performs the services of CEO of TJAC and MYM through a private company acting as an external management company (**Steinberg Management Company**). The Steinberg Management Company is paid a monthly fee of \$40,000 per month (plus HST) and \$100,000 per quarter (plus HST). Either the Company (through its subsidiary) or the Steinberg Management Company may terminate the agreement at any time upon three months' notice with continuing payments during such notice period, pro-rated for any partial month or quarter. The Company (through its subsidiary) may also terminate the agreement immediately and pay a termination fee equal to three months' notice, pro-rated for any partial month or quarter.

DIRECTOR COMPENSATION

The objective of the Company's compensation program for directors is to attract and retain members of the Board of a quality and nature that will enhance the sustainable profitability and growth of the Company. Director compensation is intended to provide an appropriate level of remuneration considering the experience, responsibilities, time requirements and accountability of their roles.

Director Compensation Table

The following table sets out certain information respecting the compensation paid to directors of the Company who were not Named Executive Officers during the year ended December 31, 2022.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽⁵⁾	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Vivian Bercovici <i>Director</i> ⁽¹⁾	58,530	Nil	75,918	Nil	Nil	Nil	134,448
Haleli Barath ⁽²⁾ <i>Director</i>	59,560	Nil	205,764	Nil	Nil	Nil	265,324
Brian Schinderle <i>Director</i>	86,797	Nil	205,764	Nil	Nil	Nil	292,561
Moti Marcus ⁽³⁾ <i>Director</i>	24,722	Nil	7,114	Nil	Nil	Nil	31,836
Einat Zakariya ⁽⁴⁾ <i>Director</i>	24,621	Nil	7,114	Nil	Nil	Nil	31,735

Notes

- (1) Ms. Bercovici resigned on September 13, 2022.
- (2) Ms. Barath resigned on September 13, 2022.
- (3) Mr. Marcus was appointed on September 13, 2022.
- (4) Ms. Zakariya was appointed on September 13, 2022.
- (5) The Company used the Black-Scholes pricing model as the methodology to calculate the grant date fair value, and relied on the following the key assumptions and estimates for each calculation under the following assumptions: (i) risk free interest rate of 0.42% to 3.03% (ii) expected dividend yield of 0%; (iii) expected volatility of 78.7% to 82.01%; and (iv) a term of 5 to 10 years. The Black-Scholes pricing model was used to estimate the fair value as it is the most accepted methodology.

Directors' Outstanding Option-Based Awards and Share-Based Awards

The following table sets forth for each of the Company's directors, other than directors who are also currently Named Executive Officers, all share-based awards and option-based awards outstanding at the end of the year ended December 31, 2022.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options ^{(1) (2)} (#)	Option exercise price (\$) ⁽²⁾	Option expiration date	Value of unexercised in-the-money options ⁽³⁾ (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Vivian Bercovici ⁽⁴⁾	5,250 3,000	40.00 58.70	June 9, 2025 May 19, 2026	Nil	Nil	Nil	Nil
Haleli Barath ⁽⁵⁾	9,000	100.00	February 28, 2026	Nil	Nil	Nil	Nil
Brian Schinderle	9,000	100.00	February 28, 2026	Nil	Nil	Nil	Nil
Moti Marcus ⁽⁶⁾	9,000	6.00	September 19, 2027	Nil	Nil	Nil	Nil
Einat Zakariya ⁽⁷⁾	9,000	6.00	September 19, 2027	Nil	Nil	Nil	Nil

Notes

- (1) Each Option entitles the holder to purchase one Common Share.
- (2) On February 12, 2021, the Company completed a consolidation of its Common Shares on a 4:1 basis. The figures reported in this table are presented on a 4:1 post-consolidation basis.
- (3) Calculated using the closing market price of the Common Shares on the CSE on December 31, 2022 of \$1.3 and subtracting the exercise price of in-the-money Options, including unvested. These Options have not been, and may never be, exercised and actual gains, if any, on exercise will depend on the value of the Common Shares on the date of exercise.
- (4) Ms. Bercovici resigned on September 13, 2022 but remained as a director of IMC Holdings, therefore her options continued to vest according to the Option Plan. Ms. Bercovici resigned from IMC Holdings on January 8, 2023.
- (5) Ms. Barath resigned on September 13, 2022 but remained as a director of IMC Holdings, therefore her options continued to vest according to the Option Plan.
- (6) Mr. Marcus was appointed on September 13, 2022
- (7) Ms. Zakariya was appointed on September 13, 2022.

Directors' Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth for each of the Company's directors, other than directors who are also currently Named Executive Officers, the value of option-based awards and share-based award that vested during the year ended December 31, 2022, and the value of non-equity incentive plan compensation earned during the year ended December 31, 2022.

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Vivian Bercovici ⁽¹⁾	130,200	Nil	Nil
Haleli Barath ⁽²⁾	362,043	Nil	Nil
Brian Schinderle	362,043	Nil	Nil
Moti Marcus ⁽³⁾	Nil	Nil	Nil
Einat Zakariya ⁽⁴⁾	Nil	Nil	Nil

Notes

- (1) Ms. Bercovici resigned on September 13, 2022 but remained as a director of IMC Holdings, therefore her options continued to vest according to the Option Plan. Ms. Bercovici resigned from IMC Holdings on January 8, 2023.
- (2) Ms. Barath resigned on September 13, 2022 but remained as a director of IMC Holdings, therefore her options continued to vest according to the Option Plan.
- (3) Mr. Marcus was appointed on September 13, 2022.
- (4) Ms. Zakariya was appointed on September 13, 2022.

EQUITY COMPENSATION PLAN INFORMATION

The Stock Option Plan and RSU Plan are the only equity compensation plans approved by the Company's shareholders. The following sets forth information in respect to Common Shares authorized for issuance under the Company's equity compensation plans as at December 31, 2022:

Plan Category	Number of Securities to be Issued upon Exercise of Options, Warrants and Rights (a)	Weighted – Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans Approved by Securityholders	800,535	\$55.23	241,908
Equity Compensation Plans Not Approved by Securityholders	Nil	N/A	Nil
Total	800,535	\$55.23	241,908

Note

- (1) On November 17, 2022, the Company completed a consolidation of its Common Shares on a 10:1 basis. The figures reported in this table are presented on a 10:1 post-consolidation basis.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the aggregate indebtedness of all directors, executive officers or employees of the Company or its subsidiaries or former directors, executive officers or employees of the Company or its subsidiaries, as at October 19, 2023, entered into in connection with a purchase of securities or otherwise.

Aggregate Indebtedness		
Purpose	To the Company or its Subsidiaries (\$)	To Another Entity (\$)
Share purchases	Nil	Nil
Other	1,088,984 ⁽¹⁾	Nil

Note

(1) As at October 19, 2023, Oren Shuster, the CEO and a director of the Company and Rafael Gabay, a former director of the Company, were each indebted to IMC Holdings, a wholly owned subsidiary of the Company, in the amount of \$544,492.

Other than as provided above, none of the directors, executive officers or employees of the Company or its subsidiaries or former directors, executive officers or employees of the Company or its subsidiaries have any indebtedness outstanding to the Company or any of its subsidiaries or indebtedness outstanding to another entity that is subject to a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries as of the date hereof.

The following table sets forth the indebtedness to the Company and its subsidiaries of all executive officers, directors, employees, other than routine indebtedness as defined under Canadian securities law and indebtedness that has been entirely repaid by the date of this Circular. Routine indebtedness includes: (i) loans made on terms no more favourable than loans to employees generally, for which the amount remaining unpaid does not exceed \$50,000 at any time during the last completed financial year to any director, executive officer, or proposed nominee together with their associates; (ii) loans to full-time employees, fully secured against their residence and not exceeding their annual salary; (iii) loans other than to full-time employees, on substantially the same terms available to other customers with comparable credit and involving no more than the usual risk of collectability; and (iv) loans for purchases on usual trade terms, or for ordinary travel or expense advances, or similar reasons, with repayment arrangements in accordance with usual commercial practice.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS UNDER (1) SECURITIES PURCHASE AND (2) OTHER PROGRAMS (\$)						
Name and Principal Position	Involvement of Company or Subsidiary	Largest Amount Outstanding During the Year Ended December 31, 2022	Amount Outstanding as at October 19, 2023	Financially Assisted Securities Purchases During the Year Ended December 31, 2022	Security for Indebtedness	Amount Forgiven During the Year Ended December 31, 2022
Oren Shuster <i>CEO and Director</i>	IMC Holdings	533,899	544,492	Nil	Nil	Nil
Marc Lustig <i>Executive Chairman</i>	Company	4,887,208	Nil	Nil	Nil	Nil

On April 2, 2019, IMC Holdings, a wholly owned subsidiary of the Company, restructured its organization (the “**IMC Restructuring**”) resulting in the divestiture to Oren Shuster and Rafael Gabay of its interest in Focus Medical Herbs Ltd., which is licensed by the Israeli Ministry of Health to propagate and cultivate cannabis in Israel.

In connection with the IMC Restructuring, IMC Holdings provided loans to each of Mr. Shuster and Mr. Gabay in the amount of \$550,000 (NIS 1,378,250), bearing interest at a rate according to the interest rate stated in section 3(j) to the Israeli Income Tax Ordinance (2.9% per year 2023). As of October 19, 2023, Mr. Shuster was indebted to the Company in the amount of \$544,492 (NIS 1,519,131) and Mr. Gabay was indebted to the Company in the amount of \$544,492 (NIS 1,519,131).

In connection with the Company acquiring all of the issued and outstanding shares of Trichome pursuant to a statutory plan of arrangement under the *Business Corporations Act* (Ontario), Marc Lustig, Executive Chairman of the Board, agreed to indemnify and hold harmless the Company, against withholding tax liabilities to Canada Revenue Agency (“**CRA**”), and pay the Company the following amounts in cash: (a) any portion of remittance to the CRA on account of any non-resident Canadian (estimated at approximately \$1,886,000); plus (b) 75% of any liabilities for penalties up to December 31, 2021 and 100% of any penalties from January 1, 2022 onward (estimated at approximately \$604,000), and indemnify 75% of any liabilities for interest through December 31, 2021 and 100% of any interest from January 1, 2022 (estimated at approximately \$342,000), in connection with the withholding tax liabilities to CRA (other than penalties and interest included in (a) above); plus (c) to the extent not captured above in sections (a) and (b), 100% of the withholding tax liabilities, subtracting all cash proceeds received by Trichome or the Company from the sale of certain Common Shares to cover the tax liabilities.

Mr. Lustig transferred cash to the Company in the amount of \$3,250,000. Further, on March 30, 2022, Mr. Lustig entered into several security agreements under which he pledged 833,508 Common Shares, vested RSUs and Options in favor of the Company to secure the indemnification asset for the remaining tax withholding liability. Such pledge of securities was registered in Ontario and British Columbia. On May 5, 2023, the Company completed a debt settlement (the “**Debt Settlement**”) with L-5 Capital Inc. (“**L5 Capital**”), a company controlled by Mr. Lustig. Pursuant to the Debt Settlement, the Company settled outstanding indebtedness of \$838,000 (approximately US\$615,000) through the issuance of 492,492 units of the Company at a price of US\$1.25 per unit. Each unit consisted of one Common Share and one Common Share purchase warrant. Each purchase warrant entitles L5 Capital to purchase one additional Common Share at an exercise price of US\$1.50 per Common Share for a period of 36 months from the date of issuance. As of October 19, 2023, except for the tax obligation of \$839,000 related to the Debt Settlement, there is no indebtedness remaining to the Company.

Other than as provided above, no individual who is, or at any time during the Company’s last fiscal year was, a director or executive officer of the Company, proposed management nominee for director of the Company or associate of any such director, executive officer or proposed nominee is as at the date hereof, or at any time since the beginning of the Company’s last fiscal year has been, indebted to the Company or any of its subsidiaries or to another entity where the indebtedness to such other entity is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries, including indebtedness for security purchase or any other programs.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Management is not aware of any material interest, direct or indirect, of any informed person of the Company, or any associate or affiliate of any such informed person, in any transaction since the commencement of the Company’s fiscal year ended December 31, 2022, or in any proposed transaction, that has materially affected or would materially affect the Company.

CORPORATE GOVERNANCE

The Board views effective corporate governance as an essential element for the effective and efficient operation of the Company. The Company believes that effective corporate governance improves corporate performance and benefits all of its shareholders. The following statement of corporate governance practices sets out the Board’s review of the Company’s governance practices relative to Form 58-101F1 under National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”) and National Policy 58-201 – *Corporate Governance Guidelines* (“**NP 58-201**”). Additional information on the Company’s corporate governance practices (under the heading “Corporate Governance”) can be found in the Company’s annual report on Form 20-F for the year ended December 31, 2022 dated March 29, 2023 (the “**Annual Report**”). The Annual Report is available on the Company’s profile on SEDAR+ at www.sedarplus.ca. Upon request, the Company will promptly provide a copy of the Annual Report free of charge to any securityholder of the Company who requests it.

Board

The Board is responsible for supervising the management of the business and affairs of the Company. The independent directors, as such term is defined in NI 58-101 and National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”), are Moti Marcus, Brian Schinderle and Einat Zakariya. The non-independent directors are Oren Shuster, and Marc Lustig by virtue of them being CEO and executive chairman of the Company, respectively. As a result, the majority of the Board as it is currently constituted are independent. The Board facilitates its exercise of independent supervision through regular meetings of the Board, including meetings without the non-independent directors in attendance. The independent directors must hold regularly scheduled executive sessions, at least twice a year, without the non-independent directors and any senior officers present at meetings of the Board.

The attendance for each director for Board meetings and committee meetings, since the beginning of the most recently completed financial year, is as follows:

Name of Director	Board	Audit Committee	Compensation Committee	Governance and Nomination Committee
Vivian Bercovic ⁽¹⁾	46.15% (6/13)	50% (2/4)	-	-
Brian Schinderle	100% (13/13)	100% (4/4)	-	-
Haleli Barath ⁽²⁾	46.15% (6/13)	50% (2/4)	-	-
Oren Shuster	100% (13/13)	-	-	-
Marc Lustig	100% (13/13)	-	-	-
Moti Marcus ⁽³⁾	46.15% (6/13)	50% (2/4)	-	-
Einat Zakariya ⁽⁴⁾	46.15% (6/13)	50% (2/4)	-	-

Notes

- (1) Ms. Bercovic resigned as a director of the Company on September 12, 2022.
- (2) Ms. Barath was appointed as a director of the Company on February 22, 2021 and resigned as a director of the Company on September 12, 2022.
- (3) Mr. Marcus was appointed as a director of the Company on September 12, 2022.
- (4) Ms. Zakariya was appointed as a director of the Company on September 12, 2022.

In addition to the meetings referenced above, there were numerous informal meetings between Management and the committees. The independent directors do not hold regularly scheduled meetings at which non-independent directors and members of Management are not present. However, the Board believes that appropriate structures and procedures are in place to ensure that it can function independently of Management and the Board periodically holds independent sessions at the end of Board meetings. Independent directors are also in frequent informal communication with one another.

The Board believes that it functions independently of management and reviews its procedures on an ongoing basis to ensure that it is functioning independently of management. The Board meets without management present, as circumstances require. If conflicts arise, interested parties are precluded from voting on matters in which they may have an interest. Considering the guidelines contained in NP 58-201, the Board convenes meetings, as deemed necessary, of the independent directors, at which non-independent directors and members of management are not in attendance. The Board is of the opinion that no formal leadership of independent directors is required given the size of the Board and the ability of the independent directors to convene meetings of independent directors.

The Board has plenary power to manage and supervise the management of the business and affairs of the Company and to act in the best interest of the Company. The Board is responsible for the overall stewardship of the Company and approves all significant decisions that affect the Company before they are implemented. The Board also considers their implementation and reviews the results. Any related party transaction as such term is defined in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, is subject to review by the independent directors of the Company.

In order to exercise their duties appropriately, the Board may at any time retain outside financial, legal or other advisors at the expense of the Company. In addition, any director may, subject to the approval of the Governance and Nomination Committee, retain an outside financial, legal or other advisor at the expense of the Company.

The roles and responsibilities of the chairman of the Board is set out in the Mandate of the Board. The Board has not developed written position descriptions for the chair of each Board committee. The persons acting as chairs of Board committees have the experience and expertise necessary to assess the role they must play in the context of a public company. The Company has adopted a position description for the CEO, summarized as follows.

CEO Position Description

The CEO is responsible for leading the business and affairs of the Company through the development and implementation of plans, policies, values, strategies, specific goals and budgets for the growth and operation of the Company with the objective of maximizing the Company's long-term success and creating shareholder value. The CEO will report directly to the Board and shall respect the Board's independence and discuss all major corporate commitments and strategies with the Board before they are undertaken. In fulfilling their responsibilities, the CEO shall foster a corporate culture that promotes and encourages high ethical and moral standards, individual integrity and compliance with applicable laws and regulations and policies implemented by the Company that further such objectives.

Specific Responsibilities

The CEO is specifically responsible for:

- (a) overseeing that the day-to-day business affairs of the Company are appropriately managed and taking steps to maintain and enhance an effective senior management team reporting to the CEO;
- (b) recommending to the Board the Company's financial and operating goals and objectives and, following approval by the Board thereof, consistently striving to achieve such goals and objectives;
- (c) formulating, and presenting to the Board for approval, long-term business plans, strategies and policies having the objective of maximizing the Company's long-term success and the creation of shareholder value;
- (d) together with other senior management as are appropriate, developing and recommending to the Board annual business plans and budgets that support the Company's long term business plans and strategies;
- (e) developing and implementing, with senior management of the Company, plans, strategies, budgets and policies necessary to achieve the goals and objectives of the Company;
- (f) supervising, maintaining and deploying the Company's resources – human, financial or otherwise – with the purpose and objective of achieving the Company's operating goals and objectives;
- (g) keeping the Board informed in a timely and candid manner of the progress of the Company towards the achievement of its strategic and operational goals and objectives and of all material deviations from the goals, objectives, plans, strategies, budgets or policies established by the Board;
- (h) overseeing, evaluating and taking steps to enhance, where necessary, the integrity and reliability of the Company's internal controls, including its management information systems and financial reporting, and establishing, maintaining, designing and evaluating disclosure controls and procedures for the Company;
- (i) identifying and managing business risks faced by the Company, including overseeing the design and implementation of appropriate systems and procedures to effectively monitor, manage and mitigate such risks;

- (j) ensuring that the Board has regular exposure to the Company's senior management and overseeing the development and succession of the Company's senior management team;
- (k) evaluating the performance of senior management of the Company and making recommendations with respect to their compensation;
- (l) maintaining a positive and ethical work climate that is conducive to attracting, retaining and motivating a diverse group of top-quality employees at all levels;
- (m) serving as the Company's principal spokesperson and ensuring that information communicated to the public fairly portrays the position of the Company and that timely and continuous disclosure obligations of the Company are met;
- (n) representing the Company in a such a way so as to enhance and maintain the Company's reputation and to promote positive relationships with shareholders, suppliers, contractors, clients, service providers, strategic partners, creditors, financial institutions, local communities, all levels of government and the media; and
- (o) fulfilling all other responsibilities as assigned by the Board, in the manner expected by the Board.

In addition, the CEO has the responsibilities specified in their employment agreement with the Company.

Board Diversity

The Company believes it is important that its Board is composed of individuals reflecting the diversity represented by our employees, our customers, and our communities. Below is enhanced disclosure regarding the diversity of the Board as required by the Nasdaq's Board Diversity Rule.

Board Diversity Matrix as of October 19, 2023				
Country of Principal Executive Offices:	Israel			
Foreign Private Issuer	Yes			
Disclosure Prohibited under Home Country Law	No			
Total Number of Directors	5			
	Male	Female	Non-Binary	Did Not Disclose Gender
Part 1: Gender Identity				
Directors	4	1	0	0
Part 2: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	0			
LGBTQ+	0			
Did Not Disclose Demographic Background	0			

Other Reporting Issuer Experience

Other than as described below, none of the Company's nominee directors are currently directors of other reporting issuers (or equivalent) in a jurisdiction of Canada or a foreign jurisdiction.

Name of Nominee Director	Name of Reporting Issuer	Exchange and Symbol
Marc Lustig	Briacell Therapeutics Corp.	TSX: BCT; NASDAQ: BCTX
	Aequus Pharmaceuticals Inc.	TSXV: AQS; OTCQB: AQSZF
	Cresco Labs Inc.	CSE: CL; OTCQX: CRLBF; FSE: 6CQ
	PharmaCielo Ltd.	TSXV: PCLO; OTCQX: PCLOF

Orientation and Continuing Education of Board Members

The Company currently does not have any formal orientation or continuing education programs in place for new directors, though it is encouraged for all members. Board meetings are sometimes held at the Company's facilities and are combined with tours and presentations by Management and employees to give the Board additional insight into the Company's business. In addition, Management makes itself available for discussion with all Board members. Management does provide regular reporting, both on the Company's operations and opportunities, as well industry trends and opportunities.

Ethical Business Conduct

The Board is of the view that the fiduciary duties placed on individual directors pursuant to corporate legislation and the common law, and the conflict-of-interest provisions under corporate legislation which restricts an individual director's participation in decisions of the Board in which the director has an interest, are sufficient to ensure that the Board operates independently of management and in the best interests of the Company. In addition, the Board adopted a Code of Business Conduct and Code of Ethics on November 26, 2020, which applies to all Company's personnel, including all members of the Board, to conduct all Company's affairs in accordance with all applicable laws, rules and regulations of the jurisdictions in which it does business. The Code of Business Conduct and Code of Ethics are available on SEDAR+ at www.sedarplus.ca and on the Company's website at <https://investors.imcannabis.com/corporate-governance/governance-documents>. The Board monitors compliance with the Code of Business Conduct and Code of Ethics by requiring that all employees and executive officers of the Company certify that they have read, understood and agreed to be bound by the Code of Business Conduct and Code of Ethics.

Nomination of Directors

The size of the Board is reviewed annually when the Board considers the number of directors to recommend for election at the annual general meeting of shareholders. The Board takes into account the number of directors required to carry out the Board duties effectively and to maintain a diversity of view and experience.

Compensation of Directors and Officers

The Compensation Committee reviews and determines the compensation of directors and officers. The Compensation Committee is comprised entirely of independent directors and meets at least annually to establish, administer and evaluate the compensation philosophy, policies and plans for directors and officers regarding director and executive compensation. The Compensation Committee reviews the performance and determines the compensation of the CEO based on criteria, including the Company's performance and accomplishment of long-term strategic objectives. The Compensation Committee further reviews each individual officer's performance and determines compensation that is comparable to similarly situated officers in comparable companies. The full text of the Compensation Committee charter is posted on the Company's website at <https://investors.imcannabis.com/corporate-governance/governance-documents>.

Other Board Committees

As of the date of this Circular, the Company's standing committees are the Audit Committee, the Compensation Committee and the Governance and Nomination Committee. The Audit Committee currently consists of Moti Marcus (Chair), Brian Schinderle and Einat Zakariya, all of whom are "independent", and all of whom are "financially literate" as such terms are defined in NI 52-110. Additional information on the Audit Committee and Compensation Committee (under the heading "Audit Committee Disclosure") can be found in the Annual Report.

For each Audit Committee member's biography (under the heading "Directors and Executive Officers") can be found in the Annual Report and the full text of the Audit Committee's charter is posted on the Company's website at <https://investors.imcannabis.com/corporate-governance/governance-documents>.

The current members of the Governance and Nomination Committee are Oren Shuster, Moti Marcus and Einat Zakariya. The purpose of the Governance and Nomination Committee is to develop and monitor the Company's approach to: (i) matters of governance; and (ii) the nomination of directors to the Board. The Governance and Nomination Committee is not comprised of entirely independent directors; however, the Governance and Nomination Committee monitors best practices for governance and annually reviews the Company's governance practices and disclosures to ensure that it continues to exemplify high standards of corporate governance. The Governance and Nomination Committee reviews the mandate of the Board, the charters of each of the committees, and the methods and processes by which the directors fulfill their respective duties and responsibilities to ensure that they meet all applicable regulatory requirements and best practices. The full text of the Governance and Nomination Committee charter is posted on the Company's website at <https://investors.imcannabis.com/corporate-governance/governance-documents>.

Assessment of Directors, the Board and Board Committees

The Board acts in accordance with the Company's Mandate of the Board, Audit Committee charter, Compensation Committee charter and Governance and Nomination Committee charter, as applicable, to monitor the adequacy of information given to directors, the communications between the Board and management, and the strategic direction and processes of the Board and its committees to satisfy themselves that the Board, its committees, and its individual directors are performing effectively. A copy of the Mandate of the Board is attached as Schedule "A" to this Circular.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR+ at www.sedarplus.ca. Financial information about the Company is provided in the Annual Financial Statements and associated MD&A for its most recently completed financial year.

Shareholders of the Company may request copies of the Annual Financial Statements and associated MD&A by contacting the General Counsel of the Company at +972-54-6687515.

DATED at Kibbutz Gilil-Yam, Israel, this 19th day of October 2023.

BY ORDER OF THE BOARD

"Oren Shuster"

Oren Shuster
CEO and Director

SCHEDULE “A”

IM CANNABIS CORP.

MANDATE OF THE BOARD

Mandate

The Board of Directors (the “**Board**”) of IM Cannabis Corp. (the “**Company**”) is responsible for the supervision of the management of the business and affairs of the Company. The Board should manage the responsibilities and obligations set out below, either directly or through committees of the Board. The Board will, however, retain its oversight function and ultimate responsibility for these matters.

Composition

1. The Board should consist of individuals who possess skills and competencies in areas that are relevant to the business and affairs of the Company. At least a majority of the directors will be “independent” directors, as defined in Section 1.4 of National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) and in accordance with Rule 5605 of the NASDAQ Stock Market Rules (“**Rule 5605**”).
2. The directors of the Company will be elected at the annual meeting of the shareholders of the Company and shall serve until no longer than the close of the next annual meeting of shareholders, subject to re-election thereat.

Meetings

3. The Board shall have at least four regularly scheduled meetings in each financial year of the Company.
4. The Chair of the Board (the “**Chair**”), the Chief Executive Officer (the “**CEO**”) and the Lead Director of the Board (the “**Lead Director**”), if any, are responsible for the agenda for each meeting of the Board. Prior to each Board meeting, the Chair and the CEO will discuss agenda items for the meeting with the Lead Director, if any. Materials for each meeting should be distributed to the Board in advance of the meeting.
5. Directors are expected to attend at least three quarters of all meetings of the Board held in a given financial year of the Company and to adequately review meeting materials in advance of each meeting.
6. The independent directors must hold regularly scheduled executive sessions, at least twice a year, without the non-independent directors and any senior officers present at meetings of the Board. The Chair, if independent, and if not independent, the Lead Director, if any, should chair the executive sessions.

Board Committees

7. The Board may appoint such committees from time to time as it considers appropriate. Each permanent committee shall have a mandate that is approved by the Board, setting out the responsibilities of, and the extent of the powers delegated to, such committee by the Board. The committees currently consist of the Audit Committee, the Corporate Governance and Nominating Committee and the Compensation Committee.
-

Roles and Responsibilities

Oversight of Management and the Board

8. The Board is responsible for the appointment and replacement of senior officers of the Company. The Board should ensure that appropriate succession planning, including the appointment, training and monitoring of the senior officers and members of the Board, is in place.
9. The Board is responsible, to the extent feasible, for satisfying itself as to the integrity of the CEO and the other senior officers of the Company, and that the CEO and the other senior officers create a culture of integrity throughout the Company.
10. The Board should annually consider what additional skills and competencies would be helpful to the Board, with the Corporate Governance and Nominating Committee being responsible for identifying specific candidates for consideration for appointment to the Board.
11. If the Chair is not independent within the meaning of Section 1.4 of NI 52-110 and Rule 5605 and a Lead Director is required, or is considered desirable by the Corporate Governance and Nominating Committee, such committee will recommend a candidate for the position of Lead Director from among the independent members of the Board. The Board will be responsible for appointing the Lead Director. The Chair and the Lead Director, if any, shall carry out their responsibilities in accordance with the roles description attached as Appendix "A".
12. Through the Compensation Committee, the Board should review the compensation of directors to ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective director, and should review the compensation of the senior officers to ensure that it is competitive within the industry and that the form of compensation aligns the interests of each senior officer with those of the Company.
13. The Board should review and assess, or delegate such review and assessment to an appropriate committee of the Board, the Company's Timely Disclosure and Confidentiality Policy from time to time, and at least annually. If such review and assessment is delegated to a committee of the Board, such committee shall submit any proposed amendments to the Board for consideration.

Financial Matters

14. The Board, with the assistance of the Audit Committee, is responsible for reviewing the financial and underlying operational performance of the Company.
15. The Board shall review and approve, with the assistance of the Audit Committee, the annual financial statements, management's discussion and analysis related to such annual financial statements, budgets and forecasts, the annual information form and management information circular of the Company, as applicable.
16. The Board shall review and approve the quarterly financial statements and management's discussion and analysis related to such quarterly financial statements
17. The Board shall annually review, together with the Corporate Governance and Nominating Committee and the Audit Committee, the directors' and officers' third-party liability insurance of the Company.
18. The Board should review (or delegate such review to the Audit Committee) in advance of public release: (i) any earnings guidance; and (ii) any news release containing financial information based upon financial statements and management's discussion and analysis that have not previously been released.
19. The Board, primarily through the Audit Committee, should monitor and ensure the integrity of the internal controls and procedures (including adequate management information systems) within the Company and the financial reporting procedures of the Company.

Business Strategy

20. The Board has primary responsibility for the strategic direction of the Company. The Board will contribute to the development of such strategic direction by approving, at least annually, a strategic plan and budget developed and proposed by the senior officers, subject to any changes required by the Board. The strategic plan and budget should take into account the business opportunities and business risks of the Company. The Board will review with the senior officers from time to time the strategic planning environment, the emergence of new opportunities, trends and risks and the implications of these factors on the strategic direction of the Company. The Board will review and approve the financial objectives, plans and actions of the Company, including significant capital allocations and expenditures.
21. The Board is responsible for ensuring that procedures are in place to appropriately manage the principal business risks of the Company.
22. The Board should monitor corporate performance against the approved strategic plan and budget, including assessing operating results, to evaluate whether the business of the Company is being appropriately managed.
23. The Board is responsible for reviewing and approving all material transactions affecting the Company not contemplated in the strategic plan and budget approved by the Board from time to time.

Communications and Reporting to Shareholders

24. The Board is responsible for overseeing the continuous disclosure program of the Company, with a view to satisfying itself that adequate procedures are in place to ensure that material information is disclosed in accordance with applicable laws.
25. The Board will ensure that the Company has a communication and disclosure policies for investor relations, shareholder communications and public disclosure.

Corporate Governance

26. The Corporate Governance and Nominating Committee will recommend, and the Board will establish, the Board's approach to corporate governance.
27. The Board is responsible for assessing its own effectiveness in fulfilling this mandate and shall assess this mandate, as well as the mandate of each committee (considering, among other things, the recommendations of the applicable committee) from time to time, and at least annually.
28. The Board is responsible for evaluating the relevant relationships of each independent director and is required to make an affirmative decision that any such relationship does not preclude a determination that the director is independent within the meaning of NI 52-110 and Rule 5605.
29. The Board is responsible for ensuring the establishment of appropriate standards of corporate conduct and should ensure that adequate procedures are in place to monitor compliance with the Company's Code of Business Conduct and Ethics. Only the Board or the Company's general counsel may grant waivers of the Code of Business Conduct and Ethics which would be to the benefit of any director or senior officer. Any such waiver shall be disclosed to the extent and in the manner required by applicable laws or stock exchange rules.

General

30. The Board is responsible for performing such other functions as are prescribed by law, including all applicable laws.
31. The Board may at any time retain outside financial, legal or other advisors at the expense of the Company. Any director may, subject to the approval of the Corporate Governance and Nominating Committee, retain an outside financial, legal or other advisor at the expense of the Company.

Feedback

32. The Board welcomes input and comments from shareholders of the Company relating to this mandate. Such input and comments may be sent to the Board at the head office address of the Company.

Appendix “A”

Roles of the Chair and Lead Director

Chair of the Board and Independent Lead Director

1. The Chair of the Board, with the assistance of the Lead Director (if one is appointed from time to time), will provide leadership to directors in discharging their duties as set out in this Mandate, including by:
 - a. leading, managing and organizing the Board consistent with the approach to corporate governance adopted by the Board from time to time;
 - b. promoting cohesiveness among the directors; and
 - c. being satisfied that the responsibilities of the Board and its committees are well understood by the directors.
2. The Chair, with the assistance of the Lead Director (if one is appointed from time to time), will assist the Board in discharging its stewardship function, including by:
 - a. satisfying himself or herself, to the extent feasible, as to the integrity of the senior officers of the Company and ensuring that such senior officers create a culture of integrity throughout the organization;
 - b. taking part in strategic planning, risk management and succession planning;
 - c. together with the Chair of the Corporate Governance and Nominating Committee, reviewing the committees of the Board, the composition and chairs of such committees and the charters of such committees; and
 - d. together with the Chair of the Corporate Governance and Nominating Committee, ensuring that the Board, committees of the Board, individual directors and senior management of the Company understand and discharge their duties and obligations under the Company’s system of corporate governance.
3. In addition, in conjunction with the Chair of the Corporate Governance and Nominating Committee, the Chair and/or the Lead Director will ensure that:
 - a. all directors receive updates to Company policy documents;
 - b. regular discussions relating to corporate governance issues and directors’ duties are conducted at Board meetings;
 - c. the Company’s policies are reviewed and updated by the Board as new rules or circumstances dictate; and
 - d. appropriate funding is allocated to directors to attend seminars or conferences relevant to their positions as directors of the Company.

4. In connection with meetings of the directors, the Chair will be responsible for the following (in consultation with the Lead Director, if one is appointed from time to time):
 - a. scheduling meetings of the directors;
 - b. coordinating with the chairs of the committees of the Board to schedule meetings of the committees;
 - c. reviewing items of importance for consideration by the Board;
 - d. ensuring that all business required to come before the Board is brought before the Board, such that the Board is able to carry out all of its duties to manage or supervise the management of the business and affairs of the Company;
 - e. setting the agenda for meetings of the Board;
 - f. monitoring the adequacy of materials provided to the directors by management in connection with the directors' deliberations;
 - g. ensuring that the directors have sufficient time to review the materials provided to them and to fully discuss the business that comes before the Board;
 - h. presiding over meetings of the directors; and
 - i. encouraging free and open discussion at meetings of the Board.
5. In addition, the Lead Director, if one is appointed from time to time, will be responsible for the following:
 - a. reviewing items of importance for consideration by the independent directors and setting the agenda for in camera sessions of the independent directors;
 - b. presiding over meetings of the directors at which the Chair is not present and in camera sessions of the independent directors, and apprising the Chair of the issues considered;
 - c. encouraging free and open discussion at in camera sessions of the independent directors;
 - d. serving as liaison between the independent directors and the Chair;
 - e. being available for consultation and direct communication with the Company's shareholders as appropriate;
 - f. together with the Chair of the Board and the Chair of the Corporate Governance and Nominating Committee, providing feedback to directors regarding their performance; and
 - g. performing such other duties as the Board may delegate to the Lead Director from time to time.



8th Floor, 100 University Avenue
Toronto, Ontario M5J 2Y1
www.computershare.com

Security Class

Holder Account Number

Fold

Form of Proxy - Annual General Meeting to be held on December 6, 2023

Form of Proxy - Annual General Meeting to be held on December 6, 2023 This Form of Proxy is solicited by and on behalf of

Management.

Notes to proxy

1. Every holder has the right to appoint some other person or company of their choice, who need not be a holder, to attend and act on their behalf at the meeting or any adjournment or postponement thereof. If you wish to appoint a person or company other than the Management Nominees whose names are printed herein, please insert the name of your chosen proxyholder in the space provided (see reverse).
2. If the securities are registered in the name of more than one owner (for example, joint ownership, trustees, executors, etc.), then all those registered should sign this proxy. If you are voting on behalf of a corporation or another individual you may be required to provide documentation evidencing your power to sign this proxy with signing capacity stated.
3. This proxy should be signed in the exact manner as the name(s) appear(s) on the proxy.
4. If a date is not inserted in the space provided on the reverse of this proxy, it will be deemed to bear the date on which it was mailed to the holder by Management.
5. The securities represented by this proxy will be voted as directed by the holder, however, if such a direction is not made in respect of any matter, and the proxy appoints the Management Nominees listed on the reverse, this proxy will be voted as recommended by Management.
6. The securities represented by this proxy will be voted in favour, or withheld from voting, or voted against each of the matters described herein, as applicable, in accordance with the instructions of the holder, on any ballot that may be called for. If you have specified a choice with respect to any matter to be acted on, the securities will be voted accordingly.
7. This proxy confers discretionary authority in respect of amendments or variations to matters identified in the Notice of Meeting and Management Information Circular or other matters that may properly come before the meeting or any adjournment or postponement thereof, unless prohibited by law.
8. This proxy should be read in conjunction with the accompanying documentation provided by Management.

Fold

Proxies submitted must be received by 10:00 a.m., Toronto Time on December 4, 2023.

VOTE USING THE TELEPHONE OR INTERNET 24 HOURS A DAY 7 DAYS A WEEK!



To Vote Using the Telephone

- Call the number listed BELOW from a touch tone telephone.

1-866-732-VOTE (8683) Toll Free



To Vote Using the Internet

- Go to the following web site:
www.investorvote.com
- Smartphone?
Scan the QR code to vote now.



To Receive Documents Electronically

- You can enroll to receive future securityholder communications electronically by visiting www.investorcentre.com.

If you vote by telephone or the Internet, DO NOT mail back this proxy.

Voting by mail may be the only method for securities held in the name of a corporation or securities being voted on behalf of another individual.

Voting by mail or by Internet are the only methods by which a holder may appoint a person as proxyholder other than the Management Nominees named on the reverse of this proxy. Instead of mailing this proxy, you may choose one of the two voting methods outlined above to vote this proxy.

To vote by telephone or the Internet, you will need to provide your CONTROL NUMBER listed below.

CONTROL NUMBER

Appointment of Proxyholder

I/We being holder(s) of securities of IM Cannabis Corp. (the "Company") hereby appoint: Oren Shuster, Chief Executive Officer and Director, or failing this person, Shimmy Posen, legal counsel to the Company, or failing this person, Adam Fishman, legal counsel to the Company (the "Management Nominees")

OR Print the name of the person you are appointing if this person is someone other than the Management Nominees listed herein.

as my/our proxyholder with full power of substitution and to attend, act and to vote for and on behalf of the holder in accordance with the following direction (or if no directions have been given, as the proxyholder sees fit) and on all other matters that may properly come before the Annual General Meeting of shareholders of the Company to be held at the offices of Garfinkle Biderman LLP, located at 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9, on December 6, 2023 at 10:00 a.m. (Toronto Time) and at any adjournment or postponement thereof.

VOTING RECOMMENDATIONS ARE INDICATED BY HIGHLIGHTED TEXT OVER THE BOXES

	For	Against
1. Number of Directors To set the number of Directors at five.	<input type="checkbox"/>	<input type="checkbox"/>

Fold

	For	Withhold		For	Withhold		For	Withhold
2. Election of Directors								
01. Oren Shuster	<input type="checkbox"/>	<input type="checkbox"/>	02. Brian Schinderle	<input type="checkbox"/>	<input type="checkbox"/>	03. Marc Lustig	<input type="checkbox"/>	<input type="checkbox"/>
04. Einat Zakariya	<input type="checkbox"/>	<input type="checkbox"/>	05. Moti Marcus	<input type="checkbox"/>	<input type="checkbox"/>			

	For	Withhold
3. Appointment of Auditors Appointment of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global as Auditors of the Company for the ensuing year and authorizing the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Fold

Signature of Proxyholder

Signature(s)

Date

I/We authorize you to act in accordance with my/our instructions set out above.
I/We hereby revoke any proxy previously given with respect to the Meeting. **If no voting instructions are indicated above, and the proxy appoints the Management Nominees, this Proxy will be voted as recommended by Management.**

DD / MM / YY

Interim Financial Statements - Mark this box if you would like to receive Interim Financial Statements and accompanying Management's Discussion and Analysis by mail.

☐

Annual Financial Statements - Mark this box if you would like to receive the Annual Financial Statements and accompanying Management's Discussion and Analysis by mail.

☐

If you are not mailing back your proxy, you may register online to receive the above financial report(s) by mail at www.computershare.com/maillinglist.

VOTING INSTRUCTION FORM
IM CANNABIS CORP.

MEETING TYPE: ANNUAL MEETING
MEETING DATE: WEDNESDAY, DECEMBER 06, 2023 AT 10:00 A.M. EST
RECORD DATE: FOR HOLDERS AS OF OCTOBER 19, 2023
PROXY DEPOSIT DATE: DECEMBER 04, 2023
ACCOUNT NO: CUID: 44969Q307
CUSIP: 44969Q307



1
1
P99525- E
1 OF 1

CONTROL NO.: ➔

STEP 2 ➔ APPOINT A PROXY (OPTIONAL)

APPOINTEE(S): Oren Shuster, Shimmy Posen, Adam Fishman
IF YOU WISH TO ATTEND THE MEETING OR DESIGNATE ANOTHER PERSON TO ATTEND, VOTE AND ACT ON YOUR BEHALF AT THE MEETING, OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, OTHER THAN THE PERSON(S) SPECIFIED ABOVE, PRINT YOUR NAME OR THE NAME OF THE OTHER PERSON ATTENDING THE MEETING IN THE SPACE PROVIDED HEREIN. UNLESS YOU INSTRUCT OTHERWISE, THE PERSON WHOSE NAME IS WRITTEN IN THIS SPACE WILL HAVE FULL AUTHORITY TO ATTEND, VOTE AND OTHERWISE ACT IN RESPECT OF ALL MATTERS THAT MAY COME BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, EVEN IF THESE MATTERS ARE NOT SET OUT IN THE FORM OR THE CIRCULAR. FOR VIRTUAL MEETINGS, YOU MAY NEED TO COMPLETE ADDITIONAL INFORMATION OR TAKE ADDITIONAL ACTION FOR YOU OR YOUR APPOINTEE TO ATTEND THE MEETING.

PLEASE PRINT APPOINTEE NAME ABOVE

STEP 3 ➔ COMPLETE YOUR VOTING DIRECTIONS

2 ELECTION OF DIRECTORS: VOTING RECOMMENDATION: **FOR ALL THE NOMINEES PROPOSED AS DIRECTORS** (FILL IN ONLY ONE BOX "■" PER NOMINEE IN BLACK OR BLUE INK)

	FOR	WITHHOLD
01-Oren Shuster	<input type="checkbox"/>	<input type="checkbox"/>
02-Brian Schinderle	<input type="checkbox"/>	<input type="checkbox"/>
03-Marc Lustig	<input type="checkbox"/>	<input type="checkbox"/>
04-Einat Zakariya	<input type="checkbox"/>	<input type="checkbox"/>
05-Moti Marcus	<input type="checkbox"/>	<input type="checkbox"/>

ITEM(S): VOTING RECOMMENDATIONS ARE INDICATED BY **BOLD TEXT OVER THE BOXES** (FILL IN ONLY ONE BOX "■" PER ITEM IN BLACK OR BLUE INK)

- 1 To set the number of Directors at five.

RECOMMENDATION: **FOR**
FOR AGAINST
☐ ☐
- 3 Appointment of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global as Auditors of the Company for the ensuing year and authorizing the Directors to fix their remuneration.

RECOMMENDATION: **FOR**
FOR WITHHOLD
☐ ☐

TO RECEIVE FUTURE PROXY MATERIALS BY MAIL CHECK THE BOX TO THE RIGHT.
TO REQUEST MATERIALS FOR THIS MEETING REFER TO THE NOTICE INCLUDED IN THE PACKAGE WITH THIS FORM. ☐

STEP 4 ➔ THIS DOCUMENT MUST BE SIGNED AND DATED

ISSUER CONFIRMATION COPY - INFO ONLY

SIGNATURE(S) *INVALID IF NOT SIGNED*

M M D D Y Y



IM CANNABIS CORP.
BEIT HAKSHATOT,, KIBUTZ GLIL-YAM,
ISRAEL 4690500
ISRAEL

VOTING INSTRUCTION FORM

ANNUAL MEETING

IM CANNABIS CORP.

WHEN:

WEDNESDAY, DECEMBER 06, 2023 AT 10:00 A.M.
EST

WHERE:

Offices of Garfinkle Biderman LLP
1 Adelaide Street East, Suite 801
Toronto, Ontario M5C 2V9

STEP 1

REVIEW YOUR VOTING OPTIONS

ONLINE: VOTE AT **PROXYVOTE.COM** USING YOUR COMPUTER OR MOBILE DATA DEVICE. YOUR CONTROL NUMBER IS LOCATED BELOW.



**SCAN TO VIEW
MATERIAL AND
VOTE NOW**



BY TELEPHONE: YOU MAY ENTER YOUR VOTING INSTRUCTIONS BY TELEPHONE AT: **ENGLISH: 1-800-474-7493** OR **FRENCH: 1-800-474-7501**

BY MAIL: THIS VOTING INSTRUCTION FORM MAY BE RETURNED BY MAIL IN THE ENVELOPE PROVIDED.

REMINDER: PLEASE REVIEW THE INFORMATION / PROXY CIRCULAR BEFORE VOTING.

18062020

WE NEED TO RECEIVE YOUR VOTING INSTRUCTIONS AT LEAST ONE BUSINESS DAY BEFORE THE PROXY DEPOSIT DATE.
CONTROL NO.: ➔ **PROXY DEPOSIT DATE:** DECEMBER 04, 2023

The control number has been assigned to you to identify your shares for voting.

You must keep your control number confidential and not disclose it to others other than when you vote using one of the voting options set out on this form. Should you send this form or provide your control number to others, you are responsible for any subsequent voting of, or subsequent inability to vote, your shares.

Dear Client:

A meeting is being held for securityholders of the above noted issuer.

1. You are receiving this Voting Instruction Form and the enclosed meeting materials at the direction of the issuer as a beneficial owner of securities. You are a beneficial owner because we, as your intermediary hold the securities in an account for you and the securities are not registered in your name.
2. **Votes are being solicited by or on behalf of the management of the issuer.**
3. Even if you have declined to receive materials, a reporting issuer is entitled to deliver these materials to you and if requested to do so, it is our responsibility to forward them. These materials are being sent at no cost to you, in the language you requested, if available.
4. **Unless you attend the meeting and vote in person or virtually (as applicable), your securities can only be voted through us as registered holder or proxyholder of the registered holder in accordance with your instructions. We cannot vote for you if we do not receive your voting instructions. Please provide your voting instructions to us promptly using one of the available voting methods or complete and return this form. We will submit a proxy vote on your behalf according to the voting instructions you provide, unless you elect to attend the meeting and vote in person or virtually (as applicable).**
5. When you give us your voting instructions, you acknowledge that:
 - You are the beneficial owner or are authorized to provide these voting instructions; and
 - You have read the material and the voting instructions on this form.
6. You may not present this Voting Instruction Form at the meeting in order to vote.

You, or your designate, as the named "Appointee", must attend the meeting for your vote to be counted.

8. Unless prohibited by law or you instruct otherwise, the Appointee(s) or the person whose name is written in the space provided will have full authority to attend and otherwise act at, and present matters to the meeting and any adjournment or postponement thereof, and vote on all matters that are brought before the meeting or any adjournment or postponement thereof, even if these matters are not set out in this form or in the management proxy circular. Consult a legal advisor if you wish to modify the authority of that person in any way. If you require assistance, please contact the person who services your account.
9. If these voting instructions are given on behalf of a body corporate, set out the full legal name of the body corporate, the name and position of the person giving voting instructions on behalf of the body corporate and the address for service of the body corporate.
10. **If the items listed in the management proxy circular are different from the items listed on the other side of this form, the management proxy circular will be considered correct.**
11. **The Appointee named in this form will exercise the voting rights attached to the securities in accordance with the instructions given. In the absence of any specific instructions as to voting being provided by you on this form, the item(s) will be voted as recommended on the reverse of this form or as stated in the management proxy circular, except in the case of your appointment of an Appointee.**
12. This Voting Instruction Form should be read in conjunction with the accompanying management proxy circular.
13. **To ensure that your instructions are received in sufficient time to be processed, please ensure that the Voting Instruction Form is received by us or voted online at least one business day before the proxy deposit date noted above or the proxy deadline specified in the management proxy circular.** Voting instructions received on the proxy deposit date or later may not be able to be included in the final tabulation.

7. To attend and vote your shares at the meeting:

- Write your name or the name of your designate to act on your behalf on the “Appointee” line on the other side of this form, sign and date the form, and return it by mail, or
- Go to ProxyVote.com (if available) and insert the name in the “Change Appointee(s)” section on the voting site.
- For virtual meetings, you may need to complete additional information or take additional action for you or your Appointee to attend the meeting. Refer to the meeting material accompanying this voting instruction form for details.

This Voting Instruction Form confers discretionary authority to vote on such other business as may properly come before the meeting or any adjournment thereof.

If you have any questions or require help, please contact the person who services your account.

Disclosure of Information – Electing to Receive Financial Statements or Requesting Meeting Materials

By electing to receive the financial statements or requesting meeting materials, your name and address may be provided to the reporting issuer (or its agent) for mailing purposes.

PLEASE SEE OVER

VOTING INSTRUCTION FORM

IM CANNABIS CORP.

MEETING TYPE:

MEETING DATE:

RECORD DATE:

PROXY DEPOSIT DATE:

A/C

ANNUAL MEETING

WEDNESDAY, DECEMBER 06, 2023 AT 10:00 A.M. EST

FOR HOLDERS AS OF OCTOBER 19, 2023

DECEMBER 04, 2023



44969Q307

** ISSUER COPY **



STEP 1

REVIEW YOUR VOTING OPTIONS

ONLINE: VOTE AT PROXYVOTE.COM USING YOUR COMPUTER OR MOBILE DATA DEVICE.



SCAN TO VIEW
MATERIAL AND
VOTE NOW



BY TELEPHONE: YOU MAY ENTER YOUR VOTING INSTRUCTIONS BY TELEPHONE AT:
1-800-454-8683

BY MAIL: THIS VOTING INSTRUCTION FORM MAY BE RETURNED BY MAIL IN THE ENVELOPE PROVIDED.

REMINDER: PLEASE REVIEW THE INFORMATION / PROXY CIRCULAR BEFORE VOTING. SEE VOTING INSTRUCTION NO. 2 ON REVERSE

WE NEED TO RECEIVE YOUR VOTING INSTRUCTIONS AT LEAST ONE BUSINESS DAY BEFORE THE PROXY DEPOSIT DATE.

STEP 2

COMPLETE YOUR VOTING DIRECTIONS

2 ELECTION OF DIRECTORS: *VOTING RECOMMENDATION: FOR ALL THE NOMINEES AS DIRECTORS* (FILL IN ONLY ONE BOX "1" PER NOMINEE IN BLACK OR BLUE INK)

	FOR	WITHHOLD
01-Oren Shuster	<input type="checkbox"/>	<input type="checkbox"/>
02-Brian Schinderle	<input type="checkbox"/>	<input type="checkbox"/>
03-Marc Lustig	<input type="checkbox"/>	<input type="checkbox"/>
04-Einat Zakariya	<input type="checkbox"/>	<input type="checkbox"/>
05-Moti Marcus	<input type="checkbox"/>	<input type="checkbox"/>

ITEM(S): *VOTING RECOMMENDATIONS ARE INDICATED BY BOLD TEXT OVER THE BOXES* (FILL IN ONLY ONE BOX "1" PER ITEM IN BLACK OR BLUE INK)

- 1 To set the number of Directors at five. RECOMMENDATION: **FOR**
FOR AGAINST
☐ ☐
- 3 Appointment of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global as Auditors of the Company for the ensuing year and authorizing the Directors to fix their remuneration. RECOMMENDATION: **FOR**
FOR WITHHOLD
☐ ☐

TO RECEIVE FUTURE PROXY MATERIALS BY MAIL CHECK THE BOX TO THE RIGHT.
TO REQUEST MATERIALS FOR THIS MEETING REFER TO THE NOTICE INCLUDED IN THE PACKAGE WITH THIS FORM. ☐

FILL IN THE BOX "1" TO THE RIGHT IF YOU PLAN TO ATTEND THE MEETING AND VOTE THESE SHARES IN PERSON. ➔ ☐

STEP 3 THIS DOCUMENT MUST BE SIGNED AND DATED

* ISSUER CONFIRMATION COPY - INFO ONLY *

SIGNATURE(S) *INVALID IF NOT SIGNED*

M M D D Y Y



51 MERCEDES WAY
EDGEWOOD NY 11717

IM CANNABIS CORP.
BEIT HAKSHATOT,, KIBUTZ GLIL-YAM,
ISRAEL 4690500
ISRAEL

About Voting

A meeting is being held for the holders of the securities listed on the other side of this form. As a beneficial holder of the securities you have the right to vote on the item(s) being covered at the meeting, which are described in the Proxy Statement.

The control number has been assigned to you to identify your shares for voting.

You must keep your control number confidential and not disclose it to others other than when you vote using one of the voting options set out on this form. Should you send this form or provide your control number to others, you are responsible for any subsequent voting of, or subsequent inability to vote, your shares.

Please read the Proxy Statement carefully and take note of any relevant proxy deposit date.

We need to receive your voting instructions at least one business day before the proxy deposit date noted on the reverse.

If you have any questions, please contact the person who services your account.

We have been requested to forward to you the enclosed proxy material relative to securities held by us in your account but not registered in your name. Only we as the holder of record can vote such securities. We shall be pleased to vote your securities in accordance with your wishes, if you will execute the form and return it to us promptly in the enclosed business reply envelope. It is understood that if you sign without otherwise marking the form your securities will be voted as recommended in the Proxy Statement.

For this meeting, the extent of our authority to vote your securities in the absence of your instructions can be determined by referring to the applicable voting instruction number indicated on the face of your form.

For margin accounts, in the event your securities have been loaned over record date, the number of securities we vote on your behalf has been or can be adjusted downward.

Please note that under a rule amendment adopted by the New York Stock Exchange for shareholder meetings held on or after January 1, 2010, brokers are no longer allowed to vote securities held in their clients' accounts on uncontested elections of directors unless the client has provided voting instructions (it will continue to be the case that brokers cannot vote their clients' securities in contested director elections). Consequently, if you want us to vote your securities on your behalf on the election of directors, you must provide voting instructions to us. Voting on matters presented at shareholder meetings, particularly the election of directors is the primary method for shareholders to influence the direction taken by a publicly-traded company. We urge you to participate in the election by returning the

ISSUER COPY **



VOTING INSTRUCTION FORM

ANNUAL MEETING
IM CANNABIS CORP.

WHEN:
WEDNESDAY, DECEMBER 06, 2023 AT 10:00 A.M. EST

WHERE:
Offices of Garfinkle Biderman LLP
1 Adelaide Street East, Suite 801
Toronto, Ontario M5C 2V9

Instruction 1

All proposals for this meeting are considered "routine". We may vote in our discretion on all proposals, if your instructions are not received.

If your securities are held by a bank, your securities cannot be voted without your specific instructions.

Instruction 2

In order for your securities to be represented at the meeting on one or more matters before the meeting, it will be necessary for us to have your specific voting instructions.

If your securities are held by a bank, your securities cannot be voted without your specific instructions.

Instruction 3

In order for your securities to be represented at the meeting, it will be necessary for us to have your specific voting instructions.

Instruction 4

We have previously sent you proxy soliciting material pertaining to the meeting of shareholders of the company indicated. According to our latest records, we have not as of yet received your voting instruction on the matter(s) to be considered at this meeting and the company has requested us to communicate with you in an endeavor to have your securities voted.

**If you hold your securities through a Canadian broker or bank, please be advised that you are receiving the voting instruction form and meeting materials, at the direction of the issuer. Even if you have declined to receive securityholder materials, a reporting issuer is required to deliver these materials to you. If you have advised your intermediary that you object to the disclosure of your beneficial ownership information to the reporting issuer, it is our responsibility to deliver these materials to you on behalf of the reporting issuer.

These materials are being sent at no cost to you.

To attend the meeting and vote your shares in person or virtually (as applicable)

If you wish to attend the meeting, mark the appropriate box on the other side of this form, and a legal proxy will be issued and mailed to you. The legal proxy will grant you or your designate the right to attend the meeting and vote in person or virtually (as applicable), subject to any rules described in the Proxy Statement applicable to the delivery of a proxy.

The legal proxy will be mailed to the name and address of the beneficial holder noted above. **You need to submit and deliver the legal proxy in accordance with the proxy deposit date and any instructions or disclosures noted in the Proxy Statement.** You or your designate must attend the meeting for your vote to be counted.

enclosed voting instruction form to us with instructions as to how to vote your securities in this election.

If your securities are held by a broker who is a member of the New York Stock Exchange (NYSE), the rules of the NYSE will guide the voting procedures. These rules provide that if instructions are not received from you prior to the issuance of the first vote, the proxy may be given at the discretion of your broker (on the tenth day, if the material was mailed at least 15 days prior to the meeting date or on the fifteenth day, if the proxy material was mailed 25 days or more prior to the meeting date). In order for your broker to exercise this discretionary authority, proxy material would need to have been mailed at least 15 days prior to the meeting date, and one or more of the matters before the meeting must be deemed "routine" in nature according to NYSE guidelines. If these two requirements are met and you have not communicated to us prior to the first vote being issued, we may vote your securities at our discretion on any matters deemed to be routine. We will nevertheless follow your instructions, even if our discretionary vote has already been given, provided your instructions are received prior to the meeting date.

The following instructions provide specifics regarding the meeting for which this voting form applies.

05022021

PLEASE SEE OVER

P99524 -

Allow sufficient time for the mailing and return of the legal proxy by the proxy deposit date to the issuer or its agent.

Please be advised that if you, the beneficial holder, ask for a legal proxy to be issued, you may have to take additional steps in order for the proxy to be fully effective under applicable law. For example, it may be necessary that you deposit the legal proxy with the issuer or its agent in advance of the meeting. Further, if a legal proxy is issued, all other voting instructions given on this voting instruction form will not be effective.

This Voting Instruction Form confers discretionary authority to vote on such other business as may properly come before the meeting or any adjournment thereof.

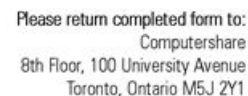
Disclosure of Information - Electing to Receive Financial Statements or Requesting Meeting Materials

By electing to receive the financial statements or requesting meeting materials, your name and address may be provided to the issuer (or its agent) for mailing purposes.

44969Q307

1

1



☐ **Interim Financial Statements** Mark this box if you would like to receive Interim Financial Statements by mail.

☐ **Annual Financial Statements** Mark this box if you would like to receive the Annual Financial Statements by mail.

Under securities regulations, a reporting issuer must send annually a form to holders to request the Interim Financial Statements and MD&A and/or the Annual Financial Statements and MD&A. If you would like to receive the report(s) by mail, please make your selection and return to the address as noted or register online at www.computershare.com/mailinglist.

Alternatively, you may choose to access the report(s) online at www.sedarplus.ca.

Computershare will use the information collected solely for the mailing of such financial statements. You may view Computershare's Privacy Code at www.computershare.com/privacy or by requesting that we mail you a copy.

Please place my name on your financial statements mailing list.

Name _____

[illegible]

Apt.

Street Number

Street Name

[illegible]

City

[illegible]

Prov. / State

--	--

Postal Code / Zip Code

□ □ □ □ □ □



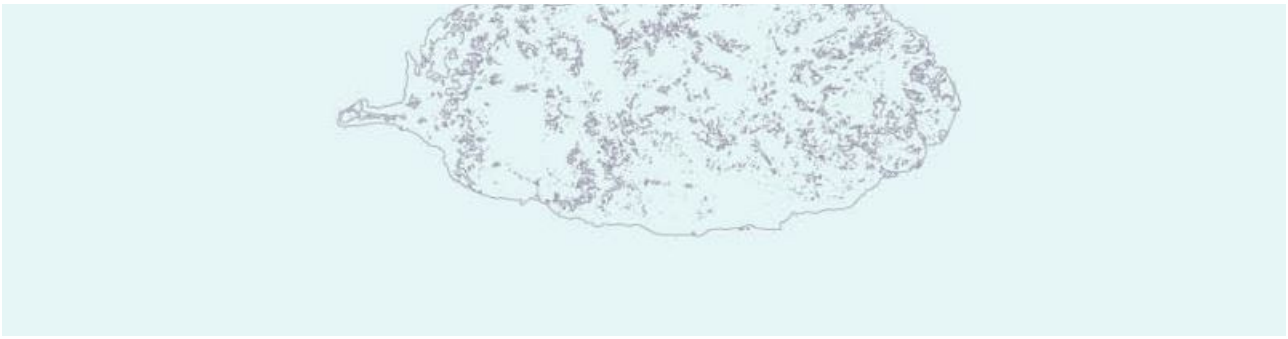
IM CANNABIS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

AUDITED





IM CANNABIS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2022
CANADIAN DOLLARS IN THOUSANDS
INDEX

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u> (PCAOB ID: 1281)	F-2
<u>Consolidated Statements of Financial Position</u>	F-3 – F-4
<u>Consolidated Statements of Profit or Loss and Other Comprehensive Income</u>	F-5 – F-6
<u>Consolidated Statements of Changes in Equity</u>	F-7 – F-8
<u>Consolidated Statements of Cash Flows</u>	F-9 – F-11
<u>Notes to Consolidated Financial Statements</u>	F-12 – F-81

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

to the Shareholders and Board of directors of

IM CANNABIS CORP. and its subsidiaries

Opinion on the consolidated financial statements

We have audited the accompanying consolidated statements of financial position of IM Cannabis Corp. (the "Company") and its subsidiaries (collectively, the "Group"), as of December 31, 2022 and 2021 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2022 and 2021 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Group's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Group has experienced losses from operations and negative cash flows from continuing activities that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KOST FORER GABBAY & KASIERER

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

We have served as the Company's auditor since 2018.

Tel-Aviv, Israel

March 29, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian Dollars in thousands

		December 31,	
	Note	2022	2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 2,449	\$ 13,903
Trade receivables	6	8,684	16,711
Advances to suppliers		1,631	2,300
Other accounts receivable	7	3,323	14,482
Loans receivable	15e	-	2,708
Biological assets	8	-	1,687
Inventory	9	16,585	29,391
		32,672	81,182
NON-CURRENT ASSETS:			
Property, plant and equipment, net	10	5,221	30,268
Investments in affiliates	15c	2,410	2,429
Advance payment for intangible assets of pharmacy	5	-	3,129
Derivative assets		-	14
Right-of-use assets, net	12	1,929	18,162
Deferred tax assets, net	17	763	16
Intangible assets, net	5, 11	7,910	30,885
Goodwill	5, 11	9,771	121,303
		28,004	206,206
Total assets		\$ 60,676	\$ 287,388

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian Dollars in thousands

		December 31,	
	Note	2022	2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		\$ 15,312	\$ 13,989
Bank loans and others	1	9,246	9,502
Other accounts payable and accrued expenses	14	6,013	20,143
Accrued purchase consideration liabilities	5	2,434	6,039
Current maturities of operating lease liabilities	12	814	1,554
		33,819	51,227
NON-CURRENT LIABILITIES:			
Warrants measured at fair value	15	8	6,022
Operating lease liabilities	12	1,075	17,820
Long-term loans		399	392
Employee benefit liabilities, net	13	246	391
Deferred tax liability, net	17	1,332	6,591
		3,060	31,216
Total liabilities		36,879	82,443
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
	18		
Share capital and premium		245,776	237,677
Treasury Stock		-	(660)
Translation reserve		1,283	2,614
Reserve from share-based payment transactions		15,167	12,348
Accumulated deficit		239,574)	(50,743)
Total equity attributable to shareholders of the Company		22,652	201,236
Non-controlling interests		1,145	3,709
Total equity		23,797	204,945
Total equity and liabilities		\$ 60,676	\$ 287,388

The accompanying notes are an integral part of the consolidated financial statements.

March 29, 2023	/s/ Marc Lustig	/s/ Oren Shuster	/s/ Shai Shemesh
Date of approval of the financial statements	Marc Lustig Chairman of the Board	Oren Shuster Chief Executive Officer	Shai Shemesh Chief Financial Officer

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

Canadian Dollars in thousands

	Note	Year ended December 31,		
		2022	2021 (*)	2020
Revenues		\$ 54,335	\$ 34,053	\$ 15,890
Cost of revenues		43,044	25,458	7,081
Gross profit before fair value adjustments		11,291	8,595	8,809
Fair value adjustments:				
Unrealized change in fair value of biological assets		(315)	6,308	11,781
Realized fair value adjustments on inventory sold in the year		(1,814)	(8,570)	(10,122)
Total fair value adjustments		(2,129)	(2,262)	1,659
Gross profit after fair value adjustments		9,162	6,333	10,468
General and administrative expenses		21,460	17,221	11,549
Selling and marketing expenses		11,473	6,725	3,782
Restructuring expenses	1	4,383	-	-
Share-based compensation	18	2,637	5,422	3,382
Total operating expenses		39,953	29,368	18,713
Operating loss		(30,791)	(23,035)	(8,245)
Finance income	15	6,703	23,544	277
Finance expenses		(1,972)	(673)	(20,504)
Finance income (expense), net		4,731	22,871	(20,227)
Loss before income taxes		(26,060)	(164)	(28,472)
Income tax expense (benefit)	17	(1,138)	500	262
Net loss from continuing operations		(24,922)	(664)	(28,734)
Net loss from discontinued operations, net of tax	24	(166,379)	(17,854)	-
Net loss		\$ (191,301)	\$ (18,518)	\$ (28,734)

(*) Reclassified in respect of discontinued operations - see Note 24.

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**
Canadian Dollars in thousands, except per share data

	Note	Year ended December 31,		
		2022	2021 (*)	2020
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement gain (loss) on defined benefit plans		59	21	(30)
Exchange differences on translation to presentation currency		(1,238)	858	1,144
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods		(1,179)	879	1,114
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:				
Adjustments arising from translating financial statements of foreign operation		(246)	530	(124)
Total other comprehensive income (loss)		(1,425)	1,409	990
Total comprehensive loss		(192,726)	(17,109)	(27,744)
Net loss attributable to:				
Equity holders of the Company		(188,890)	(17,763)	(28,698)
Non-controlling interests		(2,411)	(755)	(36)
		(191,301)	(18,518)	(28,734)
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		(190,162)	(16,357)	(27,808)
Non-controlling interests		(2,564)	(752)	64
		<u>\$ (192,726)</u>	<u>\$ (17,109)</u>	<u>\$ (27,744)</u>
Earnings (loss) per share attributable to equity holders of the Company from continuing operations:	20			
Basic earnings (loss) per share (in CAD)		<u>\$ (3.13)</u>	<u>\$ 0.02</u>	<u>\$ (1.9)</u>
Diluted loss per share (in CAD)		<u>\$ (3.81)</u>	<u>\$ (3.62)</u>	<u>\$ (1.9)</u>
Loss per share attributable to equity holders of the Company from discontinued operations:				
Basic and diluted loss per share (in CAD)		<u>\$ (23.17)</u>	<u>\$ (3.08)</u>	<u>\$ -</u>
Loss per share attributable to equity holders of the Company from net loss:				
Basic earnings (loss) per share (in CAD)		<u>\$ (26.3)</u>	<u>\$ (3.06)</u>	<u>\$ (1.9)</u>
Diluted loss per share (in CAD)		<u>\$ (26.98)</u>	<u>\$ (6.7)</u>	<u>\$ (1.9)</u>

(*) Reclassified in respect of discontinued operations - see Note 24.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Canadian Dollars in thousands

	Share capital and premium*)	Treasury Stock	Reserve from share- based payment transactions	Translation reserve	Accumulated deficit	Total	Non- controlling interests	Total equity
Balance as of January 1, 2020	\$ 25,947	\$ -	\$ 2,677	\$ 309	\$ (4,273)	\$ 24,660	\$ 1,449	\$ 26,109
Net loss	-	-	-	-	(28,698)	(28,698)	(36)	(28,734)
Total other comprehensive income (loss)	-	-	-	920	(30)	890	100	990
Total comprehensive income (loss)	-	-	-	920	(28,728)	(27,808)	64	(27,744)
Exercise of warrants and compensation options	10,251	-	-	-	-	10,251	-	10,251
Exercise of options	834	-	(222)	-	-	612	-	612
Share-based compensation	-	-	3,382	-	-	3,382	-	3,382
Expired options	8	-	(8)	-	-	-	-	-
Balance as of January 1, 2021	<u>\$ 37,040</u>	<u>\$ -</u>	<u>\$ 5,829</u>	<u>\$ 1,229</u>	<u>\$ (33,001)</u>	<u>\$ 11,097</u>	<u>\$ 1,513</u>	<u>\$ 12,610</u>
Net loss	-	-	-	-	(17,763)	(17,763)	(755)	(18,518)
Total other comprehensive income	-	-	-	1,385	21	1,406	3	1,409
Total comprehensive income (loss)	-	-	-	1,385	(17,742)	(16,357)	(752)	(17,109)
Issuance of common shares, net of issuance costs of \$3,800	195,259	-	-	-	-	195,259	2,948	198,207
Purchase of treasury common shares	-	(660)	-	-	-	(660)	-	(660)
Exercise of warrants and compensation options	4,293	-	-	-	-	4,293	-	4,293
Exercise of options	1,053	-	(920)	-	-	133	-	133
Share-based compensation	-	-	7,471	-	-	7,471	-	7,471
Expired options	32	-	(32)	-	-	-	-	-
Balance as of December 31, 2021	<u>\$ 237,677</u>	<u>\$ (660)</u>	<u>\$ 12,348</u>	<u>\$ 2,614</u>	<u>\$ (50,743)</u>	<u>\$ 201,236</u>	<u>\$ 3,709</u>	<u>\$ 204,945</u>

*) Including the effect of Share Consolidation (See note 18a).

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Canadian Dollars in thousands

	Share capital and premium*)	Treasury Stock	Reserve from share- based payment transactions	Translation reserve	Accumulated deficit	Total	Non- controlling interests	Total equity
Balance as of January 1, 2022	\$ 237,677	\$ (660)	\$ 12,348	\$ 2,614	\$ (50,743)	\$ 201,236	\$ 3,709	\$ 204,945
Net loss	-	-	-	-	(188,890)	(188,890)	(2,411)	(191,301)
Total other comprehensive income (loss)	-	-	-	(1,331)	59	(1,272)	(153)	(1,425)
Total comprehensive loss	-	-	-	(1,331)	(188,831)	(190,162)	(2,564)	(192,726)
Issuance of treasury common shares	-	660	-	-	-	660	-	660
Issuance of shares, net of issuance costs of \$178	6,818	-	-	-	-	6,818	-	6,818
Exercise of options	992	-	(659)	-	-	333	-	333
Share-based compensation	-	-	3,767	-	-	3,767	-	3,767
Expired options	289	-	(289)	-	-	-	-	-
Balance as of December 31, 2022	<u>\$ 245,776</u>	<u>\$ -</u>	<u>\$ 15,167</u>	<u>\$ 1,283</u>	<u>\$ (239,574)</u>	<u>\$ 22,652</u>	<u>\$ 1,145</u>	<u>\$ 23,797</u>

*) Including the effect of Share Consolidation (See note 18a).

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,		
	2022	2021	2020
<u>Cash provided from operating activities:</u>			
Net loss	\$ (191,301)	\$ (18,518)	\$ (28,734)
Adjustments for non-cash items:			
Unrealized gain on changes in fair value of biological assets	(84)	(7,210)	(11,781)
Fair value adjustment on sale of inventory	4,342	8,796	10,122
Fair value adjustment on Warrants, Investments, and Accounts Receivable	(6,000)	(21,638)	20,155
Depreciation of property, plant and equipment	3,044	3,021	690
Amortization of intangible assets	2,343	1,158	31
Depreciation of right-of-use assets	1,944	1,550	209
Impairment of goodwill	107,854	275	-
Impairment of property, plant and equipment	2,277	-	-
Impairment of intangible assets	7,199	-	-
Impairment of right-of-use assets	1,914	-	-
Finance income, net	6,532	1,262	72
Deferred tax payments (benefit), net	(3,004)	278	(66)
Share-based payments	3,767	7,471	3,382
Share based acquisition costs related to business combination	-	807	-
Revaluation of other accounts receivable	3,982	-	-
Restructuring expenses	8,757	-	-
	<u>144,867</u>	<u>(4,230)</u>	<u>22,814</u>
Changes in non-cash working capital:			
Increase (decrease) in trade receivables, net	6,058	(6,602)	(3,534)
Increase (decrease) in other accounts receivable and advances to suppliers	3,622	845	(1,029)
Decrease in biological assets, net of fair value adjustments	565	6,412	11,771
Increase (decrease) in inventory, net of fair value adjustments	883	(19,707)	(12,729)
Increase in trade payables	11,284	5,573	2,135
Changes in employee benefit liabilities, net	(63)	28	59
Increase in other accounts payable and accrued expenses	<u>12,126</u>	<u>2,661</u>	<u>1,929</u>
	<u>34,475</u>	<u>(10,790)</u>	<u>(1,398)</u>
Taxes paid	<u>(681)</u>	<u>(834)</u>	<u>(601)</u>
Net cash used in operating activities	<u>(12,640)</u>	<u>(34,372)</u>	<u>(7,919)</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,		
	2022	2021	2020
Cash flows from investing activities:			
Purchase of property, plant and equipment	\$ (1,562)	\$ (4,578)	\$ (2,617)
Proceeds from sales of property, plant and equipment	210	-	-
Proceeds from loans receivable	350	7,796	-
Purchase of intangible assets	-	(17)	(93)
Acquisition of businesses, net of cash acquired	-	(12,536)	-
Deconsolidation of subsidiary (see Note 24)	(406)	-	-
Investments in financial assets	-	(13)	(1,347)
Proceeds from sale of investment	-	319	-
Proceeds from (investment in) restricted deposits	-	17	(18)
Net cash used in investing activities	(1,408)	(9,012)	(4,075)
Cash provided by financing activities:			
Proceeds from issuance of share capital, net of issuance costs	3,756	28,131	-
Proceeds from issuance of warrants measured at fair value	-	11,222	-
Proceeds from exercise of warrants	-	3,682	6,378
Proceeds from exercise of options	333	133	612
Repayment of lease liability	(1,656)	(633)	(182)
Payment of lease liability interest	(1,429)	(1,347)	(68)
Proceeds from loans	9,636	7,804	-
Repayment of loans	(4,976)	-	-
Interest paid	(902)	(261)	-
Net cash provided by financing activities	4,762	48,731	6,740

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,		
	2022	2021	2020
Effect of foreign exchange on cash and cash equivalents	\$ (2,168)	\$ (329)	\$ 213
Increase (decrease) in cash and cash equivalents	(11,454)	5,018	(5,041)
Cash and cash equivalents at beginning of year	13,903	8,885	13,926
Cash and cash equivalents at end of year	\$ 2,449	\$ 13,903	\$ 8,885
<u>Supplemental disclosure of non-cash activities:</u>			
Right-of-use asset recognized with corresponding lease liability	\$ 613	\$ 1,678	\$ 107
Conversion of warrant and compensation options into common shares	\$ -	\$ 611	\$ -
Issuance of shares in payment of purchase consideration liability	\$ 3,061	\$ -	\$ -

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. *Corporate information:*

IM Cannabis Corp. (the "Company" or "IMCC") is listed for trading on the Canadian Securities Exchange ("CSE") and, commencing from March 1, 2021, on NASDAQ under the ticker symbol "IMCC". IMCC's main office is located in Kibbutz Gilil-Yam, Israel.

The Company and its subsidiaries (collectively: the "Group"), operate in geographical reporting segments (Note 23). The majority of the Group's revenues are generated from sales of medical cannabis products to customers in Israel and recreational cannabis products in Canada (which is reclassified as discontinued operations for all periods presented and the Group ceased consolidation of the Canadian subsidiaries in November 2022 following the CCAA process as detailed below). The remaining revenues are generated from sales of medical cannabis, as well as other products, to customers in Germany.

In Israel, IMCC operates in the field of medical cannabis, through Focus Medical Herbs Ltd. ("Focus"), which held a cultivation license to breed, grow and supply medical cannabis products in Israel under the regulations of medical cannabis by the Israeli Ministry of Health through its Israel Medical Cannabis Agency ("IMCA") until July 2022. In July 2022 Focus closed its cultivation facility and received an IMCA license which allows it to import cannabis products and proceed with its supply activity. All of its operations are performed pursuant to the Israeli Dangerous Drugs Ordinance (New Version), 1973 (the "Dangerous Drugs Ordinance"), and the related regulations issued by IMCA.

During 2021, IMCC also entered into the field of retail medical cannabis and other pharma products in Israel through the acquisition of several pharmacies and trade houses specializes in medical cannabis, including the pharmacies of Revoly Trading and Marketing Ltd. ("Vironna"), R.A. Yarok Pharm Ltd. and Oranim Plus Pharm Ltd. ("Oranim"), and the trade houses of Panaxia and Rosen High Way Ltd.

In Europe, IMCC operates through Adjupharm GmbH ("Adjupharm"), a German-based subsidiary acquired by IMC Holdings Ltd. ("IMC Holdings") on March 15, 2019. Adjupharm is an EU-GMP certified medical cannabis producer and distributor with wholesale, narcotics handling, manufacturing, procurement, storage and distribution licenses granted by German regulatory authorities that allow for import/export capability with requisite permits.

In Canada, IMCC operated through Trichome JWC Acquisition Corp. ("TJAC"), d/b/a JWC, and MYM Nutraceuticals Inc. ("MYM") (collectively: "Trichome" or the "Canadian entities"). The Canadian entities are federally licensed producers of cannabis products in the adult-use recreational cannabis market in Canada.

The Company and its subsidiaries do not engage in any U.S. cannabis-related activities as defined in Canadian Securities Administrators Staff Notice 51-352.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

Discontinue operations and Canadian entities CCAA:

In September 2022, following Management's strategic review of the operations of the Group, the Company decided to sell the Canadian entities operations and to discontinue its operations in Canada. On November 7, 2022, the Company's wholly-owned subsidiary, Trichome, and certain of its wholly-owned subsidiaries, including TJAC, MYM, Trichome Retail Corp., MYM International Brands Inc., and Highland Grow Inc. (collectively: the "Trichome Group"), filed and obtained, from the Ontario Superior Court of Justice (Commercial List) (the "Court") an initial order (the "Initial Order") pursuant to the Companies' Creditors Arrangement Act (the "CCAA"), pursuant to which, the Trichome Group obtained a broad stay of all proceedings (the "Stay") against the members of the Trichome Group, and their assets, businesses and directors and officers that is effective until November 17, 2022. The Stay was extended subject to further orders of the Court through April 1, 2023.

The CCAA proceedings are solely in respect of the Trichome Group. As such, the Company's assets and subsidiaries in Israel and Germany are not parties to the CCAA proceedings.

The CCAA proceedings will afford the Trichome Group the stability and flexibility required to restructure its business, including through a sale and investment solicitation process to be approved by the Court.

The Trichome Group is expected to continue to operate its business for the time being however, it is expected that there will be changes in the Canadian operations consistent with those of a company operating through CCAA proceedings, including employee and contract terminations. The Trichome Group intends to use the CCAA proceedings to implement a sale and investment solicitation process for the sale of its assets or restructuring of its business.

The Court has appointed KSV Restructuring Inc. as "Monitor" in the CCAA proceedings.

In connection with the CCAA proceedings, TJAC, as borrower (the "Borrower"), the remaining Trichome Group, as guarantors (together with the Borrower, the "Credit Parties"), and Courtland Credit Lending Corporation (the "DIP Lender"), entered into a debtor-in-possession ("DIP") facility agreement dated November 6, 2022 (the "DIP Agreement"). Pursuant to the DIP Agreement, the DIP Lender has agreed to provide a super-priority interim revolving credit facility (subject to certain mandatory repayment provisions) to the Borrower (the "DIP Facility").

The DIP Facility is to be used during the CCAA proceedings by the Borrower to fund its working capital needs. The DIP Facility is subject to customary covenants, conditions precedent, and representations and warranties made by the Credit Parties to the DIP Lender. The DIP Lender's charge approved by Court is up to the maximum amount of \$4,875.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

On January 9, 2023, the Court issued an order in the CCAA Proceedings in respect of a motion brought by the Trichome Group to approve, among other things: a sale and investment solicitation process (the "SISP") in respect of the business and assets of the Trichome Group; and a stalking horse share purchase agreement (the "Stalking Horse Purchase Agreement") between the Trichome Group and L5 Capital Inc. ("L5") dated December 12, 2022. The SISP established a process to solicit interest for investments in, or the sale of any or all of the, Trichome Group's business and assets.

On February 22, 2023, the Monitor issued a report (the "Monitor's Third Report") in the CCAA Proceedings advising, among other things, that (i) no qualified bids were received pursuant to the SISP, (ii) L5 informed the Trichome Group that it would not be completing the transaction contemplated by the Stalking Horse Purchase Agreement and, as a result, the Trichome Group terminated the Stalking Horse Purchase Agreement, and (iii) the Monitor continues to market for sale the Trichome Group's business and assets, including the brands and other intellectual property owned by the Trichome Group. As a direct or indirect shareholder of the entities that make up the Trichome Group, the Company is subject to the priorities of other stakeholders in the CCAA proceedings and will likely realize no return in the restructure of the Trichome Group business.

The Monitor's Third Report also reported on the financial situation of the Trichome Group advising that due to the Trichome Group's financial performance and the termination of the Stalking Horse Purchase Agreement, the DIP Lender informed the Trichome Group that the DIP Lender would only fund expenses required for a wind-down of the Trichome Group's business and as such, the Trichome Group will not have the ability to pay unpaid payables that are not required to be paid in connection with the wind-down. The Trichome Group has advised that it will not purchase additional goods or services without the prior consent of the Monitor.

Following the initial order granted, the Company evaluated whether it effectively exercised control over Trichome Group. Since the Monitor has unilateral rights and abilities to direct the business activities and decision making, the Company ceased to control Trichome Group as of November 7, 2022. As a result of the CCAA proceedings of Trichome, the Company deconsolidated the Canadian entities effective from November 7, 2022, and the Company recorded an impairment of the investment in the amount of \$17,959 which is included in discontinued operations.

Trichome's operations are classified as discontinued operations in the consolidated statements of profit or loss and other comprehensive income for all periods presented (see Note 24).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

Liquidity and capital resources - going concern:

In January 2022, Focus entered into a revolving credit facility with an Israeli bank, Bank Mizrahi (the "Mizrahi Facility"). The Mizrahi Facility is guaranteed by Focus assets. Advances from the Mizrahi Facility will be used for working capital needs. The Mizrahi Facility has a total commitment of up to NIS 15 million (approximately \$6,000) and has a one-year term for on-going needs and 6 months term for imports and purchases needs. The Mizrahi Facility is renewable upon mutual agreement by the parties. The borrowing base available for draw at any time throughout the Mizrahi Facility and is subject to several covenants to be measured on a quarterly basis (the "Mizrahi Facility Covenants"). The Mizrahi Facility bears interest at the Israeli Prime interest rate plus 1.5% (6.25% per annum as of December 31, 2022). As of December 31, 2022, Focus did not meet certain covenants under the Mizrahi Facility. The Company's CEO and director, provided to the bank a personal guarantee in the amount of the outstanding borrowed amount, allowing the Mizrahi Facility to remain effective. As of December 31, 2022 Focus has drawn down \$5,084.

On August 19, 2022, the Company announced a private placement for aggregate gross proceeds of up to \$6,500 (US\$5 million) (the "Private Placement"). As of December 31, 2022, the Company issued 599,999 Common Shares for a total amount of \$3,756 (US\$3 million) including investments by the Company's management and executives. Issuance costs of this transaction amounted to \$178.

On October 11, 2022, the Company obtained a short-term loan in the amount of NIS 10.5 million (approximately \$4,050), bearing interest of 15%.

As of December 31, 2022, the Group's cash and cash equivalents totaled \$2,449, the Group's working capital (current assets less current liabilities) amounted to \$(1,147). In the twelve months ended December 31, 2022, the Group had an operating loss from continuing operation of (\$30,791) and negative cash flows from continuing operating activities of (\$12,340).

The Group's current operating budget includes various assumptions concerning the level and timing of cash receipts from sales and cash outlays for operating expenses and capital expenditures, including cost saving plans and restructuring actions taken in 2022. The Company's board of directors approved a cost saving plan, to allow the Company to continue its operations and meet its cash obligations. The cost saving plan consists of cost reduction due to efficiencies and synergies, which include mainly the following steps: discontinued operations of loss-making activities (see Note 24 for Trichome Disposal Group), reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures.

Despite the cost savings plan and restructuring as described above, the projected cash flows for 2023 indicates that it is uncertain that the Group will generate sufficient funds to continue its operations and meet its obligations as they become due. The Group continues to evaluate additional sources of capital and financing. However, there is no assurance that additional capital and or financing will be available to the Group, and even if available, whether it will be on terms acceptable to the Group or in amounts required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

Restructuring:

On April 6, 2022, Focus closed the "Sde Avraham", cultivation facility in Israel, resulting restructuring expenses related to impairment of property, plant and equipment, biological assets and right of use asset and liabilities, in the total amount of \$4,383.

On March 8, 2023, subsequent to the reporting period, the Company announced its strategy plan in Israel in order to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company expects to reduce its workforce in Israel by 20%-25% across all functions (including executives). All actions associated with the workforce reduction are expected to be substantially complete by mid-2023, subject to applicable Israeli law.

b. Approval of consolidated financial statements:

These consolidated financial statements of the Company were authorized for issue by the board of directors on March 29, 2022

c. Definitions:

In these financial statements:

The Company, or IMCC	- IM Cannabis Corp.
The Group	- IM Cannabis Corp., its Subsidiaries
Subsidiaries	Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company
CAD or \$	- Canadian Dollar
NIS	- New Israeli Shekel

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Group's financial statements have been prepared on a cost basis, except for:

- Financial instruments which are presented at fair value through profit or loss.
- Biological assets which are presented at fair value less cost to sell up to the point of harvest.

The Group has elected to present the profit or loss items using the function of expense method.

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2022 and 2021, major subsidiaries over which the Company has control, directly or indirectly, include

<u>Subsidiaries</u>	<u>Percentage ownership</u>	
	<u>2022</u>	<u>2021</u>
I.M.C. Holdings Ltd. ("IMC")	100%	100%
Focus Medical Herbs Ltd. ("Focus")	74%	74%
I.M.C. Pharma Ltd.	100%	-
I.M.C.C. Medical Herbs Ltd.	100%	100%
I.M.C Farms Israel Ltd. ("IMC Farms")	100%	100%
I.M.C Ventures Ltd. ("IMC Ventures")	75%	75%
I.M.C - International Medical Cannabis Portugal Unipessoal Lda) ***)	-	100%
Adjupharm GmbH ("Adjupharm")	90.02%	90.02%
R.A. Yarok Pharm Ltd. ("Pharm Yarok")	100%	100%
Rosen High Way Ltd. ("Rosen High Way")	100%	100%
High Way Shinua Ltd. ("HW Shinua")	100%	100%
Revolv Trading and Marketing Ltd. ("Vironna")	51%	51%
Oranim Plus Pharm LTD.	51.3%	51.3%
Oranim Pharm	51%	51%
Trichome Financial Corp. ("Trichome")	**)	100%
Trichome Financial Cannabis GP Inc.	**)	100%
Trichome Financial Cannabis Manager Inc.	**)	100%
Trichome Asset Funding Corp.	**)	100%
Trichome JWC Acquisition Corp. ("TJAC")	**)	100%
Trichome Retail Corp.	**)	100%
MYM Nutraceuticals Inc. ("MYM")	**)	100%
SublimeCulture Inc.	**)	100%
CannaCanada Inc.	**)	100%
MYM International Brands Inc.	**)	100%
Highland Grow Inc.	**)	100%

*) The Company does not hold directly interest or voting rights in Focus. The Company's wholly-owned subsidiary holds an option to buy the ownership of the 74% of Focus shares. According to accounting criteria in IFRS 10, the Company is viewed as effectively exercising control over Focus, and therefore, the accounts of Focus are consolidated with those of the Company.

**) Deconsolidated effective November 7, 2022, when Trichome filed to commence proceedings under the Companies' Creditors Arrangement Act (CCAA) (see Note 1).

***) Dissolved as of December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less or plus the consideration paid or received.

Upon the disposal of a subsidiary resulting in loss of control, the Company:

- Derecognizes the subsidiary's assets (including goodwill) and liabilities.
- Derecognizes the carrying amount of non-controlling interests.
- Derecognizes the adjustments arising from translating financial statements carried to equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any remaining investment.
- Reclassifies the components previously recognized in other comprehensive income (loss) on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- Recognizes any resulting difference (surplus or deficit) as gain or loss.

c. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

d. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional currency of the Company is the Canadian dollar ("CAD"). The Group determines the functional currency of each Group entity.

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, and of each Group entity for which the functional currency is not the presentation currency are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

f. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Biological assets:

The Group's biological assets consist of cannabis plants.

The Group capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. The direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, Inventory. These costs include the direct cost of planting and growing materials as well as other indirect costs such as utilities and supplies used in the cultivation process.

Indirect labor for individuals involved in the cultivation and quality control process is also included, as well as depreciation on growing equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item cost of revenues on the Group's statements of profit or loss and other comprehensive income in the period that the related product is sold.

The Group then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of inventory after harvest. The fair value is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram and also for any additional costs to be incurred (e.g., post-harvest costs). The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the gross profit for the related period and are recorded in a separate line on the face of the Group's statements of profit or loss and other comprehensive income.

Determination of the fair values of the biological assets requires the Group to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The Group accretes fair value on a straight-line basis according to stage of growth (e.g., a cannabis plant that is 50% through its growing cycle would be ascribed approximately 50% of its harvest date expected fair value, subject to wastage adjustments).

The fair value of biological assets is categorized within Level 3 of the fair value hierarchy. For the inputs and assumptions used in determining the fair value of biological assets. The Group's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of December 31, 2022, the Company does not hold biological assets (see Note 8).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Inventory:

Inventory are measured at the lower of cost and net realizable value. The cost of inventory comprises costs of purchase and costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Group reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written-down to net realizable value.

Inventory of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value.

The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labor and depreciation expense on equipment involved in packaging, labeling and inspection.

All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of revenues on the Group's statements of profit or loss and other comprehensive income at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line item on the face of the statements of profit or loss and other comprehensive income.

The Group must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

i. Property, plant and equipment, net:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgement and calculated on a straight-line basis over the useful lives of the assets at annual rates as follows:

	<u>%</u>	<u>Mainly %</u>
Buildings	3	3
Greenhouse production equipment	7 - 25	20
Greenhouse structure	12.5	12.5
Motor vehicles	15	15
Computer, software and equipment	20 - 33	33
Leasehold improvements	See below	See below

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

j. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Amortization is calculated on a straight-line basis over the useful life of the assets as follows:

	<u>Years</u>
Customer relationship	5-8
Brand name	9
Other intangibles	9

k. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following criteria are applied in assessing impairment of these specific assets:

Goodwill in respect of subsidiaries:

The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. The Company identified the operations and Israel, Canada and Europe as three separate cash-generating units.

An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

During the year ended December 31, 2022, the Company recorded goodwill impairment in the amount of \$107,854, with respect to the cash generating unit in Canada following the CCAA filing in Canada (see Note 1).

1. Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

In determining the amount of revenue from contracts with customers, the Group evaluates whether it is a principal or an agent in the arrangement. The Group is a principal when the Group controls the promised goods or services before transferring them to the customer. In these circumstances, the Group recognizes revenue for the gross amount of the consideration. When the Group is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

Revenue from the sale of goods:

Revenue from the sale of cannabis products is generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due prior to or upon delivery and revenue is recognized upon the satisfaction of the performance obligation. The Group satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Variable consideration:

The Group determines the transaction price separately for each contract with a customer. When exercising this judgment, the Group evaluates the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash consideration. In determining the effect of the variable consideration, the Group normally uses the "most likely amount" method described in the Standard. Pursuant to this method, the amount of the consideration is determined as the single most likely amount in the range of possible consideration amounts in the contract. According to the Standard, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Bill-and-hold arrangements:

Due to strict regulations of security, storage and handling large quantities of cannabis products, the Group's customers may request the Group to retain physical possession of a sold product until it is delivered to the customer at a future point in time. Revenue from bill-and-hold sales is recognized before the product is physically delivered to the customer when all of the following criteria are met:

- a) The reason for the bill-and-hold arrangement is substantive (for example, the customer has requested the arrangement);
- b) The product is identified separately as belonging to the customer;
- c) The product currently is ready for physical delivery to the customer;
- d) The Group does not have the ability to use the product by selling it or delivering it to another customer.

m. Leases:

The Group accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

For leases in which the Group is the lessee, the Group recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Group has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Group has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate. After the commencement date, the Group measures the lease liability using the effective interest rate method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and amortized over the shorter of its useful life and the lease term. The periods of amortization are: Land and buildings - 6-12 years; Motor vehicles - 3 years.

Variable lease payments that depend on an index:

On the commencement date, the Group uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Group is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

Lease extension and termination options:

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Group remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Financial instruments:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Group classifies and measures debt instruments in the financial statements based on the following criteria:

- The Group's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

Debt instruments are measured at amortized cost when:

The Group's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

Debt instruments are measured at fair value through profit or loss when:

A financial asset which is a debt instrument does not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income. After initial recognition, the financial asset is measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.

Equity instruments:

Investments in equity instruments do not meet the above criteria and accordingly are measured at fair value through profit or loss. Dividends from investments in equity instruments are recognized in profit or loss when the right to receive the dividends is established.

Impairment of financial assets:

The Group evaluates at the end of each reporting period the loss allowance for financial debt instruments measured at amortized cost. The Group has short-term financial assets, principally trade receivables, in respect of which the Group applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses. The impairment loss, if any, is recognized in profit or loss with a corresponding allowance that is offset from the carrying amount of the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derecognition of financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Group has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Group has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

2. Financial liabilities:

Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Group measures all financial liabilities at amortized cost using the effective interest rate method, except for financial liabilities at fair value through profit or loss or when a contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

Financial liabilities measured at fair value through profit or loss:

At initial recognition, the Group measures financial liabilities that are not measured at amortized cost at fair value. Transaction costs incurred at initial recognition are recognized in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss.

Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

3. Issue of a unit of securities:

The issue of a unit of securities involves the allocation of the proceeds received (before issuance expenses) to the securities issued in the unit based on the following order: financial derivatives and other financial instruments measured at fair value in each period. Then fair value is determined for financial liabilities that are measured at amortized cost. The proceeds allocated to equity instruments are determined to be the residual amount. Issuance costs are allocated to each component pro rata to the amounts determined for each component in the unit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- o. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered.

A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Israeli Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Israeli Severance Pay Law. According to the Severance Pay Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies (the "plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Share-based payment transactions:

The Group's employees and service providers are entitled to remuneration in the form of equity-settled share-based payments.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award (the "vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

q. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restructuring:

A provision for restructuring is only recognized when the Company has approved a detailed formal plan identifying the business or the part of the business that is concerned, the location and the number of employees affected by the restructuring and there is a detailed reliable estimate of the associated costs and the timing of the plan. Also, there must be a valid expectation by the parties affected by the restructuring that the restructuring will be implemented, or it has already commenced.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized, or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

s. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Group by the weighted number of Common Shares outstanding during the period.

Potential Common Shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Common Shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

t. Treasury shares:

Company shares held by the Company and/or subsidiaries are recognized at cost of purchase and presented as a deduction from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Operating segments:

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments. The Company's Chief Executive Officer is the CODM. The Company has determined that it operates in two operating segments (see Note 23).

v. Discontinued operations:

A discontinued operation is a component of the Company represents a separate major line of business or geographical area of operations and that either has been disposed of or is classified as held for sale. The operating results relating to the discontinued operation are presented separately in profit or loss, net of the tax effect.

The discontinued operation presented in the Company's statement of profit or loss derives from the activities in Canada (see Note 1).

NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

- Discount rate for a lease liability:

When the Group is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Group uses an incremental borrowing rate. That rate represents the rate of interest that the Group would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Group determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. In certain situations, the Group is assisted by an external valuation expert in determining the incremental borrowing rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Legal claims:

In estimating the likelihood of legal claims filed against the Group entities, the Group management rely on the opinion of its legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims may be determined in courts, the results could differ from these estimates.

- Deferred tax assets:

Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

- Impairment of goodwill:

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

- Determining the fair value of an unquoted financial assets and liabilities:

The fair value of unquoted financial assets in Level 3 of the fair value hierarchy is determined using valuation techniques, generally using future cash flows discounted at current rates applicable for items with similar terms and risk characteristics. changes in estimated future cash flows and estimated discount rates, after consideration of risks such as liquidity risk, credit risk and volatility, are liable to affect the fair value of these assets.

- Loss of control of subsidiary

On November 7, 2022, Trichome filed a petition with the Superior Court of Ontario for protection under the Companies' Creditors Arrangement Act ("CCAA") in order to restructure its business and financial affairs. Management applied judgement in assessing whether this event represented a loss of control of Trichome. On filing of CCAA, which included a request for an order to approve a sale and investment solicitation process and to approve a stalking horse agreement of purchase and sale, management concluded that the Company ceased to have the power to direct the relevant activity of Trichome because substantive rights were granted to other parties through the CCAA proceedings that restricted the decision making ability of the Company to the extent that the Company was unable to demonstrate power over Trichome. As a result, the Company accounted for a loss in control and Trichome was deconsolidated on November 17, 2022 (see Note 1 and Note 24).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. Amendment to IAS 1, "Presentation of Financial Statements":

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" regarding the criteria for determining the classification of liabilities as current or non-current (the "Original Amendment"). In October 2022, the IASB issued a subsequent amendment (the "Subsequent Amendment").

According to the Subsequent Amendment:

- Only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- An entity should provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months from the reporting date. This disclosure is required to include information about the covenants and the related liabilities. The disclosures must include information about the nature of the future covenants and when compliance is applicable, as well as the carrying amount of the related liabilities. The purpose of this information is to allow users to understand the nature of the future covenants and to assess the risk that a liability classified as non-current could become repayable within twelve months. Furthermore, if facts and circumstances indicate that an entity may have difficulty in complying with such covenants, those facts and circumstances should be disclosed.

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument.

The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024 and must be applied retrospectively. Early application is permitted. The Company is evaluating the effects of the Amendments on its financial statements.

b. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" (the "Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

- c. Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 (the "Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the initial application of the Amendment is not expected to have a material impact on its financial statements.

- d. Amendment to IAS 1, "Disclosure of Accounting Policies":

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" (the "Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is applicable for annual periods beginning on or after January 1, 2023. Early application is permitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS*Trichome Financial Corp.*

On March 18, 2021, the Company acquired Trichome Financial Corp. ("Trichome" or "TFC"), a Canadian adult-use recreational cannabis producer (the "Trichome Transaction").

The Trichome Transaction was completed pursuant to the terms and subject to the conditions of arrangement agreement dated December 30, 2020 (the "Arrangement Agreement"), whereby the Company agreed to acquire all of the issued and outstanding Trichome Shares under a statutory plan of arrangement under the *Business Corporations Act* (Ontario) ("OBCA").

In accordance with the terms of the Arrangement Agreement, former holders of Trichome Shares received 0.24525 IMC Common Shares for each Trichome Share previously held (the "Exchange Ratio") and former holders of Trichome in-the-money convertible instruments received a net payment of IMC Shares based on the Exchange Ratio (the "Consideration").

Upon completion of the Trichome Transaction, the total Consideration paid to former holders of Trichome Shares and in-the-money convertible instruments equaled to the issuance of 1,010,490 Common Shares, valued at approximately \$99,028 at the market price per share of \$98 on the date of the acquisition. The results of operations of Trichome were consolidated in the Company's consolidated financial statements commencing on the date of acquisition.

The Group recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a valuation study prepared by management with the assistance of an external valuation specialist.

Upon acquisition, other payables of Trichome include approximately \$8,131 to settle withholding tax liabilities to Canada Revenue Agency ("CRA"), with a corresponding indemnification asset comprised of 92,746 IMCC's Common Shares withheld to cover the tax liabilities (the "Purchaser Balance Shares"). In addition, in connection with the Trichome Transaction, certain directors and officers of Trichome and TJAC, one of which is currently serving as chairman of the board of directors of the Company, agreed to indemnify and hold harmless the Company, Trichome, and TJAC against 75% of the withholding tax liabilities to CRA. Each indemnifying director or officer agreed to indemnify for: (a) 75% of such liability that is on account of such director or officer's personal Canadian income tax liability, plus (b) jointly and severally indemnify 75% of any liability for penalties and interest in connection with the withholding tax liabilities to CRA (other than penalties and interest included in (a)).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

In addition, on January 6, 2022, the Company and certain former Trichome directors, one of which is currently serving as chairman of the Company's board of directors, signed an amendment to the tax indemnification agreement, and agreed to indemnify and hold harmless the Company and pay the Company the following amounts in cash as soon as practicable and in no event no later than February 28, 2022: (a) any portion of remittance to the CRA on account of any non-residence Canadian estimated at approximately \$1,886, plus (b) 75% of any liabilities for penalties up to December 31, 2021 and 100% of any penalties from January 1, 2022 onward (estimated at approximately \$604), and indemnify 75% of any liabilities for interest through December 31, 2021 and 100% of any interest from January 1, 2022 (estimated at approximately \$342), in connection with the withholding tax liabilities to CRA (other than penalties and interest included in (a) above), plus (c) To the extent not captured above in sections (a) and (b), 100% of the withholding taxes tax liabilities, subtracting all cash proceeds received by Trichome or IMC from the sale of the Purchaser Balance Shares.

Through December 31, 2022, the former Trichome director and current chairman of the Company's board of director, transferred the Company cash in the amount of \$3,250. Further, on March 30, 2022, the Company and the former Trichome director and current chairman of the Company's board of director, entered into several security agreements under which the former Trichome director and current chairman of the Company's board of director pledged 83,351 Common Shares and 27,512 vested RSU's in favor of the Company to secure the indemnification asset for the remaining tax withholding liability. Such pledge of securities was registered in Ontario and British Columbia. As of December 31, 2022 the pledge has been removed.

On March 18, 2021, 70,000 options were granted to Trichome's employees under the 2018 Plan (see Note 18).

Acquisition costs of Trichome include the issuance of 5,052 Common Shares, valued at \$495 to financial advisors for advisory fees in connection with the Trichome Transactions.

Trichome's revenue and net loss included in the Company's consolidated financial statements of profit or loss and other comprehensive income (loss) since date of acquisition through December 31, 2021, were \$9,223 and \$(17,983), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

Had the Trichome Transaction occurred on January 1, 2021, the Company's proforma results for the year ended December 31, 2021, (before deconsolidation) would have been as follows:

	Proforma results for the year ended December 31, 2021
Revenues	<u>\$ 55,563</u>
Net loss	<u>\$ (25,372)</u>

These proforma results are based on estimates and assumptions, which the Company believes are reasonable. They are not necessarily the results that would have been realized had the Company and TFC been a combined company during the period presented and are not necessarily indicative of the Company's consolidated results of operations in future periods. The proforma results include adjustments related to purchase accounting, primarily amortization of intangible assets, depreciation related to the excess of fair value over cost attributable to purchased property, plant and equipment and elimination of inter-company transactions.

On November 7, 2022, Trichome Group filed and obtained an initial order under CCAA (see Note 1), which is a Canadian federal law that permits a Canadian business to restructure its affairs while carrying on its business in the ordinary course with minimal disruption to its customers, suppliers and employees. Upon the CCAA proceeding the Company ceased to consolidate Trichome.

MYM Nutraceuticals Inc.

On July 9, 2021, the Company, through its wholly owned subsidiary, Trichome, completed the acquisition of MYM Nutraceuticals ("MYM"). MYM is a Canadian cultivator, processor, and distributor of premium cannabis via its two wholly owned subsidiaries; SublimeCulture Inc. ("Sublime") located near Montreal, Quebec, and Highland Grow Inc. ("Highland"), located in Antigonish, Nova Scotia. MYM's flagship brand, Highland, is an ultra-premium brand sold in most provinces throughout Canada.

The Company acquired all the issued and outstanding shares of MYM. The Company acquired MYM's licensed producer subsidiary Highland Grow Inc., pursuant to a plan of arrangement under the Business Corporations Act in British Columbia. Under the terms of the MYM Transaction, the shareholders of MYM received 0.022 Common Shares of IMCC for each common share of MYM. As a result of the MYM transaction, a total of 1,007,344 Common Shares were issued to the MYM former shareholders and financial advisors, resulting in former MYM shareholders holding approximately 15% of the total number of issued and outstanding Common Shares immediately after closing. Total consideration of the issued shares, warrants and stock options valued at approximately \$62,620.

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a preliminary valuation study prepared by management with the assistance of an external valuation specialist.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

Acquisition costs of MYM include the issuance of 4,980 Common Shares, valued at \$312 to financial advisors for advisory fees in connection with the MYM Transactions.

MYM's revenue and net profit included in the Company's consolidated financial statements of profit or loss and other comprehensive income (loss) since date of acquisition through December 31, 2021, were \$11,024 and \$130, respectively.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Group including Trichome and MYM.

Had the MYM Transaction occurred on January 1, 2021, the Company's proforma results for the year ended December 31, 2021, would have been as follows:

	Proforma results for the year ended December 31, 2021
Revenues	\$ 61,639
Net loss	\$ (20,132)

These proforma results are based on estimates and assumptions, which the Company believes are reasonable. They are not necessarily the results that would have been realized had the Company and MYM been a combined company during the period presented and are not necessarily indicative of the Company's consolidated results of operations in future periods. The proforma results include adjustments related to purchase accounting, primarily amortization of intangible assets, depreciation related to the excess of fair value over cost attributable to purchased property, plant and equipment and elimination of inter-company transactions.

On November 7, 2022, Trichome Group filed and obtained an initial order under CCAA (see Note 1), which is a Canadian federal law that permits a Canadian business to restructure its affairs while carrying on its business in the ordinary course with minimal disruption to its customers, suppliers and employees. Upon the CCAA proceeding the Company ceased to consolidate MYM.

Panaxia's Assets and Operations

On April 30, 2021, the Company announced that its wholly-owned Israeli subsidiary, IMC Holdings, signed a definitive agreement (the "Panaxia Agreement") with Panaxia Pharmaceutical Industries Israel Ltd. and Panaxia Logistics Ltd. (collectively "Panaxia") (the "Panaxia Transaction"). Pursuant to the Panaxia Agreement, IMC Holdings will acquire Panaxia's trading house license and in-house pharmacy activities, certain distribution assets and an option to purchase a pharmacy with licenses to sell medical cannabis to patients, for an aggregate purchase price of NIS 18,700 thousand (approximately \$7,000), comprised of NIS 7,600 thousand (approximately \$2,800) in cash and NIS 11,100 thousand (approximately \$4,200) in Common Shares. As of December 31, 2022, the accrued purchased consideration with respect to Panaxia transaction amounted to \$373.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

On April 30, 2021, the Company acquired all Panaxia's online-related activities and intellectual property for an aggregate purchase price of NIS 18.7 million (approximately \$7,000). In order to complete the acquisition, the Company will issue Common Shares in five installments with an aggregate amount of NIS 11.1 million (approximately \$4,200).

During 2021, the Company issued the four installments of the Panaxia Consideration Shares, in the aggregate amount of 93,475, at a various share prices ranging between US\$31 to US\$50.1. The total consideration represents an aggregate amount of US\$3,397 thousand (approximately \$4,290).

As part of the acquisition, the Company purchased an option to purchase the Panaxia pharmacy, including cannabis-related licenses. As the exercise price of the option relates only to the medical cannabis inventory at the date of exercise, the Company has initially allocated \$2,837 of the non-cancellable purchase price to effectively reflect the Company's advance payment for the estimated fair value of the licenses and other assets of the Panaxia pharmacy that will be acquired upon exercise of the option.

During the fourth quarter of 2022, the Company received from Panaxia a pharmacy customer relationships asset and reclassified the Advance payment for intangible assets of pharmacy to an intangible asset in the amount of \$2,192, which will be amortized over 4 years and recorded an impairment of the remaining balance of \$4,108.

Subsequent to December 31, 2022, on February 13, 2023, the Company announced that it reached an agreement, together with Panaxia, to terminate the option that the Company had, under the Panaxia Transaction, to acquire a pharmacy licensed to dispense and sell medical cannabis to patients, for no additional consideration. Under the agreement, the Company will not be required to make the fifth installment of approximately \$298 of Common Shares owed by the Company to Panaxia under the Panaxia Transaction and will receive an agreed compensation amount of approximately \$95 from Panaxia to be paid by Panaxia in services and cannabis inflorescence in accordance with the terms as agreed by the parties.

The acquisition was accounted for under IFRS 3 as a business combination. Accordingly, the Group recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a preliminary valuation study prepared by an external valuation specialist.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Group and Panaxia's acquired assets.

Panaxia's results of operation for the acquisition date through December 31, 2022, were immaterial to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

The fair value of the identifiable assets acquired and liabilities assumed on the acquisition date based on a final adjusted valuation performed in 2022, are as follows:

	<u>Preliminary PPA</u>	<u>Adjustments</u>	<u>Final PPA</u>
Inventory	\$ 19	\$ -	\$ 19
Advance payment for intangible assets of pharmacy	2,837	3,367	6,204
Property, plant and equipment	88	-	88
Intangible assets	776	(593)	183
Total identifiable assets	<u>3,720</u>	<u>2,774</u>	<u>6,494</u>
Goodwill arising on acquisition	<u>3,240</u>	<u>(2,774)</u>	<u>466</u>
Total purchase price	<u>\$ 6,960</u>	<u>\$ -</u>	<u>\$ 6,960</u>

The effects of the adjustments on prior period financial statements are immaterial.

Pharm Yarok pharmacy

On July 28, 2021, IMC Holdings entered into a definitive agreement to acquire all of the issued and outstanding share of R.A. Yarok Pharm Ltd., Rosen High Way Ltd. and High Way Shinua Ltd. (collectively "Pharm Yarok Group"). The aggregate consideration for the Pharm Yarok Group acquisition comprised of NIS 11,900 thousand (approximately \$4,600), of which NIS 3,500 thousand (approximately \$1,300) in Common Shares which were issued on March 14, 2022, as a settlement of the remained purchase consideration liability.

The acquisition was accounted for under IFRS 3 as a business combination. Accordingly, the Company recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a preliminary valuation study prepared by management, with the assistance of an external valuation specialist.

Pharm Yarok Group's revenue and net profit included in the Company's consolidated financial statements of profit or loss and other comprehensive income (loss) since date of acquisition through December 31, 2021, were \$4,897 and \$1, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

Had the Pharm Yarok Group Transaction occurred on January 1, 2021, the Company's proforma results for the year ended December 31, 2021, would have been as follows:

	Proforma results for the year ended December 31, 2021
Revenues	<u>\$ 58,345</u>
Net loss	<u>\$ (18,986)</u>

These proforma results are based on estimates and assumptions, which the Company believes are reasonable. They are not necessarily the results that would have been realized had the Company and Pharm Yarok Group been a combined company during the period presented and are not necessarily indicative of the Company's consolidated results of operations in future periods. The proforma results include adjustments related to purchase accounting, primarily amortization of intangible assets, depreciation related to the excess of fair value over cost attributable to purchased property, plant and equipment and elimination of inter-company transactions.

Vironna pharmacy

On August 16, 2021, IMC Holdings signed a definitive agreement to acquire 51% of the outstanding ordinary shares of "Vironna" for a total consideration of NIS 8,500 thousand (approximately \$3,300), of which NIS 5,000 thousand (approximately \$1,900) in cash and NIS 3,500 thousand (approximately \$1,400) is in Common Shares which were issued on March 14, 2022. As of December 31, 2022, the accrued consideration payable to Vironna's former shareholder amounts to \$58.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Group and the pharmacies. The Group has elected to measure the non-controlling interest in this business combination based on the fair value of the identifiable net assets acquired (excluding goodwill).

The acquisition was accounted for under IFRS 3 as a business combination. Accordingly, the Company recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a preliminary valuation study prepared by management, with the assistance of an external valuation specialist.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

Had the Vironna Transaction occurred on January 1, 2021, the Company's proforma results for the year ended December 31, 2021, would have been as follows:

	Proforma results for the year ended December 31, 2021
Revenues	<u>\$ 56,816</u>
Net loss	<u>\$ (18,180)</u>

These proforma results are based on estimates and assumptions, which the Company believes are reasonable. They are not necessarily the results that would have been realized had the Company and Vironna been a combined company during the period presented and are not necessarily indicative of the Company's consolidated results of operations in future periods. The proforma results include adjustments related to purchase accounting, primarily amortization of intangible assets, depreciation related to the excess of fair value over cost attributable to purchased property, plant and equipment and elimination of inter-company transactions.

Oranim pharmacy

On December 1, 2021, IMC Holdings signed a definitive agreement to acquire 51% of the rights in Oranim for an aggregate consideration of approximately NIS 11,900 thousand (approximately \$4,900), comprised of NIS 5,200 thousand (approximately \$2,100) paid in cash upon signing, NIS 5,200 thousand (approximately \$2,100) which will be paid in cash on the first quarter of 2023 and NIS 1,500 thousand (approximately \$700) in Common Shares. As of June 30, 2022, the Company issued the Common Shares, paid NIS 5,200 thousand (approximately \$2,100) and the accrued consideration payable to Oranim's former shareholder amounts to \$2,003.

The acquisition was accounted for under IFRS 3 as a business combination. Accordingly, the Company recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a preliminary valuation study prepared by management, with the assistance of an external valuation specialist.

Oranim's revenue and net profit included in the Company's consolidated financial statements of profit or loss and other comprehensive income (loss) since date of acquisition through December 31, 2021, were \$1,410 and \$46, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

Had the Oranim Transaction occurred on January 1, 2021, the Company's proforma results for the year ended December 31, 2021, would have been as follows:

	Proforma results for the year ended December 31, 2021
Revenues	<u>\$ 67,589</u>
Net loss	<u>\$ (17,870)</u>

These proforma results are based on estimates and assumptions, which the Company believes are reasonable. They are not necessarily the results that would have been realized had the Company and Oranim been a combined company during the period presented and are not necessarily indicative of the Company's consolidated results of operations in future periods. The proforma results include adjustments related to purchase accounting, primarily amortization of intangible assets, depreciation related to the excess of fair value over cost attributable to purchased property, plant and equipment and elimination of inter-company transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

The fair value of the identifiable assets acquired and liabilities assumed on the acquisition dates:

	Fair value					
	TFC	MYM	Vironna	Pharm Yarok	Oranim	Panaxia
Assets						
Cash and cash equivalents	\$ 362	\$ 131	\$ 57	\$ 105	\$ 485	\$ -
Trade and other receivables	3,240	2,548	259	456	1,329	-
Indemnification asset	8,131	-	-	-	-	-
Biological assets	785	63	-	-	-	-
Inventory	3,883	4,180	639	346	1,043	19
Loan receivable	8,470	2,122	-	-	-	-
Investments	-	-	-	-	-	2,837
Property, plant and equipment	15,193	6,105	210	1,145	389	88
Derivative assets	114	-	-	-	-	-
Right of use assets	15,037	630	-	-	1,312	-
Investments	319	-	-	-	-	-
Intangible assets	6,458	17,200	2,316	974	2,991	776
Total identifiable assets	61,992	32,979	3,481	3,026	7,549	3,720
Liabilities						
Trade and other payables	(15,196)	(4,442)	(854)	(1,448)	(1,777)	-
Bank loans	-	(915)	-	-	-	-
Lease liability	(15,037)	(873)	-	-	(1,312)	-
Long term loans	-	-	-	(1,042)	-	-
Deferred tax, net	-	(4,061)	(532)	(224)	(688)	-
Total identifiable liabilities	(30,233)	(10,291)	(1,386)	(2,714)	(3,777)	-
Total identifiable assets, net	31,759	22,688	2,095	312	3,772	3,720
Goodwill arising on acquisition	67,269	39,932	2,250	4,294	2,907	3,240
Non-controlling interest	-	-	(1,026)	-	(1,848)	-
Total purchase price	\$ 99,028	\$ 62,620	\$ 3,319	\$ 4,606	\$ 4,831	\$ 6,960

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 6:- TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. As of December 31, 2022 and 2021, there were no material past-due receivables.

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2022	2021
Prepaid expenses	\$ 1,488	\$ 2,715
Government authorities	1,557	2,338
Related parties (see Note 21)	83	11
Indemnification assets (see Note 5)	-	2,112
Other receivables	195	7,304
	<u>\$ 3,323</u>	<u>\$ 14,482</u>

NOTE 8:- BIOLOGICAL ASSETS

The Group's biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

Balance at of January 1, 2021	\$ 78
Additions related to acquisitions of Trichome and MYM	848
Production costs capitalized	10,454
Changes in fair value less cost to sell due to biological transformation	7,210
Transferred to inventory upon harvest	(16,977)
Foreign exchange translation	74
Balance at of December 31, 2021	1,687
Production costs capitalized	7,744
Changes in fair value less cost to sell due to biological transformation	84
Transferred to inventory upon harvest	(9,025)
Restructuring disposal	(108)
Foreign exchange translation	62
Deconsolidation of Trichome (see Note 24)	(444)
Balance at of December 31, 2022	<u>\$ -</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 8:- BIOLOGICAL ASSETS (Cont.)

The fair value of biological assets is categorized within Level 3 of the fair value hierarchy.

The inputs and assumptions used in determining the fair value of biological assets include:

1. Selling price per gram - calculated as the weighted average historical selling price for all strains of cannabis sold by the Group, which is expected to approximate future selling prices.
2. Post-harvest costs - calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials, depreciation and labor as well as labelling and packaging costs.
3. Attrition rate - represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
4. Average yield per plant - represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
5. Stage of growth - represents the weighted average number of weeks out of the average weeks growing cycle that biological assets have reached as of the measurement date. The growing cycle is approximately 12 weeks.

The following table quantifies each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets:

	December 31,		10% change as at December 31,	
	2022	2021	2022	2021
Average selling price per gram of dried cannabis (in CAD)	\$ 3.21	\$ 3.64	\$ 60	\$ 296
Average post-harvest costs per gram of dried cannabis (in CAD)	\$ 0.75	\$ 1.16	\$ 17	\$ 140
Attrition rate	51%	27%	44%	100%
Average yield per plant (in grams)	38	47	42	228
Average stage of growth	82%	47%	39%	212%

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Group's estimates are, by their nature, subject to change including differences in the anticipated yield. These changes will be reflected in the gain or loss on biological assets in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 9:- INVENTORY

	December 31, 2022		
	Capitalized costs	Fair valuation adjustment, net	Carrying value
Work in progress:			
Bulk cannabis	\$ 5,364	\$ 1,265	\$ 6,629
Finished goods:			
Packaged dried cannabis	8,665	\$ 549	9,214
Other products	742	-	742
Balance as of December 31, 2022	<u>\$ 14,771</u>	<u>\$ 1,814</u>	<u>\$ 16,585</u>
	December 31, 2021		
	Capitalized costs	Fair valuation adjustment, net	Carrying value
Work in progress:			
Bulk cannabis	\$ 14,113	\$ 3,336	\$ 17,449
Other cannabis products	1,074	-	1,074
Finished goods:			
Packaged dried cannabis	8,974	270	9,244
Other cannabis products	744	-	744
Other products	880	-	880
Balance as of December 31, 2021	<u>\$ 25,785</u>	<u>\$ 3,606</u>	<u>\$ 29,391</u>

During the years ended December 31, 2022 and 2021, inventory expensed to cost of revenue of cannabis products was \$63,517 and \$43,720, respectively, which included \$4,342 and \$8,796 of non-cash expense (out of which, a total of \$2,528 and \$226 attributable to the discontinued operations of the Canadian entities, see Note 24), respectively, related to the changes in fair value of inventory sold.

Cost of revenues in 2022 and 2021, also include production overhead not allocated to costs of inventory produced and recognized as an expense as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and improvements	Production equipment and furniture	Greenhouse structure	Computer, software and equipment	Motor vehicles	Total
Cost:						
Balance at January 1, 2021	\$ 2,477	\$ 2,761	\$ 1,595	\$ 279	\$ 65	\$ 7,177
Additions during the year	1,932	1,846	508	261	31	4,578
Additions related to acquisitions	18,828	3,584	-	455	263	23,130
Foreign currency translation	(81)	79	79	44	11	132
Balance at December 31, 2021	23,156	8,270	2,182	1,039	370	35,017
Additions during the year	267	795	49	240	211	1,562
Deconsolidation of Trichome	(13,770)	(4,186)	-	(302)	(52)	(18,310)
Foreign currency translation	(104)	(173)	(120)	(46)	(79)	(522)
Balance at December 31, 2022	9,549	4,706	2,111	931	450	17,747
Accumulated depreciation:						
Balance at January 1, 2021	184	919	444	81	17	1,645
Depreciation during the year	1,554	993	206	241	27	3,021
Foreign currency translation	4	40	26	11	2	83
Balance at December 31, 2021	1,742	1,952	676	333	46	4,749
Depreciation during the year	1,549	988	139	286	82	3,044
Impairment	5,258	1,931	1,377	52	37	8,655
Deconsolidation of Trichome	(2,428)	(1,095)	-	(121)	(21)	(3,665)
Foreign currency translation	(28)	(119)	(81)	(17)	(12)	(257)
Balance at December 31, 2022	6,093	3,657	2,111	533	132	12,526
Depreciated cost at December 31, 2022	<u>\$ 3,456</u>	<u>\$ 1,049</u>	<u>\$ -</u>	<u>\$ 398</u>	<u>\$ 318</u>	<u>\$ 5,221</u>
Depreciated cost at December 31, 2021	<u>\$ 21,414</u>	<u>\$ 6,318</u>	<u>\$ 1,506</u>	<u>\$ 706</u>	<u>\$ 324</u>	<u>\$ 30,268</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 11:- GOODWILL AND INTANGIBLE ASSETS, NET

	Cultivations and processing license *)	Customer relationships	Brand	Goodwill	Other	Total
Cost:						
Balance at January 1, 2021	\$ 1,060	\$ 58	\$ 63	\$ 304	\$ 68	\$ 1,553
Initial consolidation	8,950	10,337	11,300	119,892	128	150,607
Foreign currency translation adjustments	(49)	279	-	1,382	6	1,618
Balance at December 31, 2021	9,961	10,674	11,363	121,578	202	153,778
PPA adjustments during measurement period	-	5,715	-	(2,774)	-	2,941
Disposals	(1,581)	-	-	-	-	(1,581)
Deconsolidation of Trichome	(5,856)	(2,932)	(9,799)	-	(131)	(18,718)
Foreign currency translation adjustments	-	(381)	-	(904)	(48)	(1,333)
Balance at December 31, 2022	2,524	13,076	1,564	117,900	23	135,087
Accumulated amortization:						
Balance at January 1, 2021	156	-	-	-	1	157
Amortization recognized in the year	618	469	8	-	63	1,158
Impairment	-	-	-	275	-	(275)
Balance at December 31, 2021	774	469	8	275	64	590
Amortization recognized in the year	767	1,503	7	-	66	2,343
Impairment	1,215	4,461	1,501	107,854	4	115,035
Deconsolidation of Trichome	(1,083)	(365)	-	-	(114)	(1,562)
Balance at December 31, 2022	1,673	6,068	1,516	108,129	20	117,406
Amortized cost at December 31, 2022	851	7,008	48	9,771	3	17,681
Amortized cost at December 31, 2021	\$ 9,187	\$ 10,205	\$ 11,355	\$ 121,303	\$ 138	\$ 152,188

*) The licenses consist of GMP and GDP licenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 11:- INTANGIBLE ASSETS, NET (Cont.)*Goodwill and intangible assets amortization and impairment:*

For the year ended December 31, 2021, the Company recorded a goodwill impairment in the amount of \$275 related to Adjupharm.

For the year ended December 31, 2022, the Company recorded a goodwill and intangible assets impairment in the amount of \$107,854 and \$3,067, respectively, related to Trichome (see Note 24).

The recoverable amounts of the intangible assets and the goodwill derived from the Israeli cash generating units were determined based on the value in use which is calculated at the expected estimated future cash flows, as determined according to the budget for the next five years and approved by the Company's management. The pre-tax discount rate of the cash flows is 17.5%. The projected cash flows for the period exceeding five years was estimated using a fixed growth rate of 2%, representing the long-term average growth rate as customary in the business. Based on the analysis performed, the Company has determined that the recoverable amounts of the Israeli cash generating units exceeds its assets carrying amount. In addition, there is no reasonably possible change in any of the significant assumptions that would cause the carrying amount exceed its recoverable amount.

During the year ended on December 31, 2022 and 2021, the Group recorded amortization expenses in the amount of \$2,343 and \$1,158, respectively. During the year ended on December 31, 2022, the Group recorded amortization expenses from continuing and discontinued operations in the amount of \$1,302 and \$1,041, respectively. The amortization expenses are included in the cost of revenues, selling and marketing expenses and discontinued operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 12:- RIGHT-OF-USE ASSETS

	Land and buildings	Motor vehicles	Total
Cost:			
Balance at January 1, 2021	\$ 1,005	\$ 241	\$ 1,246
Additions during the year:			
New leases	1,408	270	1,678
Additions related to business combinations	16,956	23	16,979
Currency translation adjustments	145	12	157
Balance at December 31, 2021	19,514	546	20,060
Additions during the year:			
New leases	302	311	613
Disposals during the year	(315)	-	(315)
Termination of leases	(1,804)	(207)	(2,011)
Deconsolidation of Trichome	(13,130)	(43)	(13,173)
Currency translation adjustments	(225)	(32)	(257)
Balance at December 31, 2022	4,342	575	4,917
Accumulated depreciation:			
Balance at January 1, 2021	194	117	311
Additions during the year:			
Depreciation and amortization	1,438	112	1,550
Currency translation adjustments	27	10	37
Balance at December 31, 2021	1,659	239	1,898
Additions during the year:			
Depreciation and amortization	1,768	176	1,944
Termination of leases	(453)	(91)	(544)
Impairment	1,907	6	1,913
Deconsolidation of Trichome	(2,164)	(10)	(2,174)
Currency translation adjustments	(35)	(14)	(49)
Balance at December 31, 2022	\$ 2,682	\$ 306	\$ 2,988
Depreciated cost at December 31, 2022	\$ 1,660	\$ 269	\$ 1,929
Depreciated cost at December 31, 2021	\$ 17,855	\$ 307	\$ 18,162

The Group has entered into leases of land, buildings and motor vehicles which are used for the Group's operations.

Leases of buildings have lease terms of between 5 and 12 years, whereas leases of motor vehicles usually have lease terms of 3 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit only for employees not under Section 14. The computation of the Group's employee benefit liability is made in accordance with a valid employment contract or a collective employees agreement based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans, as detailed below:

a. Defined benefit plans:

The Group accounts for the payment of compensation, that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in a long-term employee benefit fund and in qualifying insurance policies.

b. Expenses recognized in the consolidated statements of profit or loss and other comprehensive income:

	Year ended December 31,	
	2022	2021
Current service cost	\$ 75	\$ 146
Interest expenses	18	14
Total employee benefit expenses	<u>\$ 93</u>	<u>\$ 160</u>
Interest income on plan assets	<u>\$ 7</u>	<u>\$ 7</u>

c. The defined benefit liability, net:

	December 31,	
	2022	2021
Defined benefit obligation	\$ 418	\$ 668
Fair value of plan assets	(172)	(277)
Net defined benefit liability	<u>\$ 246</u>	<u>\$ 391</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

- d. Changes in the present value of defined benefit liabilities:

	<u>2022</u>	<u>2021</u>
Balance at January 1,	\$ 668	\$ 588
Current service cost	75	146
Interest expenses	18	14
Benefits paid	(268)	(50)
Re-measurement loss on defined benefit plans	(27)	(33)
Foreign currency translation effect	<u>(48)</u>	<u>3</u>
Balance at December 31,	<u>\$ 418</u>	<u>\$ 668</u>

- e. Changes in the fair value of plan assets:

Plan assets comprise assets held by a long-term employee benefit funds and qualifying insurance policies.

	<u>2022</u>	<u>2021</u>
Balance at January 1,	\$ 277	\$ 217
Interest income	7	7
Return, net of interest income - remeasurement gain (loss)	32	(12)
Benefits paid	(187)	(50)
Amounts deposited	43	116
Foreign currency translation effect	<u>-</u>	<u>(1)</u>
Balance at December 31,	<u>\$ 172</u>	<u>\$ 277</u>

- f. The principal assumptions underlying the defined benefit plan:

	<u>2022</u>	<u>2021</u>
	<u>%</u>	
Discount rate	5.69	3.5
Salary growth	4.93	4.64

Based on reasonably possible changes of the principal assumptions underlying the defined benefit plan as mentioned above, occurring at the end of the reporting period, the changes would have an immaterial effect on the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 14:- OTHER PAYABLES

	December 31,	
	2022	2021
Accrued expenses	\$ 1,848	\$ 6,146
Employees and payroll accruals	1,066	8,267
Government authorities	1,617	4,002
Related parties	693	875
Advances from customers	31	137
Other payables - restructuring	116	-
Other payables	642	716
	<u>\$ 6,013</u>	<u>\$ 20,143</u>

NOTE 15:- FINANCIAL INSTRUMENTS

The carrying values of the financial instruments which are measured at fair value through profit and loss as of December 31, 2022 and 2021, summarized in the following table:

	Note	December 31,	
		2022	2021
Financial assets:			
Investments	c,e	\$ 2,410	\$ 2,429
Derivative assets		\$ -	\$ 14
Financial liabilities:			
Warrants	b,d	\$ (8)	\$ (6,022)

- a. Management believes that the carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, loans receivables, trade payables, bank loans, other account payables and accrued expenses and purchase consideration payable, and approximate their fair value due to the short-term maturities of these instruments.
- b. For the years ended December 31, 2022 and 2021, the Company recognized a revaluation gain (loss) from remeasurement of Warrants of \$nil and \$15,929, respectively, in the consolidated statement of profit or loss and other comprehensive income, which unrealized gain is included in finance income (expense). During 2021, amount of \$611 of the Warrants was transferred to equity and the rest expired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

- c. On December 26, 2019, IMC entered into a share purchase agreement (the “SPA”) with Xinteza API Ltd. (“Xinteza”), a company with a unique biosynthesis technology.

On February 24, 2022, IMC entered into a Simple Agreement for Future Equity (SAFE) with Xinteza, under which IMC Holdings invested US\$100 thousand (approximately \$125), in exchange for additional future shares of Xinteza.

As of December 31, 2022 and 2021, the fair value of the Xinteza was categorized within Level 3 of the fair value hierarchy. The fair value was based on financing rounds for the purchase of preferred shares during 2022.

The investment in the investee is accounted for as financial asset measured at fair value through profit or loss. The fair value of the investment as of December 31, 2022 and 2021, was \$2,410 and \$2,429, respectively.

- d. On May 10, 2021, the Company completed an overnight marketed offering (the “Offering”) of 608,696 Common Shares (each an “Offered Share”) at a price of US\$57.5 per Offered Share for aggregate gross proceeds of approximately US\$35 million (\$42,502). The Company also issued 304,348 Common Share purchase warrants (each a “2021 Warrant”) to the purchasers of Offered Shares, for no additional consideration, that entitle the holders to purchase 304,348 Common Shares of the Company at an exercise price of US\$7.2 per Common Share for a term of 5 years from the closing date.

As the exercise price of the 2021 Warrants is denominated in US dollars, which is not the functional currency of the Company, the 2021 Warrants are accounted for as a derivative liability, which is measured at fair value. Gross proceeds in the amount of \$30,670 were recorded as Share capital and premium, and \$11,832 were recorded as a Warrant liability, based on a valuation using the Black & Scholes option pricing model. The transaction costs incurred as a result of the Offering amounted to approximately \$3,800, of which approximately \$1,296 (attributed to the issuance of the Warrants classified as liabilities) were recorded as an expense in the Company's consolidated statements of profit or loss and approximately \$2,539 (attributed to the issuance of share capital) as a deduction from Share capital and premium.

As of December 31, 2022 and 2021, there were 304,348 and 304,348 of 2021 Warrants outstanding and the Company re-measured the 2021 Warrants, according to Black & Scholes model, in the amount of \$8 and \$6,022, respectively. As a result, for the year ended December 31, 2022 and 2021, the Company recognized a revaluation gain of \$6,014 and \$5,810, in the consolidated statement of profit or loss and other comprehensive income, which unrealized gain is included in finance income (expense), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

The 2021 warrants fair value was measured using the Black & Scholes model with the following key assumptions:

	December 31, 2022	December 31, 2021	Sensitivity
Expected volatility	93 %	83 %	Increase (decrease) in key assumptions would result in increase (decrease) in fair value
Expected life (in years)	3.342	4.342	
Risk-free interest rate	0.85%	0.85%	Increase (decrease) in key assumptions would result in decrease (increase) in fair value
Expected dividend yield	0%	0%	
Fair value:			
Per Warrant (Canadian Dollar)	\$0.003	\$1.979	
Total Warrants (Canadian Dollar in thousands)	\$8	\$6,022	

e. Financial risk management:

The Group has exposure to the following risks from its use of financial instruments:

Share price risk:

The Group's investments in unlisted shares are sensitive to market price risk arising from uncertainties about future value of these investments. The Group manages the price risk through diversification and by placing limits on individual and total investment in shares.

The Company's Board of directors reviews and approves all decisions related to investments in shares.

At the reporting date, the Group's exposure to investments in unlisted shares measured at fair value was \$2,410.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

Credit risk:

The maximum credit exposure as of December 31, 2022, is the carrying amount of cash and cash equivalents, trade receivables and other current assets. The Group does not have significant credit risk with respect to outstanding trade receivables. All cash and cash equivalents are placed with major Israeli financial institutions.

Liquidity risk:

As of December 31, 2021, the Group's financial liabilities with liquidity risk consist of trade payables and other accounts payable which have contractual maturity dates within one year, bank loans and lease liabilities. The Group manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Group's working capital position at December 31, 2022, management considers liquidity risk to be moderate. The table below summarizes the maturity profile of the Group's bank loans and lease liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2022

	Less than one year	1 to 5 years	6 to 10 Years	>10 years
Lease liabilities	\$ 922	\$ 1,830	\$ 598	\$ -
Bank loans and others	\$ 9,246	\$ 399	\$ -	\$ -
Total	<u>\$ 10,168</u>	<u>\$ 2,229</u>	<u>\$ 598</u>	<u>\$ -</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

December 31, 2021

	<u>Less than one year</u>	<u>1 to 5 years</u>	<u>6 to 10 Years</u>	<u>>10 years</u>
Lease liabilities	\$ 3,130	\$ 11,781	\$ 12,760	\$ 2,620
Bank loans	9,502	-	-	-
Total	<u>\$ 12,632</u>	<u>\$ 11,781</u>	<u>\$ 12,760</u>	<u>\$ 2,620</u>

The maturity profile of the Group's other financial liabilities with liquidity risk (trade payables, other account payable and accrued expenses) as of December 31, 2022 and 2021, are less than one year.

Currency rate risk:

As of December 31, 2022, a portion of the Group's financial assets and liabilities held in Euro, NIS and USD consist of cash and cash equivalents in the amount of EUR 30 thousand (approximately \$44), NIS 6,045 thousand (approximately \$2,328), USD 29 thousand (approximately \$39), respectively. The Group's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in NIS. The Group does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point of time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

f. Changes in liabilities arising from financing activities:

	<u>Loans</u>	<u>Lease liabilities</u>	<u>Warrants</u>	<u>Total liabilities arising from financing activities</u>
Balance as of January 1, 2021	\$ -	\$ 990	\$ 16,540	\$ 17,530
Issuance of new warrants	-	-	11,832	11,832
Additions for new loans	8,504	-	-	8,504
Additions for new leases	-	1,678	-	1,678
Additions related to acquisitions	1,957	17,222	-	19,179
Repayments	(700)	(1,980)	-	(2,680)
Effective interest	-	1,347	-	1,347
Other changes	133	117	(611)	(361)
Effect of changes in fair value	-	-	(21,739)	(21,739)
Balance as of December 31, 2021	9,894	19,374	6,022	35,290
Additions for new loans	4,660	-	-	4,660
Additions for new leases	-	613	-	613
Repayments	-	(3,085)	-	(3,085)
Effective interest	-	1,429	-	1,429
Effect of exchange rate differences	(1,135)	(2,056)	-	(3,191)
Deconsolidation of Trichome	(3,774)	(14,386)	-	(18,160)
Effect of changes in fair value	-	-	(6,014)	(6,014)
Balance as of December 31, 2022	<u>\$ 9,645</u>	<u>\$ 1,889</u>	<u>\$ 8</u>	<u>\$ 11,542</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 16:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES*Legal proceedings:*

- a. On August 19, 2019, a cannabis consumer (the “Applicant”) filed a motion for approval of a class action to Tel Aviv - Jaffa District Court (the “Motion”) against 17 companies (the “Parties”) operating in the field of medical cannabis in Israel, including Focus. The Applicant’s argument is that the Parties did not accurately mark the concentration of active ingredients in their products. The personal suit sum for each class member stands at NIS 15,585 and the total amount of the class action suit is estimated at NIS 685,740,000. On June 2, 2020, the Parties submitted their response to the Motion. The Parties argue in their response that the threshold conditions for approval of a class action were not met, since there is no reasonable possibility that the causes of action in the Motion will be decided in favor of the class group. On July 3, 2020 the Applicant submitted his response to the Parties’ response. On July 5, 2020 the Applicant was absent from the hearing. As a result, on July 23, 2020 the Parties filed an application for a ruling of expenses which received a response from the Applicant on August 12, 2020, asking to decline this request. On September 29, 2020 the court ruled that the Applicant would pay the Parties’ expenses amount of NIS 750. On July 14, 2021 a prehearing was held. The court recommended the parties negotiate independently to avoid litigation, and if negotiations fail, then to begin mediation proceedings. The parties agreed to follow the court’s recommendations. On November 3, 2021 the court ruled the Parties will file an update regarding the mediation procedure in 30 days. The parties conducted unsuccessful negotiations. On March 14, 2022, the Applicant filed a request to amend the Motion (the “Applicant’s Request for Amendment”) and the judge disqualified herself from hearing the case. As a result, the case was redirected. On June 21, 2022 the Parties filed a response to the Applicant’s Request for Amendment. On September 12, 2022, the court ruled on the Applicant’s Request for Amendment and accepted the Applicant’s request to clarify its claims regarding product labeling, while rejecting the Applicant’s other requests. On November 27, 2023, the Applicant submitted an amended application for approval of the motion (the “Amended Motion”), and the Parties’ response was submitted on February 8, 2023. The date of the preliminary hearing was postpone several times and is yet to be determined by court.

Due to the current preliminary state of the litigation process and based on the opinion of legal counsel to Focus, the Company’s management believes that it is not reasonably possible to assess the outcome of the proceeding. Therefore, no provision has been recorded in respect thereof.

- b. On July 11, 2021 the Company was informed that on June 30, 2021, a claim was filed to Beer Sheva Magistrate Court, by the municipal committee presiding over planning and construction in southern Israel against Focus, Focus’ directors and officers, including Oren Shuster and Rafael Gabay, and certain landowners, claiming for inadequate permitting for construction relating to the Focus Facility (the “Construction Proceedings”).

On December 6, 2021 the defendants filed a motion request for dismissal the indictment on the ground of defense of justice. The municipal committee filed its response and after that the defendants filed a response to the municipal committee’s response. As of the date of this letter no decision has yet been made on the application.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 16:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)

A hearing was initially set to December 1, 2021 but postponed several times in order to allow the parties to negotiate towards a resolution. The hearing is set June 22, 2023. A draft agreement between the parties sent by the defendant to the municipal committee in order for it to be sent to the state attorney's office for their comments, which once obtained, will be filed with the Court for its approval. The Court is not obligated to approve the agreement between the parties, if obtained.

At this preliminary stage, based on the opinion of its legal counsel, Focus' management cannot assess the chances of the claim advancing or the potential outcome of the Construction Proceedings.

- c. On November 19, 2021, Adjupharm filed a statement of claim (the "**Claim**") to the District Court of Stuttgart (the "**Stuttgart Court**") against Stroakmont & Atton Trading GmbH ("**Stroakmont & Atton**"), its shareholders and managing directors regarding a debt owed by Stroakmont & Atton to Adjupharm in an amount of approximately EUR 947,563 for COVID-19 test kits purchased by Stroakmont & Atton from Adjupharm in May 2021. The Claim was accepted on December 2, 2021. In January 2022, Stroakmont & Atton filed its statement of defence to the Stuttgart Court in which they essentially stated two main arguments for their defense:
1. that the contractual partner of the Company is not the defendant, Stroakmont & Atton is not the real purchaser rather a company named Uniclaro GmbH.
 2. that the Company allegedly placed an order with Uniclaro GmbH for a total of 4.3 million Clongene COVID-19 tests, of which Uniclaro GmbH claims to have a payment claim against the Company for a partial delivery of 380,400 Clongene COVID-19 tests in the total amount of EUR 941,897.20. Uniclaro GmbH has assigned this alleged claim against the Company to Stroakmont & Atton Trading GmbH, and Stroakmont & Atton Trading GmbH has precautionary declared a set-off against the Company's claim.

On March 22, 2022 Adjupharm filed a response to Stroakmont & Atton's statement of defence and rejected both allegations with a variety of legal arguments and facts and also offered evidence to the contrary in the form of testimony from the witnesses in question.

The burden of proof for both allegations lies with the opponents and they offered evidences to the court in the form of testimony from certain witnesses. If the opponents succeed in proving both allegations to the court, the chances of winning the lawsuit will be considerably reduced. However, it will not be easy for the opponents to present evidence of these allegations.

On May 27, 2022, the conciliation hearing and main hearing were held. The Stuttgart Court ruled that the Company shall submit another writ by August 29, 2022. The Stuttgart Court also scheduled a pronouncement date for September 7, 2022, when the Stuttgart Court will enter a judgement or hold an evidentiary hearing with witnesses. Following the pronouncement date on September 7, 2022 an evidentiary hearing with witnesses was held on two occasions, January 11, 2023, where witnesses on behalf of Adjupharm testified, and on February 22, 2023, witnesses on behalf of Stroakmont & Atton testified.

The court provided the parties a deadline until March 24 2023 to evaluate the testimonies of the witnesses and to deliver to the court a summary of the factual and legal situation after the court hearings. The court will announce its decision for further proceedings or its judgment on April 5, 2023. At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17:- TAXES ON INCOME

a. Tax rates applicable to the Group:

1. The Company is subject to tax rates applicable in Canada. The combined federal and provincial rate for 2022 and 2021 is 26.5%.
2. The Israeli subsidiaries are subject to Israeli corporate income tax rate of 23% in 2022 and 2021.
3. The German subsidiary is subject to weighted tax rate of approximately 29.1% (composed of Federal and Municipal tax).

b. Carryforward losses for tax purposes:

Carryforward operating tax losses of the Israeli subsidiaries total approximately \$6,876, as of December 31, 2022. These losses can be carried forward to future years and offset against taxable income in the future without any time limitation. Except for tax losses in the amount \$3,178, no deferred tax assets were recorded with regards to IMC Holdings Ltd. since the Company does not anticipate to utilize the net operating losses in the foreseeable future.

Carryforward operating tax losses of the German subsidiary as of December 31, 2022, amounted to approximately \$13,166. Accumulated tax losses can be carried forward without time restrictions and can be deducted from future profits and capital gains unless they exceed €1,000 thousand (approximately \$1,445). Any excess of such amount will be limited to 60% of the profits or capital gains. Unused carried forward losses will be subject to such limitation in the future. No deferred tax assets were recorded with regards to the German subsidiary since the Company does not anticipate to utilize the net operating losses in the foreseeable future.

c. Income tax expense (benefit):

	Year ended December 31,		
	2022	2021	2020
Current	\$ 688	\$ 243	\$ 25
Deferred, net	(1,810)	278	(66)
Income tax from previous years	(16)	(21)	303
	<u>\$ (1,138)</u>	<u>\$ 500</u>	<u>\$ 262</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17:- TAXES ON INCOME (Cont.)

d. Deferred taxes:

	Statements of financial position	
	December 31,	
	2022	2021
Deferred tax assets:		
Carryforward tax losses and other	\$ 731	\$ 2
Other deferred tax assets	32	14
	<u>763</u>	<u>16</u>
Deferred tax liabilities:		
Inventory and biological assets	-	863
Intangible assets	1,285	5,721
Other	47	7
	<u>1,332</u>	<u>6,591</u>
Deferred tax liabilities, net	<u>\$ (569)</u>	<u>\$ (6,575)</u>

The deferred taxes are reflected in the statements of financial position as follows:

	December 31,	
	2022	2021
Non-current assets	<u>\$ 763</u>	<u>\$ 16</u>
Non-current liabilities	<u>\$ 1,332</u>	<u>\$ 6,591</u>

The deferred taxes are computed based on the tax rates that are expected to apply upon realization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17:- TAXES ON INCOME (Cont.)

- e. Reconciliation of tax expense (benefit) and the accounting loss multiplied by the Company's domestic tax rate for:

	Year ended December 31,		
	2022	2021	2020
Loss before income tax	\$ (26,060)	\$ (164)	\$ (28,472)
Statutory tax rate in Canada 26.5%	(6,906)	(43)	(7,545)
Increase (decrease) in income tax due to:			
Non-deductible expenses (non-taxable income), net for tax purposes	1,764	(4,208)	6,306
Effect of different tax rate of subsidiaries	599	310	161
Adjustments in respect of current income tax of previous years	(16)	(21)	303
Recognition (derecognition) of tax benefit in respect of losses of previous years	-	846	(830)
Unrecognized tax benefit in respect of loss for the year	4,037	4,093	1,771
Other adjustments	(616)	(477)	96
Income tax expense (benefit)	\$ (1,138)	\$ 500	\$ 262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- EQUITY

- a. Composition of share capital:

	December 31, 2022		December 31, 2021	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common Shares without par value	Unlimited	7,569,526	Unlimited	6,811,620

Common Shares confer upon their holders the right to participate in the general meeting where each Ordinary share has one voting right in all matters, receive dividends if and when declared and to participate in the distribution of surplus assets in case of liquidation of the Company.

On November 14, 2022, the Company's shareholders general meeting resolved to consolidated all of its issued and outstanding Ordinary shares on a ten (10) to one (1) basis (the "Share Consolidation"). All share and per share amounts in these consolidated financial statements, give effect to the Share Consolidation for all periods presented.

- b. Capital issuances:

On May 10, 2021, the Company completed an overnight marketed offering (the "Offering") of 608,696 Common Shares (each an "Offered Share") at a price of US\$57.5 per Offered Share for aggregate gross proceeds of approximately US\$35 million (\$42,502). The Company also issued 304,348 Common Share purchase warrants (each an "2021 Warrant") to the purchasers of Offered Shares, for no additional consideration, that entitle the holders to purchase 304,348 Common Shares of the Company at an exercise price of US\$7.2 per Common Share for a term of 5 years from the closing date.

As the exercise price of the 2021 Warrants is denominated in US dollars, which is not the functional currency of the Company, the 2021 Warrants are accounted for as a derivative liability, which is measured at fair value. Gross proceeds in the amount of \$30,670 were recorded as Share capital and premium, and \$11,832 were recorded as a Warrant liability, based on a valuation using the Black & Scholes option pricing model. The transaction costs incurred as a result of the Common Shares issuance amounted to approximately \$3,800, of which approximately \$1,296 (attributed to the issuance of the Warrants classified as liabilities) were recorded as an expense in the Company's consolidated statements of profit or loss and approximately \$2,539 (attributed to the issuance of share capital) as a deduction from Share capital and premium.

Pursuant to the terms of the Offering, the placement agents held an over-allotment option to purchase up to an additional 91,304 Offered Shares and 45,652 2021 Warrants on the same terms and conditions for a period of 30 days following the closing date. The over- allotment option was not exercised by the placement agents and expired as of June 30, 2021. The Company recorded expenses in the amount of approximately \$800 under share-based compensation expenses with respect to the Offering.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- EQUITY (Cont.)

The Offering was conducted pursuant to the Company's effective shelf registration statement on Form F-10 filed with the U.S. Securities and Exchange Commission and a corresponding Canadian shelf prospectus filed with the Securities Regulatory Authority in each of the provinces and territories of Canada and a final prospectus supplement which was filed with the SEC on May 5, 2021.

On March 14, 2022, the Pharm Yarok Transaction closed upon receipt of all requisite approvals, including the IMCA approval. In connection with closing of the Pharm Yarok Transaction, the Company completed a non-brokered private placement with former shareholders of Pharm Yarok and Rosen High Way on March 14, 2022. A total of 52,370 Common Shares were issued at a deemed price of \$26.16 for aggregate proceeds of \$1,370.

On March 14, 2022, the Vironna Transaction closed upon receipt of all requisite approvals, including the approval of the IMCA and NIS 3,500 (approximately \$1,360) in Common Shares issued on closing. In satisfaction of the share consideration component, the Company issued 48,536 Common Shares at a deemed issue price of US\$22.09 per share (approximately \$28.09).

On March 28, 2022, the Oranim Transaction closed upon receipt of all requisite approvals, including the approval of the MOH and NIS 1,536 (approximately \$600) in Common Shares issued on closing. In satisfaction of the share consideration component, the Company issued 25,100 Common Shares at a deemed issue price of US\$19.74 per share (approximately \$25.1).

On August 19, 2022, the Company announced a private placement for aggregate gross proceeds of up to \$6,500 (US\$5 million) (the "Private Placement"). As of December 31, 2022, the Company issued 599,999 Common Shares for a total amount of \$3,756 (US\$3 million) including investments by the Company's management and executives. Issuance costs of this transaction amounted to \$178.

c. Changes in issued and outstanding share capital:

	Number of shares
Balance as of January 1, 2021	3,976,576
Common Shares issued as a result of Warrants and Compensation options exercised	63,378
Common Shares issued as a result of options exercises	51,735
Purchase of treasury common shares	(10,165)
Common Shares issued related secondary transaction and business combinations	2,730,096
Balance as of December 31, 2021	6,811,620
Common Shares issued as a result of options exercises	21,736
Common shares issued in settlement of purchase consideration of business combination	126,006
Issuance of treasury common shares	10,165
Issuance of Common Shares	599,999
Balance as of December 31, 2022	7,569,526

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- EQUITY (Cont.)

d. Share option plan:

Awards granted under the company's current plan which was approved by the board of directors on December 19, 2018 ("2018 Plan") are subject to vesting schedules and unless determined otherwise by the administrator of the 2018 Plan, generally vest following a period of three years from the applicable vesting commencement date, such that 33.3% of the awards vest on the first anniversary of the applicable vesting commencement date and 66.7% of the awards vest in eight equal installments upon the lapse of each three-month period thereafter. Subject to the discretion of the 2018 Plan administrator, if an award has not been exercised within seven years after the date of the grant, the award expires. As of December 31, 2022, 299,650 Ordinary shares are available for future grants under the 2018 Plan.

	Year ended December 31,	
	2022	2021
Exercise price (in CAD)	\$2.3-\$27.3	\$45-\$101.2
Dividend yield (%)	-	-
Expected life of share options (Years)	4-5	3-4
Volatility (%)	77.04-107.03	80.61-83.68
Annual risk-free rate (%)	1.43-3.85	0.52-0.77
Share price (in CAD)	\$2.3-\$27.3	\$45-\$345.5

The weighted average fair value of each option on the grant date, for the years ended December 31, 2022 and 2021, amounted to \$31.9 and \$41.6, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- EQUITY (Cont.)

The following table lists the number of share options and the weighted average exercise prices of share options in the 2018 Plan:

	Year ended December 31, 2022	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the year	544,325	39.1
Options granted during the year	32,503	10.85
Options exercised during the year	(22,705)	16
Options forfeited during the year	(34,953)	49.9
Options outstanding at the end of year	<u>519,170</u>	<u>\$ 37.6</u>
Options exercisable at the end of year	<u>360,769</u>	<u>\$ 36.95</u>

* Includes 1,873 Options exercised under cashless mechanism to 904 Common shares.

	Year ended December 31, 2021	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the year	315,487	22
Options granted during the year	296,427	62
Options exercised during the year	(51,735)	24.3
Options forfeited during the year	(15,854)	40.8
Options outstanding at the end of year	<u>544,325</u>	<u>\$ 39.1</u>
Options exercisable at the end of year	<u>188,848</u>	<u>\$ 20</u>

The weighted average remaining contractual life for the share options outstanding as of December 31, 2022 and 2021 was 4.32 and 5.37 years respectively.

The share-based payment expenses for the years ended December 31, 2022 and 2021, amounted to \$2,637 and \$5,422, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- EQUITY (Cont.)

The following table lists the number of restricted share units ("RSUs") as of December 31, 2022:

	Number of RSU
Outstanding at the beginning of the year	55,000
Granted during the year	<u>-</u>
Outstanding at the end of the year	<u>55,000</u>
Exercisable at the end of year	<u>41,243</u>

e. Other convertible securities:

As of December 31, 2022, there are 18,261 compensation warrants. Each Compensation Warrant is exercisable for one Common Share at an exercise price of US\$ 66.1 (approximately \$84.2). These Warrants are exercisable until, November 5, 2024.

NOTE 19:- SELECTED STATEMENTS OF PROFIT OR LOSS DATA

	Year ended December 31,	
	2022	2021
Salaries and related expenses	\$ 11,184	\$ 8,493
Depreciation and amortization	<u>\$ 2,815</u>	<u>\$ 2,125</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- NET LOSS PER SHARE

Details of the number of shares and income (loss) used in the computation of earnings per share:

	Year ended December 31,			
	2022		2021	
	Weighted number of shares (in thousands)	Net loss attributable to equity holders of the Company	Weighted number of shares (in thousands)	Net loss attributable to equity holders of the Company
For the computation of basic net earnings from continuing operations	7,181	\$ (22,511)	5,796	\$ (17,763)
Effect of potential dilutive Ordinary shares - Warrants	304	(6,014)	181	(21,739)
For the computation of diluted net earnings from continuing operations (*)	7,485	\$ (28,525)	5,977	\$ (39,502)
For the computation of basic and diluted net earnings from discontinued operations (*)	7,181	\$ (166,379)	5,796	\$ (17,853)

*) For 2022 and 2021, potentially dilutive securities (share options) were excluded from the calculation of diluted earnings per share as they are antidilutive.

**) Including the effect of Share Consolidation (See Note 18a).

NOTE 21:- RELATED PARTY BALANCES AND TRANSACTIONS

a. Balances and transactions:

The following table summarizes balances with related parties in the statements of financial position:

	December 31,	
	2022	2021
Other accounts receivables	\$ 83	\$ 11
Other accounts payables	\$ 693	\$ 875

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 21:- RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

The following table summarizes the transactions with related parties in the consolidated statements of profit or loss and other comprehensive income:

	Year ended December 31,	
	2022	2021
General and administrative expenses	\$ 1,064	\$ 1,116

Transactions with related parties mainly includes compensation for management services and bonus in the ordinary course of business and short-term lease payments.

a. Compensation of key management personnel of the Group:

The Company's key management personnel are the directors, senior executives and a managing company which provides the Company with key management personnel services.

	Year ended December 31,	
	2022	2021
Payroll and related expenses	\$ 916	\$ 1,379
Share-based compensation	\$ 437	\$ 4,349
Professional fees *)	\$ 1,040	\$ 1,029

*) Includes payments to shareholders for the years ended 2022 and 2021 of \$503 and \$455, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 22:- SUMMARIZED FINANCIAL INFORMATION FOR PARTLY OWNED SUBSIDIARY

Summarized financial information for Focus as follows:

	December 31,	
	2022	2021
Statement of financial position at reporting date (as presented in Focus' financial statements):		
Current assets	\$ 21,521	\$ 22,913
Non-current assets	1,107	4,473
Current liabilities	(24,859)	(19,616)
Non-current liabilities	(52)	(1,883)
Total equity (deficiency)	<u>\$ (2,283)</u>	<u>\$ 5,887</u>
Operating results (as presented in Focus' financial statements):		
Revenues	\$ 19,565	\$ 14,747
Net loss	(7,746)	(1,524)
Other comprehensive income	96	37
Total comprehensive loss	<u>\$ (7,650)</u>	<u>\$ (1,487)</u>
Cash flows (as presented in Focus' financial statements):		
From operating activities	\$ (9,635)	\$ 2,346
From investing activities	2,825	(783)
From financing activities	3,947	560
Effect of foreign exchange on cash and cash equivalents	(110)	169
Net increase (decrease) in cash and cash equivalents	<u>\$ (2,973)</u>	<u>\$ 2,292</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 23:- OPERATING SEGMENTS

Reporting operating segments:

	<u>Israel</u>	<u>Germany</u>	<u>Adjustments</u>	<u>Total</u>
Year ended December 31, 2022				
Revenue	\$ 50,500	\$ 3,835	\$ -	\$ 54,335
Segment loss	<u>\$ (23,606)</u>	<u>\$ (3,225)</u>	<u>\$ -</u>	<u>\$ (26,831)</u>
Unallocated corporate expenses			<u>\$ (3,960)</u>	<u>\$ (3,960)</u>
Total operating loss				<u>\$ (30,791)</u>
Depreciation, amortization and impairment	<u>\$ 6,747</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 6,947</u>
	<u>Israel</u>	<u>Germany</u>	<u>Adjustments</u>	<u>Total</u>
Year ended December 31, 2021				
Revenue	<u>\$ 25,431</u>	<u>\$ 8,622</u>	<u>\$ -</u>	<u>\$ 34,053</u>
Segment loss	<u>\$ (10,653)</u>	<u>\$ (5,142)</u>	<u>\$ -</u>	<u>\$ (15,795)</u>
Unallocated corporate expenses			<u>\$ (7,240)</u>	<u>\$ (7,240)</u>
Total operating loss				<u>\$ (23,035)</u>
Depreciation, amortization and impairment	<u>\$ 1,424</u>	<u>\$ 701</u>	<u>\$ -</u>	<u>\$ 2,125</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 23:- OPERATING SEGMENTS (Cont.)

	<u>Israel</u>	<u>Germany</u>	<u>Adjustments</u>	<u>Total</u>
Year ended December 31, 2020				
Revenue	\$ <u>13,826</u>	\$ <u>2,064</u>	\$ <u>-</u>	\$ <u>15,890</u>
Segment loss	\$ <u>(2,090)</u>	\$ <u>(3,744)</u>	\$ <u>-</u>	\$ <u>(5,834)</u>
Unallocated corporate expenses			\$ <u>(2,411)</u>	\$ <u>(2,411)</u>
Total operating loss				\$ <u>(8,245)</u>
Depreciation, amortization and impairment	\$ <u>856</u>	\$ <u>74</u>	\$ <u>-</u>	\$ <u>930</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 24:- DISCONTINUED OPERATIONS AND DECONSOLIDATION OF TRICHOME

During 2022, following management strategic review of the operations of the Group, the Company decided to discontinue its operation in Canada and sell its subsidiaries in the segment, Trichome Group.

A discontinued operation is a component of the Group that represents a separate major line of business or geographical area of operations and that either has been disposed of or is classified as held for sale. The Trichome Group comprised the geographical operating segment for Canada.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit and loss and other comprehensive income.

The Company identified its decision as indication for an impairment of Trichome group's cash generating unit (the "CGU"). The Company performed an analysis for the recoverability of the CGU and recognized an impairment of \$115,112, which was recorded under Net loss from discontinued operations, net of tax.

On November 7, 2022, Trichome Group filed and obtained an initial order under CCAA (see Note 1), which is a Canadian federal law that permits a Canadian business to restructure its affairs while carrying on its business in the ordinary course with minimal disruption to its customers, suppliers and employees.

Per the CCAA proceeding, the Court has appointed a monitor, which oversees management activities. The administration of the CCAA process, principally relating to the powers provided to the court and the court appointed monitor, as well as the secured debtholder interests, removed certain elements of control of the business from the Company. As a result, the Company has determined that it no longer has a controlling financial interest over Trichome group as defined in IFRS 10, "Consolidations", and therefore has deconsolidated Trichome as of the date of the CCAA filing.

Following the deconsolidation, the carrying value of assets and liabilities of Trichome group were removed from the Company's consolidated statements of financial position. The net amount deconsolidated from the Company's balance sheet was \$1,171, including \$406 of cash, \$7,228 of inventory and biological assets, \$14,645 of property, plant and equipment, (\$3,774) of bank loans and revolving credit line and (\$17,334) of other assets and liabilities, net.

As a result, the Company recorded a loss from derecognition of net assets totaling \$17,959 in non-operating income (loss) and the investment in Trichome group decreased to \$nil.

In the context of the CCAA filing, there are no remaining liabilities to the Company or any of its consolidated subsidiaries related to the Canadian entities. The Trichome group was party to transactions with the Company and its consolidated subsidiaries entered into in the normal course of business; these transactions include recharge of various corporate expenses for services benefiting Trichome group and sell of inventory. Up to the date of the CCAA filing, these transactions were eliminated on consolidation and had no impact on the Company's consolidated statement of profit or loss. After deconsolidating Trichome group, these transactions are treated as third-party transactions in the Company's financial statements. The amount of these related-party transactions during the period of November 7, 2022, to December 31, 2022, were \$921.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 24:- DISCONTINUED OPERATIONS AND DECONSOLIDATION OF TRICHOME (Cont.)

The assets and liabilities of Trichome Group included in the consolidated statement of financial position as of December 31, 2021, and immediately prior to the deconsolidation on November 6, 2022, are as follows:

	November 6, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 406	\$ 3,171
Trade receivables	1,047	8,486
Other accounts receivable	2,194	11,198
Loans receivable	1,010	2,708
Biological assets	444	1,435
Inventories	6,784	9,715
	11,885	36,713
Non-current assets:		
Property, plant and equipment, net	14,645	21,236
Derivative assets	-	14
Right-of-use assets, net	10,999	14,570
Intangible assets, net	17,157	22,846
Goodwill	-	107,854
	42,801	166,520
Total Assets	<u>\$ 54,686</u>	<u>\$ 203,233</u>
LIABILITIES		
Current liabilities:		
Trade payables	\$ 7,266	\$ 4,667
Bank loans and credit facilities	3,774	8,684
Other accounts payable and accrued expenses	25,217	14,019
Current maturities of operating lease liabilities	869	841
	37,126	28,211
Non-current liabilities:		
Operating lease liabilities	13,517	14,883
Deferred tax liability, net	2,872	4,065
	16,389	18,948
Total liabilities	<u>\$ 53,515</u>	<u>\$ 47,159</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 24:- DISCONTINUED OPERATIONS AND DECONSOLIDATION OF TRICHOME (Cont.)

The results of discontinued operations of Trichome are summarized as follows:

	Period ended November 6, 2022	Year ended December 31 2021
Revenues	\$ 28,171	\$ 20,247
Cost of revenues	24,227	16,960
Gross profit before fair value adjustments	3,944	3,287
Fair value adjustments:		
Unrealized change in fair value of biological assets	399	902
Realized fair value adjustments on inventory sold in the period	(2,528)	(226)
Total fair value adjustments	(2,129)	676
Gross profit	1,815	3,963
General and administrative expenses	38,464	14,998
Impairment of goodwill, intangible assets, right-of-use assets and fixed assets	115,112	-
Selling and marketing expenses	4,912	2,270
Restructuring expenses	4,506	-
Share-based compensation	1,130	2,049
Total operating expenses	164,124	19,317
Operating loss	(162,309)	(15,354)
Finance expenses, net	(5,264)	(2,495)
Loss before income taxes	(167,573)	(17,849)
Income tax expense (benefit)	(1,194)	5
Net loss from discontinued operations, net of tax	\$ (166,379)	\$ (17,854)

Below are data of the net cash flows provided by (used in) the discontinued operations:

	Period ended November 6, 2022	Year ended December 31, 2021
Operating activities	\$ (300)	\$ (10,621)
Investing activities	\$ (615)	\$ (1,434)
Financing activities	\$ (1,850)	\$ 14,864

(*) From business combination dated, March 18, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 25:- SUBSEQUENT EVENTS

a. LIFE Offering

In January and February of 2023, the Company issued an aggregate of issued 2,828,248 units of the Company (each a "Unit") at a price of US\$1.25 per Unit for aggregate gross proceeds of US\$3,535 in a series of closings pursuant to a non-brokered private placement offering to purchasers resident in Canada (except the Province of Quebec) and/or other qualifying jurisdictions relying on the listed issuer financing exemption under Part 5A of National Instrument 45-106 – *Prospectus Exemptions* (the "LIFE Offering"). Each Unit consisted of one Common Share and one Common Share purchase warrant (each, a "Warrant"), with each Warrant entitling the holder thereof to purchase one additional Common Share at an exercise price of US\$1.50 for a period of 36 months from the date of issue.

In addition, a non-independent director of the Company subscribed for an aggregate of 131,700 Units under the LIFE Offering at an aggregate subscription price of US\$165. The director's subscription price was satisfied by the settlement of US\$165 in debt owed by the Company to the director for certain consulting services previously rendered by the director to the Company.

b. Concurrent Offering

Concurrent with the LIFE Offering, the Company issued an aggregate of 2,317,171 Units on a non-brokered private placement basis at a price of US\$1.25 per Unit for aggregate gross proceeds of US\$2,896 (the "Concurrent Offering"). The Concurrent Offering was led by insiders of the Company. The Units offered under the Concurrent Offering were offered for sale to purchasers in all provinces and territories of Canada and jurisdictions outside Canada pursuant to available prospectus exemptions other than for the LIFE Offering exemption.

All Units issued under the Concurrent Offering were subject to a statutory hold period of four months and one day in accordance with applicable Canadian securities laws.



IM Cannabis Corp.

Management's Discussion and Analysis



For the Year and Three Months Ended December 31, 2022

March 29, 2023



TABLE OF CONTENTS

<u>EXECUTIVE SUMMARY</u>	4
<u>STRATEGY IN DETAIL</u>	6
<u>GEOGRAPHIES AND NEW MARKETS</u>	6
<u>BRANDS</u>	8
<u>NEW PRODUCT OFFERINGS</u>	10
<u>HIGH-QUALITY, RELIABLE SUPPLY</u>	11
<u>CORPORATE HIGHLIGHTS AND EVENTS</u>	12
<u>REVIEW OF FINANCIAL PERFORMANCE</u>	20
<u>LEGAL AND REGULATORY</u>	49
<u>RISK FACTORS</u>	55
<u>CAUTION CONCERNING FORWARD-LOOKING INFORMATION</u>	60

INTRODUCTION

IM Cannabis Corp. (“**IM Cannabis**” or the “**Company**”) is a British Columbia company operating in the international medical cannabis industry. The Company’s common shares (the “**Common Shares**”) trade under the ticker symbol “**IMCC**” on both the NASDAQ Capital Market (“**NASDAQ**”) and the Canadian Securities Exchange (“**CSE**”) as of March 1, 2021 and November 5, 2019, respectively.

This Management’s Discussion and Analysis (“**MD&A**”) reports on the consolidated financial condition and operating results of IM Cannabis for the year and three months ended December 31, 2022. Throughout this MD&A, unless otherwise specified, references to “we”, “us”, “our” or similar terms, as well as the “Company” and “IM Cannabis” refer to IM Cannabis Corp., together with its subsidiaries, on a consolidated basis, and the “Group” refers to the Company, its subsidiaries, and Focus Medical Herbs Ltd.

This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the years ended December 31, 2022 and 2021 (the “**Annual Financial Statements**”). References herein to “Q4 2022” and “Q4 2021” refer to the three months ended December 31, 2022 and December 31, 2021.

The Annual Financial Statements have been prepared by management in accordance with the International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amount of assets and liabilities at the date of the Annual Financial Statements and the amount of revenue and expenses incurred during the reporting period. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods. The Annual Financial Statements for the year and three months ended December 31, 2022, include the accounts of the Group, which includes, among others, the following entities:

Legal Entity	Jurisdiction	Relationship with the Company
I.M.C. Holdings Ltd. (“ IMC Holdings ”)	Israel	Wholly-owned subsidiary
I.M.C. Pharma Ltd. (“ IMC Pharma ”)	Israel	Wholly-owned subsidiary of IMC Holdings
I.M.C. Farms Israel Ltd. (“ IMC Farms ”)	Israel	Wholly-owned subsidiary of IMC Holdings
Focus Medical Herbs Ltd. (“ Focus ”)	Israel	Private company over which IMC Holdings exercises “de facto control” under IFRS 10 <i>Consolidated Financial Statements (“IFRS 10”)</i>
R.A. Yarok Pharm Ltd. (“ Pharm Yarok ”)	Israel	Wholly-owned subsidiary of IMC Holdings
Rosen High Way Ltd. (“ Rosen High Way ”)	Israel	Wholly-owned subsidiary of IMC Holdings
Revolv Trading and Marketing Ltd. dba Vironna Pharm (“ Vironna ”)	Israel	Subsidiary of IMC Holdings
Oranim Plus Pharm Ltd. (“ Oranim Plus ”)	Israel	Subsidiary of IMC Holdings
Trichome Financial Corp. (“ Trichome ”)*	Canada	Wholly-owned subsidiary
Trichome JWC Acquisition Corp. (“ TJAC ”)*	Canada	Wholly-owned subsidiary of Trichome
MYM Nutraceuticals Inc. (“ MYM ”)*	Canada	Wholly-owned subsidiary of Trichome
Highland Grow Inc. (“ Highland ”)*	Canada	Wholly-owned subsidiary of MYM International Brands Inc., a wholly-owned subsidiary of MYM
Adjupharm GmbH (“ Adjupharm ”)	Germany	Subsidiary of IMC Holdings

* Discontinued operations. Please see note number 24 in the Annual Financial Statements.

All intercompany balances and transactions were eliminated on consolidation. All dollar figures in this MD&A are expressed in thousands of Canadian Dollars (\$), except per share data and unless otherwise noted. All references to “NIS” are to New Israeli Shekels. All references to “€” or to “Euros” are to Euros. All references to “US\$” or to “U.S. Dollars” are to United States Dollars. The Company’s shares, options, units and warrants are not expressed in thousands. Prices are not expressed in thousands.

NON-IFRS FINANCIAL MEASURES

Certain non-IFRS financial measures are referenced in this MD&A that do not have any standardized meaning under IFRS, including “Gross Margin”, “EBITDA” and “Adjusted EBITDA”. The Company believes that these non-IFRS financial measures and operational performance measures, in addition to conventional measures prepared in accordance with IFRS, enable readers to evaluate the Company’s operating results, underlying performance and prospects in a similar manner to the Company’s management. For a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures, as applicable, see the “*Metrics and Non-IFRS Financial Measures*” section of the MD&A.

NOTE REGARDING THE COMPANY’S ACCOUNTING PRACTICES

The Company complies with IFRS 10 to consolidate the financial results of Focus, a holder of an Israeli Medical Cannabis Agency (the “**IMCA**”) license which allows it to import and supply cannabis products, on the basis of which IMC Holdings exercises “de facto control”. For a full explanation of the Company’s application of IFRS 10, see “*Legal and Regulatory – Restructuring*” and “*Legal and Regulatory – Risk Factors*”.

EXECUTIVE SUMMARY

OVERVIEW – CURRENT OPERATIONS IN ISRAEL AND GERMANY

IM Cannabis is an international cannabis company that is currently focused on providing premium cannabis products to medical patients in Israel and Germany, two of the world’s largest federally legal cannabis markets. Until recently, the Company was also actively servicing adult-use recreational consumers in Canada, however these operations are being discontinued. The Company leverages a transnational ecosystem powered by a unique data-driven approach and a globally sourced product supply chain. With an unwavering commitment to responsible growth and compliance with the strictest regulatory environments, the Company strives to amplify its commercial and brand power to become a global high-quality cannabis player.

In Israel, the Company imports, distributes and sells cannabis to local medical patients by operating medical cannabis retail pharmacies, online platforms, distribution centers and logistical hubs operating through IMC Holdings’ subsidiaries and Focus, leveraging proprietary data and patient insights. The Company also cultivate its existing proprietary genetics with third-party cultivation facilities in Israel.

In Germany, the IM Cannabis ecosystem operates through Adjupharm, importing and distributing cannabis to pharmacies for patients, and acting as the Company’s entry point for potential Europe-wide distribution in the future.

On November 7, 2022, the Company announced that it is pivoting its focus and resources to achieve sustainable and profitable growth in its highest value markets, Israel and Germany, while also commencing its exit from the Canadian cannabis market. The Canadian operations are currently being wound-down under the Canadian Companies' Creditors Arrangement Act ("CCAA") under the supervision of the Ontario Superior Court of Justice (Commercial List) (the "Court") (the "CCAA Proceedings"). The CCAA Proceedings afford Trichome and certain of Trichome's wholly-owned subsidiaries (collectively, the "Trichome Group") the stability and flexibility required to orderly wind-down its business and operations. The Trichome Group anticipates completing the wind-down by April 21, 2023.

The Company has exited its operations in Canada, and deconsolidated Trichome on November 7, 2022 pursuant to IFRS. The CCAA Proceedings are solely in respect of the Trichome Group. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, are not parties to the CCAA Proceedings. For more information, see "Corporate Highlights and Events – Key Highlights for the quarter and year ended December 31, 2022" below.

OUR GOAL – DRIVE PROFITABLE REVENUE GROWTH

Our primary goal is to sustainably increase revenue in each of our core markets, to accelerate our path to profitability and long-term shareholder value while actively managing costs and margins.

HOW WE PLAN TO ACHIEVE OUR GOAL – CORE STRATEGIES

Our strategy of sustainable and profitable growth consists of:

- Continue building on the increasing demand and positive momentum in Israel and Germany, supported by strategic alliances with Canadian suppliers and a highly skilled sourcing team, to cement its leadership position in markets where the Company operates.
- Develop and execute a long-term growth plan in Germany, based on the strong sourcing infrastructure in Israel which is powered by advanced product knowledge and regulatory expertise establishing, in the Company's view, a competitive advantage ahead of proposals for the legalization of recreational cannabis in Germany.
- Properly position brands with respect to target-market, price, potency and quality, such as our IMC brand in Israel and Germany.
- Strong focus on efficiencies and synergies as a global organization with domestic expertise in Israel and Germany.
- High-quality, reliable supply to our customers and patients, leading to recurring sales.
- Ongoing introduction of new Stock Keeping Unit ("SKUs") to keep consumers and patients engaged.
- Reorganization of the Company's management and operations by reducing its workforce in Israel by 20%-25% across all functions, to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability.



STRATEGY IN DETAIL

GEOGRAPHIES AND NEW MARKETS

The Company operates in the Israeli and German medical cannabis markets. Until recently, the Company was also actively servicing adult-use recreational consumers in Canada, however these operations are being discontinued, effective November 7, 2022, when the Company commenced the process of exiting the Canadian cannabis market to focus its resources on reinforcing and further pursuing growth opportunities in Israel, Germany and Europe, implementing a leaner organization strategy with the primary focus on achieving profitability in 2023.

Israel

In Israel, we continue to expand IMC brand recognition and supply the growing Israeli medical cannabis market with our branded products. The Company offers medical cannabis patients a rich variety of high-end medical cannabis products through strategic alliances with Canadian suppliers supported by a highly skilled sourcing team. In addition to the benefits of the Group's long-term presence in Israel, we believe that with our strong sourcing infrastructure in Israel, and advanced product knowledge, regulatory expertise and strong commercial partnerships, the Company is well-positioned to address the ongoing needs and preferences of medical cannabis patients in Israel.

The Company entered additional segments of the medical cannabis value chain in Israel, namely the distribution and retail segments. The Company, through IMC Holdings, acquired three licensed pharmacies in 2022, each selling medical cannabis products to patients: (i) Oranim Plus, Israel's largest pharmacy in Jerusalem and one of the largest in Israel, (ii) Vironna, a leading pharmacy in the Arab sector, and (iii) Pharm Yarok, the largest pharmacy in the Sharon plain area and the biggest call center in the country (Oranim Plus, Vironna, and Pharm Yarok collectively, the **"Israeli Pharmacies"**).

The Company has also acquired home-delivery services and an online retail footprint, operating under the name *"Panaxia-to-the-Home"*, which includes a customer service center and an Israeli medical cannabis distribution licensed center (the **"Panaxia Transaction"**), from Panaxia Pharmaceutical Industries Israel Ltd. and Panaxia Logistics Ltd., part of the Panaxia Labs Israel, Ltd. group of companies (collectively, **"Panaxia"**).

The entrance into the new segments in Israel position IM Cannabis as a large distributor of medical cannabis in Israel. We are strategically focused on establishing and reinforcing a direct connection with medical cannabis patients, providing direct access to IM Cannabis products, obtaining and leveraging market data and gaining a deeper understanding of consumer preferences. The acquisition of the Israeli Pharmacies allows the Company to increase purchasing power with third-party product suppliers, offers potential synergies with our established call center and online operations, achieves higher margins on direct sales to patient and creates the opportunity for up-sales across a growing range of products.

Germany

In Europe, the Company operates in Germany through Adjupharm, its German subsidiary and EU-GMP certified medical cannabis producer and distributor. We continue to lay our foundation in Germany, which is currently the European market with the largest number of medical cannabis patients.¹ Leveraging our global supply chain, IM Cannabis continues to focus on growing its business in Germany to be well-positioned through brand recognition in preparation for future regulatory reforms.

Similar to Israel, the Company's focus in Germany is to import premium dried cannabis from its supply partners, which we believe will satisfy the rapid growth in demand for high-THC premium cannabis across a variety of strains and qualities. In addition, Adjupharm sells cannabis extracts to meet the existing demand in the German market.

In the Company's view, the strong sourcing infrastructure in Israel, powered by advanced product knowledge and regulatory expertise, will establish a competitive advantage in Germany ahead of proposals for the legalization of recreational cannabis. This is based on the premise that the German and Israeli markets share a number of common attributes such as robust commercial infrastructure, highly developed digital capabilities, favourable demographics and customer preferences.

While the Company does not currently distribute products in other European countries, the Company intends to leverage the foundation established by Adjupharm, its state-of-the-art warehouse and EU-GMP production facility in Germany (the "**Logistics Center**"), its vast knowledge in the cannabis market and costumers' preferences and its network of distribution partners to expand into other jurisdictions across the continent.

Adjupharm received a revised EU-GMP license in May 2022 that permits it to engage in additional production, cannabis testing and release activities. It allows Adjupharm to repackage bulk cannabis, to perform stability studies and offer such services to third parties.

¹ The European Cannabis Report – Edition 7 <https://prohibitionpartners.com/2022/03/31/launching-today-the-european-cannabis-report-7th-edition/> and Visual Capitalist website, [A Bird's Eye View of the World's Largest Cannabis Markets https://www.visualcapitalist.com/sp/a-birds-eye-view-of-the-worlds-largest-cannabis-markets/](https://www.visualcapitalist.com/sp/a-birds-eye-view-of-the-worlds-largest-cannabis-markets/)

Note on the Canadian operation

On November 7, 2022, the Company announced that it is pivoting its focus and resources to achieve sustainable and profitable growth in its highest value markets, Israel and Germany, while also commencing its exit from the Canadian cannabis market. The Canadian operations are currently being wound-down under the CCAA under the supervision of the Court. The CCAA Proceedings afford the Trichome Group the stability and flexibility required to orderly wind-down its business and operations. The Trichome Group anticipates completing the wind-down by April 21, 2023.

The Company has exited its operations in Canada, and deconsolidated Trichome on November 7, 2022 pursuant to IFRS. The CCAA Proceedings are solely in respect of the Trichome Group. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, are not parties to the CCAA Proceedings. For more information, see "Corporate Highlights and Events – Key Highlights for the quarter and year ended December 31, 2022" below.

BRANDS

The IMC brand is well-known in the Israeli medical cannabis market, with signature reputable brands such as Roma®, highly popular among Israeli consumers. Building on its long-term success in Israel, the Company launched the IMC brand in Germany in 2020.

Israeli Medical Cannabis Business

The IMC brand has established its reputation in Israel for quality and consistency over the past 10 years and more recently with new high-end, ultra-premium strains that have made it to the top-sellers list in pharmacies across the country.

The Group maintains a portfolio of strains sold under the IMC umbrella from which popular medical cannabis dried flowers and full-spectrum cannabis extracts are produced.

The IMC brand offers four different product lines, leading with the Craft Collection which offers the highest quality Canadian craft cannabis flower and has established IMC as the leader of the super-premium segment in Israel.

The Craft Collection – The IMC brand's super-premium product line with indoor-grown, hang-dried and hand-trimmed high-THC cannabis flowers. The Craft Collection includes exotic and unique cannabis strains such as Cherry Crasher, Peanut Butter MAC and Watermelon Zkittlez.

The Top-Shelf Collection – The newest addition to IMC's brand portfolio, launched in September 2022 as IMC's premium product line, offers indoor-grown, high-THC cannabis flowers with strains such as Lemon Rocket and Diesel Drift. Inspired by the 1970's cannabis culture in America, the Top-Shelf Collection targets the growing segment of medical patients who are cannabis culture enthusiasts.



The Signature Collection – The IMC brand’s high-quality product line with greenhouse-grown or indoor grown, high-THC cannabis flowers. The Signature Collection currently includes well known cannabis dried flowers such as Roma®, Tel Aviv and London as well as Strawnana, an indoor-grown flower, and Sydney, the Company’s first high-CBD cannabis strain, both launched in Q3 2022.



The Full Spectrum Extracts – The IMC brand’s full spectrum, strain-specific cannabis extracts, including high-THC Roma® oil, balanced Paris oil and Super CBD oil and the new Roma® T15 oil and Tel Aviv oil, which were launched in Q3 2022.

As part of its recent rebranding the Company expanded its Roma® product portfolio in Q3 2022 to include pre-rolls and oils range, offering the widest range of different product SKUs for a single strain in the Israeli market. This delivers a variety of formats of IMC’s most successful and well-known strain to Israeli medical cannabis patients. IMC’s Roma® strain is a high-THC medical cannabis flower that offers a therapeutic continuum and is known for its strength and longevity of effect.

The WAGNERS™ brand launched in Israel in Q1 2022, with premium indoor-grown cannabis imported from Canada. The WAGNERS™ brand was the first international premium, indoor-grown brand introduced to the Israel cannabis market, at a competitive price point. The WAGNERS™ brand includes the Dark Helmet, Cherry Jam launched in Q1 2022, and Golden Ghost that was launched in Q4 2022.



BLKMKT™, the Company’s second Canadian brand, was introduced to the Israeli market in Q4 2022.



For more information, see “Strategy in Detail – Brands – New Product Offerings” section of the MD&A.

German Medical Cannabis Business

In Germany, the Company sells IMC-branded dried flower products and full spectrum extracts. The medical cannabis products sold in the German market are branded generically as IMC to increase recognition of the Company’s brand in establishing a foothold with German healthcare professionals. The Company’s IMC-branded cannabis products were launched in Germany with one high-THC flower strain in 2020. In Q4 2021, Adjupharm launched another high-THC flower strain and two full spectrum extracts. In Q1 2022 Adjupharm launched a third strain, a high-CBD flower, to offer a more complete portfolio to German physicians and patients. In Q2 2022 the Company’s IMC Hindu Kush strain was the top selling T20 in the market, strengthening Adjupharm’s position as one of the top 10 cannabis companies in Germany. December 2022 was Adjupharm’s strongest sales month to date.

In July 2021, Adjupharm was recognized by the German Brand Institute with the “German Brand Award 2021”, recognizing its excellence in brand strategy and creation, communication, and integrated marketing. The Group’s competitive advantage in Germany lies in its track record, experience and brand reputation in Israel and proprietary data supporting the potential effectiveness of medical cannabis for the treatment of a variety of conditions.



NEW PRODUCT OFFERINGS

Between our various geographies, the strategy for new products varies given that each market is at a different stage of development with respect to regulatory regimes, patient and customer preferences and adoption rates.

Israel



In Q4 2022, the Company launched the third product in the “Top Shelf” Collection, Tropicanna Gold, a super premium sativa flowers, which together with Diesel Drift and Lemon Rocket launched in Q3 2022, constitute a full super-premium high THC portfolio with sativa, hybrid and Indica strains.



The Company expect to launch in Q1 2023, two additional products under the “Top Shelf” Collection: Lucy Dreamz and Santa Cruz.

In Q4 2022, Golden Ghost was introduced to WAGNERS™ in Israel as it's first new cultivar since the launch of the WAGNERS™ brand in Israel in Q1 2022, and is the first out of three new cultivars for the WAGNERS™ brand to be further introduced in Q1 2023. In addition, in Q4 2022 the WAGNERS™ brand entered two new market segments with Dark Helmet pre-rolls, and Dark Helmet minis, a smaller size cannabis flowers with an even more affordable price offering of its signature strain.



In Q4 2022 the company launched the brand BLKMKT™ as its second Canadian brand introduced into Israeli market, marking the next step in its extensive partnership with Avant Brands. The Canadian brand is designed to resonate with legacy consumers and experienced connoisseurs who only consume the highest-grade cannabis, has the highest price point in the Israeli market, raising the bar for ultra-premium cannabis in Israel once again.



HIGH-QUALITY, RELIABLE SUPPLY

Israel

Over the last decade, Focus Medical was the primary cultivator of medical cannabis products sold under the IMC brand in the Israeli market. Until July 2022, Focus Medical held an IMCA license to cultivate medical cannabis at its cultivation facility (the “**Focus Facility**”). In Q2 2022, the Company closed the Focus Facility to concentrate on leveraging its skilled sourcing team and strategic alliances with Canadian suppliers as well as the import of medical cannabis from its Canadian Facilities. In July 2022, Focus Medical received an IMCA license which allows it to continue to import cannabis products and supply medical cannabis to patients through licensed pharmacies despite the closure of the Focus Facility (the “**Focus New License**”). To supplement growing demand, the Company plans to continue its relationships with third-party cultivation facilities in Israel for the propagation and cultivation of the Company’s existing proprietary genetics and for the development of new products.

In addition, in July 2022, IMC Farms obtained a license from the IMCA which allows it, among others, to import cannabis products and supply medical cannabis to patients through licensed pharmacies (the “**IMC Farms License**”).

Pursuant to the applicable Israeli cannabis regulations, following the cultivation or import of medical cannabis, medical cannabis products are then packaged by contracted GMP licensed producers of medical cannabis. The packaged medical cannabis products are then sold by the Group under the Company’s brands to local Israeli pharmacies directly or through contracted distributors.

Germany

The Company continues to expand its presence in the German market by forging partnerships with pharmacies and distributors across the country and developing Adjupharm and its Logistics Center as the Company’s European hub. Adjupharm sources its supply of medical cannabis for the German market and from various EU-GMP certified European and Canadian suppliers. The Logistics Center is EU-GMP certified, upgrading Adjupharm’s production technology and increasing its storage capacity to accommodate its anticipated growth. Adjupharm received the certification for primary repackaging in 2022, making it one of a handful of companies in Germany fully licenced to repack bulk.

Adjupharm currently holds wholesale, narcotics handling, manufacturing, procurement, storage, distribution, and import/export licenses granted to it by the applicable German regulatory authorities (the “**Adjupharm Licenses**”).

KEY HIGHLIGHTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2022

In 2022, the Company continued to integrate the strategic acquisitions completed in Q1 2022. Effective November 7, 2022, the Company began focusing its efforts and resources on growth in the Israeli and German cannabis markets with a goal of reaching profitability in 2023 and commenced exiting the Canadian cannabis market. The Company's key highlights and events for the year ended December 31, 2022 include:

First Import to Israel of Cannabis from the Company's Canadian Facility

On January 19, 2022, Focus imported premium indoor-grown Canadian cannabis flowers from TJAC, and an additional supply partner. The Group commenced the sale of imported cannabis flowers under its WAGNERS™ brand in the Israeli medical cannabis market as of February 2022.

Focus Revolving Credit Facility

Revolving Credit Facility Agreement with an Israeli Bank- Bank Mizrahi

In January 2022, Focus entered a revolving credit facility with an Israeli bank, Bank Mizrahi (the "**Mizrahi Facility**"). The Mizrahi Facility is guaranteed by Focus assets. Advances from the Mizrahi Facility will be used for working capital needs. The Mizrahi Facility has a total commitment of up to NIS 15 million (approximately \$6,000) and has a one-year term for on-going needs and 6 months term for imports and purchases needs. The Mizrahi Facility is renewable upon mutual agreement by the parties. The borrowing base available for draw at any time throughout the Mizrahi Facility and is subject to several covenants to be measured on a quarterly basis. The Mizrahi Facility bears interest at the Israeli Prime interest rate plus 1.5% (6.25% per annum as of December 31, 2022). As of December 31, 2022, Focus did not meet certain covenants under the Mizrahi Facility. The Company's CEO and director, provided to the bank a personal guarantee in the amount of the outstanding borrowed amount, allowing the Mizrahi Facility to remain effective. As of December 31, 2022, Focus withdrew \$5,084.

Acquisition of Leading Israeli Retailer and Distributor – Pharm Yarok Group

On March 14, 2022, pursuant to an agreement entered into on July 28, 2021, IMC Holdings completed the acquisition of 100% of the issued and outstanding shares of Pharm Yarok, a leading medical cannabis pharmacy located in central Israel, and Rosen High Way, a trade and distribution center providing medical cannabis storage, distribution services and logistics solutions for cannabis companies and pharmacies in Israel (collectively, the "**Pharm Yarok Transaction**"). The Pharm Yarok Transaction closed upon receipt of all requisite approvals, including the IMCA approval, for an aggregate consideration of NIS 11,900 (approximately \$4,600), of which NIS 8,400 (approximately \$3,300) was paid in cash upon signing the definitive agreement, and NIS 3,500 (approximately \$1,300) paid upon closing. As part of the Pharm Yarok Transaction, the Company also acquired 100% of the shares of and HW Shinua, an applicant for a medical cannabis transportation license, for no additional payment, however the completion of such acquisition is pending receipt of the requisite approval from the IMCA. In connection with closing of the Pharm Yarok Transaction, the Company completed a non-brokered private placement with former shareholders of Pharm Yarok and Rosen High Way on March 14, 2022. A total of 52,370 Common Shares were issued at a deemed price of \$26.16 for aggregate proceeds of approximately \$1,370. The calculation of the deemed price was based on the average closing price of Common Shares on the CSE over the 8 trading day period immediately preceding March 14, 2022.

Acquisition of Leading Israeli Pharmacy – Vironna

On March 14, 2022, pursuant to an agreement entered into on August 16, 2021, IMC Holdings completed the acquisition of 51% of the issued and outstanding ordinary shares of Vironna (the “**Vironna Transaction**”), a pharmacy licensed to dispense and sell medical cannabis and is one of the leading pharmacies serving patients in the Arab population in Israel. The Vironna Transaction closed upon receipt of all requisite approvals, including the approval of the IMCA. The Vironna Transaction was completed for total consideration of NIS 8,500 (approximately \$3,330), comprised of NIS 5,000 (approximately \$1,950) in cash and NIS 3,500 (approximately \$1,360) in Common Shares issued on closing. In satisfaction of the cash consideration component, NIS 3,750 (approximately \$1,470) was paid at signing of the definitive agreement and the remaining NIS 1,250 (approximately \$490) was paid post-closing of the Vironna Transaction and during the first quarter of 2023. In satisfaction of the share consideration component, the Company issued 48,536 Common Shares at a deemed issue price of US\$22.09 per share (approximately \$28.09), calculated based on the average closing price of the Common Shares of on the NASDAQ for the 14 trading day period immediately preceding closing. The shares issued were subject to a staggered three-month lockup commencing on the date of issuance.

Entering the Retail Segment in Israel by Acquiring Panaxia’s Largest Retail and Online Pharmacy Business

On March 14, 2022, IMC Holdings acquired a medical cannabis storage and distribution license (trading house) from Panaxia (the “**Panaxia GDP License**”) following receipt of the requisite IMCA approval and assigned it to IMC Pharma in accordance with the terms of the Panaxia Transaction. The Panaxia Transaction (the “**Panaxia Transaction**”) is further described in the Company’s annual information form dated March 31, 2022 that is available on the Company’s SEDAR profile at www.sedar.com. For further information on the Panaxia Transaction please see “*Subsequent Events*” section below.

Acquisition of Jerusalem’s Leading Medical Cannabis Pharmacy – Oranim Pharm

On March 28, 2022, pursuant to an agreement entered into on December 1, 2021, IMC Holdings completed the acquisition of 51.3% of the outstanding ordinary shares of Oranim Plus, who holds 99.5% of the rights in the partnership “Oranim Pharm”, resulting in IMC Holdings owning 51% of the rights in “Oranim Pharm”, which is one of the largest pharmacies selling medical cannabis in Israel and the largest pharmacy selling medical cannabis in the Jerusalem area (the “**Oranim Transaction**”). The Oranim Transaction closed upon receipt of all requisite approvals, including the approval of the IMCA. The Oranim Transaction was completed for total consideration of NIS 11,940 (approximately \$4,600), comprised of NIS 10,404 (approximately \$4,000) and NIS 1,536 (approximately \$600) in Common Shares issued on closing. In satisfaction of the cash consideration component, NIS 5,202 (approximately \$2,000) paid at signing of the definitive agreement and NIS 5,202 will be payable in several installments throughout 2023 and until February 15, 2024. In satisfaction of the share consideration component, the Company issued 25,100 Common Shares at a deemed issue price of US\$19.74 per share (approximately \$25.1), calculated based on the average closing price of the Common Shares on the Nasdaq Capital Market for the 14 trading day period immediately preceding March 28, 2022. The shares issued were subject to a staggered three-month lockup commencing on the date of issuance.

Closure of Sde Avraham Farm in Israel

In Q2 2022, the Company outlined new strategic imperatives designed to enhance organizational efficiency and reduce operating costs while further responding to the increased demand for premium, indoor-grown Canadian cannabis from Israeli patients. As part of these changes, Focus decided to close the Focus Facility, and such closure was completed in Q2 2022. Despite the closure of the Focus Facility, Focus continues to import cannabis products and supply medical cannabis to patients through licensed pharmacies through the Focus New License. The Group plans to continue its relationships with third-party cultivation facilities in Israel for the propagation and cultivation of the Company’s existing proprietary genetics and for the development of new products.

On April 4, 2022, the Company issued a Notice of Event of Default and Acceleration (the “**Notice of Default**”) to Biome Grow Inc. (the “**Guarantor**”) and its subsidiary, Cultivator Catalyst Corp. (together with the Guarantor, the “**Obligors**”), for a total outstanding principal plus accrued and unpaid interest of approximately \$2,680 (the “**Biome Loan**”). The Company issued the Notice of Default after several failed attempts to engage the Obligors regarding an extension and repayment of the Biome Loan.

On April 20, 2022, the Company issued a demand letter to the Obligors seeking immediate payment, along with a Notice to Enforce Security pursuant to section 244 of the *Bankruptcy and Insolvency Act* (Canada). On May 3, 2022, MYM filed an application with the Superior Court of Justice in Ontario (the “**Superior Court**”) to appoint a receiver to take control of the Obligors’ assets, including the security, to effect repayment of the Biome Loan.

The Biome Loan and related security agreements were entered into in July 2020, approximately one year prior to the Company’s acquisition of MYM. As part of the Biome Loan, the Obligors agreed to repay all outstanding principal and accrued and unpaid interest no later than January 31, 2022. The amount of the Biome Loan and interest payable is secured by assets held in escrow by the Obligors pursuant to a general security agreement (the “**Collateral**”).

On May 12, 2022, the Company applied to and received from the Superior Court an interim order to, among other things, freeze the assets of the Obligors including the assets, which comprise MYM’s Collateral for the Biome Loan. MYM has applied to the Superior Court, which granted MYM’s request for the receivership of the assets of the Obligors and has scheduled an in-person hearing for the receivership application on September 12, 2022.

In September 2022, MYM and the Obligors reached an agreement and signed a term sheet for the settlement of the receivership application and amendment to the Biome Loan (the “**Biome Term Sheet**”). The Biome Term Sheet was signed on September 9, 2022, prior to the September 12, 2022 in-person receivership application hearing with the Superior Court. The Superior Court approved the adjournment of the receivership application, pending the implementation of the settlement outlined in the Biome Term Sheet, pursuant to which, the Biome Loan will continue to bear interest at a rate of 8% per annum on the principal balance of the Biome Loan, compounding every four months on the aggregate balance of the outstanding principal balance plus all accrued and unpaid interest (the “**Indebtedness**”). The Biome Loan matures December 9, 2023 unless extended through mutual agreement by both parties.

Based on the Biome Term Sheet, the Obligors are required to make a payment to MYM on December 31, 2022. The value of the payment on December 31, 2022 will depend on the volume weighted average price (the “**VWAP**”) of the Company’s common shares during the final ten trading days of November 2022. The repayment will be 5% or 10% of the total Indebtedness, depending on the VWAP over that period of time.

On October 4, 2022, a loan amendment agreement (“**Settlement Agreement**”) was executed in line with the terms noted in the Biome Term Sheet.

The Obligors did not make payment to MYM on December 31, 2022 as required under the Biome Settlement Agreement and the parties are discussing modifications to the Settlement Agreement.

As a result of the Settlement Agreement, the Biome Loan was considered extinguished under IFRS 9 *Financial Instruments* and a gain of \$239 was recognized during 2022. As of November 7, 2022 the Biome Loan is deconsolidated as part of the deconsolidation of Trichome.

NASDAQ Compliance Notice and Common Share Consolidation

In order to maintain the listing of the Common Shares on the Nasdaq, the Company must comply with Nasdaq's continued listing requirements which require, amongst other things, that the Common Shares maintain a minimum bid price of at least US\$1.00 per share (the "**Minimum Share Price Listing Requirement**")

On July 13, 2022, the Company received written notification from Nasdaq (the "**Notification Letter**") that the closing bid price of the Common Shares had fallen below US\$1.00 per share over a period of 30 consecutive business days, with the result that the Company was not in compliance with the Minimum Share Price Listing Requirement. The Notification Letter provided that the Company had until January 9, 2023, being 180 calendar days following receipt of such notice to regain compliance with the Minimum Share Price Listing Requirement.

On October 20, 2022, the Company obtained shareholder approval for the consolidation of the Common Shares on the basis of one (1) post-consolidation Common Share for each ten (10) pre-consolidation Common Shares (the "**Consolidation**") at the Company's annual and special meeting of shareholders held on October 20, 2022.

On November 17, 2022, the Consolidation was effected and the Company regained compliance with the Minimum Share Price Listing Requirement on December 5, 2022. Following the Consolidation (or reverse split), the Common Shares continued to trade on Nasdaq under the symbol "IMCC".

Canadian Restructuring

On August 5, 2022, the Company commenced a restructuring plan in Canada through which it is taking a disciplined approach to spending and implementing cost efficiencies (the "**Canadian Restructuring**"). The Company entered into an agreement to sell all the issued and outstanding shares of Sublime on an "as is, where is" basis to a group of purchasers that included current and former members of the Sublime management team for aggregate proceeds of approximately \$100 less working capital adjustments, for a final net purchase price of \$89 (the "**Sublime Transaction**"). The Sublime Transaction included the sale of Sublime's lease obligation of the approximately 930 square metre cultivation and storage facility and Sublime's related operations.

The Canadian Restructuring also included halting cultivation at the facility operated by Highland in Antigonish, Nova Scotia, which continues to be used for packaging and storage, and a workforce reduction throughout its Canadian operations.

On November 7, 2022, in connection with the Company's efforts to achieve operational efficiencies, the Company announced that it is pivoting its focus and resources on growth in its highest value markets in Israel and Germany while also commencing its exit from the Canadian cannabis market as part of the Canadian Restructuring. With this move, the Company aims for a leaner organization with a primary focus on achieving profitability in 2023.

The Canadian operations are held through the Trichome Group and being orderly wound-down under CCAA pursuant to an initial order of the Court issued on November 7, 2022 (as amended and restated by an order made by the Court on November 17, 2022, the "**Initial Order**"). The Initial Order includes a broad stay (as extended from time to time, the "**Stay**") of all proceedings against the Trichome Group and its assets. Pursuant to the Initial Order, KSV Restructuring Inc. was appointed as monitor (the "**Monitor**") in the CCAA Proceedings.

In connection with the CCAA Proceedings, TJAC, as borrower (the “**Borrower**”), the remaining members of the Trichome Group, as guarantors and Cortland Credit Lending Corporation, as agent for and on behalf of itself and certain lenders (the “**DIP Lender**”), entered into a debtor-in-possession facility agreement dated November 6, 2022 (as amended, the “**DIP Agreement**”). Pursuant to the DIP Agreement, the DIP Lender has agreed to provide a super-priority interim revolving credit facility (subject to certain mandatory repayment provisions) to the Borrower (the “**DIP Facility**”). In accordance with the DIP Agreement, the DIP Facility is to be used during the CCAA Proceedings by the Borrower to fund its working capital needs. The DIP Facility is subject to customary covenants, conditions precedent, and representations and warranties made by the Trichome Group to the DIP Lender. The current DIP Lender’s charge approved by the Court is up to the maximum amount of \$4,875.

On January 9, 2023, the Court issued an order in the CCAA Proceedings in respect of a motion brought by the Trichome Group to approve, among other things: a sale and investment solicitation process (the “**SISP**”) in respect of the business and assets of the Trichome Group; and a stalking horse share purchase agreement (the “**Stalking Horse Purchase Agreement**”) between the Trichome Group and L5 Capital Inc. (“**L5**”) dated December 12, 2022. The SISP established a process to solicit interest for investments in, or the sale of any or all of the, Trichome Group’s business and assets.

On February 22, 2023, the Monitor issued a report (the “**Monitor’s Third Report**”) in the CCAA Proceedings advising, among other things, that (i) no qualified bids were received pursuant to the SISP, (ii) L5 informed the Trichome Group that it would not be completing the transaction contemplated by the Stalking Horse Purchase Agreement and, as a result, the Trichome Group terminated the Stalking Horse Purchase Agreement, and (iii) the Monitor continues to market for sale the Trichome Group’s business and assets, including the brands and other intellectual property owned by the Trichome Group.

The Monitor’s Third Report also reported on the financial situation of the Trichome Group advising that due to the Trichome Group’s financial performance and the termination of the Stalking Horse Purchase Agreement, the DIP Lender informed the Trichome Group that the DIP Lender would only fund expenses required for a wind-down of the Trichome Group’s business and as such, the Trichome Group will not have the ability to pay unpaid payables that are not required to be paid in connection with the wind-down. The Trichome Group has advised that it will not purchase additional goods or services without the prior consent of the Monitor.

Most recently, on March 9, 2023, the Court issued an order extending the Stay until April 21, 2023 in order to allow the Trichome Group to complete the orderly wind-down of its operations.

Non-brokered Private Placement of Common Shares

On August 19, 2022, the Company announced a non-brokered private placement offering of Common Shares (the “**2022 Private Placement**”) for aggregate gross proceeds of up to US\$5,000 led by the Company’s management and executive team.

On August 24, 2022, the Company announced that it closed the first tranche of the 2022 Private Placement, consisting of 488,749 Common Shares at a price of US\$5.00 per Common Share for aggregate proceeds of approximately US\$2,444. Certain insiders of the Company, including its Chief Executive Officer (“**CEO**”) and Director and Chief Financial Officer (“**CFO**”), among others, subscribed for an aggregate of 156,349 Common Shares in the first tranche of the 2022 Private Placement for aggregate proceeds of approximately US\$782. On October 6, 2022, the Company announced that it closed the second tranche of the 2022 Private Placement of 111,250 Common Shares at a price of US\$5.00 per Common Share for aggregate proceeds of approximately US\$556, increasing the total amount raised from the 2022 Private Placement to approximately US\$3,000. Marc Lustig, Executive Chairman and Director of the Company, subscribed for 111,250 Common Shares in the second tranche for aggregate proceeds of US\$556.

Changes to the Board

On September 13, 2022, the Company announced that Einat Zakariya and Moti Marcus were appointed to the Board. Einat Zakariya and Moti Marcus replaced Vivian Bercovici and Haleli Barath, who resigned to pursue other opportunities.

Einat Zakariya is the current CEO and partner of LIV collection, a brand subsidiary of Ewave Holdings Ltd., and CEO and Partner of Ewave Nadlan International Investments Ltd. Ms. Zakariya has proven expertise in the real-estate industry and brings vast experience in CEO roles as well as strategic consulting, marketing, advertising, and sales. She previously sat on the boards of several major organizations.

Moti Marcus is the current CEO of Packer Quality Materials, one of the largest companies in Israel for the sale and processing of special and unique metals. Mr. Marcus has a strong track record in CFO roles, management, and mergers and acquisitions. He has served on the boards of several institutions and is a member of the Israel Ministry of Finance “Team of Select Directors.”

The Company and SNDL Inc. Export to Israel

On September 15, 2022, the Company and SNDL Inc. (“**SNDL**”) announced that SNDL completed its initial international export of approximately 167 kilograms of premium dried flower from Canada to Israel as part of its total commitment with the Company. SNDL and the Company have agreed to the aggregate export of 1,000 kilograms of high-quality dried flower products for processing and distribution in the Israeli medical cannabis market, according to the terms and conditions of the agreement between the parties.

Loan from ADI

On October 11, 2022, IMC Holdings entered into a loan agreement with A.D.I. Car Alarms Stereo Systems Ltd (“**ADI**” and the “**ADI Agreement**”), to borrow a principal amount of NIS 10,500 (approximately \$[4,045]) at an annual interest of 15% (the “**ADI Loan**”), which is to be repaid within 12 months of the date of the ADI Agreement. The ADI Loan is secured by a second rank land charge on the Logistics Center of Adjupharm. In addition, CEO and Director of the Company, provided a personal guarantee to ADI should the security not be sufficient to cover the repayment of the ADI Loan.

Launch of BLKMKT™ Brand in Israeli Medical Cannabis Market

On October 12, 2022, the Company and Avant Brands Inc. (“**Avant**”) announced the signing of an international trademark licensing agreement (the “**Licensing Agreement**”) granting the Company the exclusive right to launch the BLKMKT™ brand in the Israeli medical cannabis market. Under the terms of the Licensing Agreement, a subsidiary of Avant will license the Company’s premium- cannabis flagship BLKMKT™ brand to an Israeli subsidiary of the Company for use on the Company’s medical cannabis product packaging. All such packaging will contain cannabis cultivated exclusively by Avant, and sold to the Company’s affiliates. The integration of unique and exclusive varieties of the high-quality BLKMKT™ brand into the Company’s current premium product portfolio will serve to bolster the cooperative and synergistic partnership forged between the Avant and the Company over the past two years. The Licensing Agreement signals the Company’s commitment to implementing a premium strategy and acts as another step to establish the Company’s leadership of the ultra-premium segment in Israel.

Annual General and Special Meeting

On October 20, 2022, the Company held an annual and special meeting at which time all matters put to shareholders were approved including, but not limited to, the election of directors to the Board, appointment of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global as auditor of the Company, the adoption of new modernized articles of the Company, and the approval of the Consolidation, to be effected as and when determined by the Board. On November 17, 2022, the Consolidation was effected.

Loan to Telecana

On November 29, 2022, the Company's subsidiary, IMC Holdings entered into a convertible loan agreement (the "**Telecana Loan Agreement**") with Telecana Ltd. ("**Telecana**") and the sole shareholder of Telecana, whereby IMC Holdings will loan NIS 1,545 (approximately \$[595]) to Telecana according to the following advance schedule: NIS 45 on January 15, 2023; NIS 250 on January 31, 2023; NIS 500 on February 28, 2023; NIS 500 on April 5, 2023; and NIS 250 on May 5, 2023. Telecana is in the advanced stages of opening a pharmacy, and intends to apply to the IMCA for a license to dispense medical cannabis products. Pursuant to the Telecana Loan Agreement, the loan can be converted into 51% of the share capital of Telecana at any time at the sole discretion of IMC Holdings.

SUBSEQUENT EVENTS

LIFE Offering

In January and February of 2023, the Company issued an aggregate of issued 2,828,248 units of the Company (each a "**Unit**") at a price of US\$1.25 per Unit for aggregate gross proceeds of US\$3,535 in a series of closings pursuant to a non-brokered private placement offering to purchasers resident in Canada (except the Province of Quebec) and/or other qualifying jurisdictions relying on the listed issuer financing exemption under Part 5A of National Instrument 45-106 – *Prospectus Exemptions* (the "**LIFE Offering**"). Each Unit consisted of one Common Share and one Common Share purchase warrant (each, a "**Warrant**"), with each Warrant entitling the holder thereof to purchase one additional Common Share at an exercise price of US\$1.50 for a period of 36 months from the date of issue.

In addition, a non-independent director of the Company subscribed for an aggregate of 131,700 Units under the LIFE Offering at an aggregate subscription price of US\$165. The director's subscription price was satisfied by the settlement of US\$165 in debt owed by the Company to the director for certain consulting services previously rendered by the director to the Company.

Concurrent Offering

Concurrent with the LIFE Offering, the Company issued an aggregate of 2,317,171 Units on a non-brokered private placement basis at a price of US\$1.25 per Unit for aggregate gross proceeds of US\$2,896 (the “**Concurrent Offering**”). The Concurrent Offering was led by insiders of the Company. The Units offered under the Concurrent Offering were offered for sale to purchasers in all provinces and territories of Canada and jurisdictions outside Canada pursuant to available prospectus exemptions other than for the LIFE Offering exemption.

All Units issued under the Concurrent Offering were subject to a statutory hold period of four months and one day in accordance with applicable Canadian securities laws

Panaxia Transaction Update

On February 13, 2023, the Company announced that it reached an agreement, together with Panaxia, to terminate the option that the Company had, under the Panaxia Transaction, to acquire a pharmacy licensed to dispense and sell medical cannabis to patients, for no additional consideration. Under the agreement, the Company will not be required to make the fifth installment of approximately \$262 of Common Shares owed by the Company to Panaxia under the Panaxia Transaction and will receive an agreed compensation amount of approximately \$95 from Panaxia to be paid by Panaxia in services and cannabis inflorescence in accordance with the terms as agreed by the parties.

The consideration payable by the Company under the Panaxia Transaction was NIS 18,700 (approximately \$7,200), comprised of \$2,900 in cash, payable in two installments, and \$4,300 in Common Shares, payable in five installments. To date, the Company preformed four installments as was previously announced on August 9, 2021, September 8, 2021, October 20, 2021, and November 18, 2021, respectively.

Restructuring

On March 8, 2023, subsequent to the reporting period, the Company announced its strategy plan in Israel in order to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company expects to reduce its workforce in Israel by 20%-25% across all functions (including executives). All actions associated with the workforce reduction are expected to be substantially complete by mid-2023, subject to applicable Israeli law.

REVIEW OF FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

Below is the analysis of the changes that occurred for the year and three months ended December 31, 2022, with further commentary provided below.

	For the year ended December 31		For the three months ended December 31	
	2022	2021	2022	2021
Net Revenues*	\$ 54,335	\$ 34,053	\$ 14,461	\$ 9,912
Gross profit before fair value impacts in cost of sales*	\$ 11,291	\$ 8,595	\$ 2,791	\$ 1,080
Gross margin before fair value impacts in cost of sales (%)*	21%	25%	19%	11%
Operating Loss*	\$ (30,791)	\$ (23,035)	\$ (10,708)	\$ (8,741)
Net loss*	\$ (24,922)	\$ (664)	\$ (9,650)	\$ (8,360)
Loss per share attributable to equity holders of the Company – Basic (in CAD)*	\$ (3.13)	\$ 0.02	\$ (1.32)	\$ (0.19)
Loss per share attributable to equity holders of the Company - Diluted (in CAD)*	\$ (3.81)	\$ (3.62)	\$ (1.28)	\$ (0.19)

	For the year ended December 31		For the three months ended December 31	
	2022	2021	2022	2021
Average net selling price of dried flower (per Gram)*	\$ 7.12	\$ 6.18	\$ 5.19	\$ 6.87
Quantity harvested and trimmed (in Kilograms ¹)*	-	1,935	-	947
Quantity of dried flower sold (in Kilograms ²)*	6,794	4,278	2,334	1,220

* From continuing operations

Notes:

1. Including other cannabis products such as Concentrates, Kief, Hash and Pre-rolls.
2. Harvested flowers, after trimming and ready for manufacturing.

The Overview of Financial Performance includes reference to “Gross Margin”, which is a non-IFRS financial measure that the Company defines as the difference between revenue and cost of revenues divided by revenue (expressed as a percentage), prior to the effect of a fair value adjustment for inventory and biological assets. For more information on non-IFRS financial measures, see the “*Non-IFRS Financial Measures*” and “*Metrics and Non-IFRS Financial Measures*” sections of the MD&A.

OPERATIONAL RESULTS

In each of the markets in which the Company operates, the Company must navigate evolving customer and patient trends in order to continue to be competitive with other suppliers of medical cannabis products.

The Company believes that there are several key factors creating tailwinds to facilitate further industry growth. In Israel, the number of licensed medical patients continues to increase and currently stands at 123,722 as of February 2023. This figure is expected to continue growing in the coming years and may further benefit from regulatory change liberalizing the cannabis market in Israel. Moreover, the acquisitions of the Israeli Pharmacies positions IM Cannabis as a large distributor of medical cannabis in Israel. As the Israeli cannabis market has become increasingly competitive, the ability to import premium cannabis from Canada is a key determinant of the Company’s success in Israel.

The German medical cannabis market has been slower to develop due to the difficulty in medical patients accessing prescriptions and insurance reimbursements. The Company has, however, seen an increase in the number of patients paying out-of-pocket for medical cannabis products in Germany, which the Company believes is supportive of its business plan as it relies less on the need for patient’s insurance coverage for re-imburement.

The newly elected coalition government in Germany has endorsed the legalization of adult-use cannabis. While no specific legislation has yet been tabled and any implementation is expected to take time, the Company believes that Germany has the potential to be the second largest federally legal, adult-use market in the world.

The Company’s outlook in Germany is further supported by its focus on the cultivation and distribution of premium and ultra-premium cannabis products exclusively, which the Company believes to be in the greatest demand in all of its markets. In comparison to other markets, the Company faces less competition in Germany and therefore is less likely to face significant price competition.

The Company is focusing its resources on reinforcing and further pursuing growth opportunities in Israel, Germany and Europe, implementing a leaner organization strategy with the primary focus on achieving profitability in 2023.

REVENUES AND GROSS MARGINS

REVENUES

The revenues of the Group from continuing operations are primarily generated from sales of medical cannabis products to customers in Israel and Germany. The reportable geographical segments in which the Company operates are Israel and Germany.

For the year ended December 31:

	Israel		Germany		Adjustments		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Revenues	\$ 50,500	\$ 25,431	\$ 3,835	\$ 8,622	\$ -	\$ -	\$ 54,335	\$ 34,053
Segment income (loss)	\$ (23,606)	\$ (10,653)	\$ (3,225)	\$ (5,142)	\$ -	\$ -	\$ (26,831)	\$ (15,795)
Unallocated corporate expenses	\$ -	\$ -	\$ -	\$ -	\$ (3,960)	\$ (7,240)	\$ (3,960)	\$ (7,240)
Total operating (loss) income	\$ (23,606)	\$ (10,653)	\$ (3,225)	\$ (5,142)	\$ (3,960)	\$ (7,240)	\$ (30,791)	\$ (23,035)
Depreciation, amortization & impairment	\$ 6,747	\$ 1,424	\$ 200	\$ 701	\$ -	\$ -	\$ 6,947	\$ 2,125

For the three months ended December 31:

	Israel		Germany		Adjustments		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Revenues	\$ 13,136	\$ 8,472	\$ 1,325	\$ 1,440	\$ -	\$ -	\$ 14,461	\$ 9,912
Segment income (loss)	\$ (10,280)	\$ (4,425)	\$ (517)	\$ (2,738)	\$ -	\$ -	\$ (10,797)	\$ (7,163)
Unallocated corporate income (expenses)	\$ -	\$ -	\$ -	\$ -	\$ 90	\$ (1,578)	\$ 90	\$ (1,578)
Total operating (loss) income	\$ (10,280)	\$ (4,425)	\$ (517)	\$ (2,738)	\$ 90	\$ (1,578)	\$ (10,707)	\$ (8,741)
Depreciation, amortization & impairment	\$ 4,957	\$ (1,217)	\$ 48	\$ 635	\$ -	\$ -	\$ 5,005	\$ (582)

The consolidated revenues of the Group from continuing operations for the year ended December 31, 2022, were attributed to the sale of medical cannabis products in Israel and Germany.

- Revenues from continuing operations for the year ended December 31, 2022 and 2021 were \$54,335 and \$34,053, respectively, representing an increase of \$20,282 or 60%. Revenues for the three months ended December 31, 2022, and 2021 were \$14,461 and \$9,912, respectively, representing an increase of \$4,549 or 46%. The increase in revenues is primarily attributed to the increase in the quantity of medical cannabis products sold, as well as from the higher average selling price per gram the Company realized from its portfolio of premium branded cannabis products in Israel. Additional increases were derived from the Company's organic growth and related synergies in the areas where it operates.

- Revenues from the Israeli operation were attributed to the sale of medical cannabis through the Company's agreement with Focus Medical and the revenues from the Israeli Pharmacies the Company owns, mostly from cannabis products.
- In Germany, Company revenues were attributed to the sale of medical cannabis through Adjupharm.
- Total dried flower sold for the year ended December 31, 2022, was 6,794kg at an average selling price of \$7.12 per gram compared to 4,278kg for the same period in 2021 at an average selling price of \$6.18 per gram, mainly attributable to the higher average selling price per gram the Company recognized through the acquisition of the Israeli Pharmacies. Total dried flower sold for the three months ended December 31, 2022, was 2,334kg at an average selling price of \$5.19 per gram compared to 1,220kg for the three months ended December 31, 2021, at an average selling price of \$6.87 per gram.

COST OF REVENUES

Cost of revenues is comprised of purchase of raw materials and finished goods, cultivation costs, utilities, salary expenses and import costs, production costs, product laboratory testing, shipping and sales related costs. At harvest, the biological assets are transferred to inventory at their fair value which becomes the deemed cost for the inventory. Inventory is later expensed to the cost of sales when sold. Direct production costs are expensed through the cost of sales.

The fair value of biological assets is categorized within Level 3 of the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

1. Selling price per gram - calculated as the weighted average historical selling price for all strains of cannabis sold by the Group, which is expected to approximate future selling prices.
2. Post-harvest costs - calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials, depreciation and labor as well as labelling and packaging costs.
3. Attrition rate - represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
4. Average yield per plant - represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
5. Stage of growth - represents the weighted average number of weeks out of the average weeks growing cycle that biological assets have reached as of the measurement date. The growing cycle is approximately 12 weeks.

The following table quantifies each significant unobservable input, and also provides the impact that a 10% increase/decrease in each input would have on the fair value of biological assets grown by the Company:

			10% change as of	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
	In CAD		In Thousands of CAD	
Average selling price per gram of dried cannabis	\$ 3.21	\$ 3.64	\$ 60	\$ 296
Average post-harvest costs per gram of dried cannabis	\$ 0.75	\$ 1.16	\$ 17	\$ 140
Attrition rate	51%	27%	44%	100%
Average yield per plant (in grams)	38	47	42	228
Average stage of growth	82%	47%	39%	212%

The cost of revenues from continuing operations for the year ended December 31, 2022 and 2021 were \$43,044 and \$25,458, respectively, representing an increase of \$17,586 or 69%. Cost of revenues for the three months ended December 31, 2022 and 2021 were \$11,670 and \$8,832, respectively, representing an increase of \$2,838 or 32%.

GROSS PROFIT

The Company's formula for calculating gross profit includes:

- production costs (current period costs that are directly attributable to the cannabis growing and harvesting process);
- materials and finished goods purchase costs;
- a fair value adjustment on sale of inventory (the change in fair value associated with biological assets that were transferred to inventory upon harvest); and
- a fair value adjustment on growth of biological assets (the estimated fair value less cost to sell of biological assets as at the reporting date).

Gross profit also includes the net change in fair value of biological assets, inventory expensed and production costs. Biological assets consist of cannabis plants at various after-harvest stages which are recorded at fair value less costs to sell after harvest.

Gross profit from continuing operations for the year ended December 31, 2022, and 2021 was \$9,162 and \$6,333, respectively, representing an increase of \$2,829 or 45%. For the three months ended December 31, 2022, and 2021 gross profit was \$2,603 and \$979, respectively, representing an increase of \$1,624 or 166%.

Gross profit included losses from unrealized changes in fair value of biological assets and realized fair value adjustments on inventory sold of \$(2,129) and \$(2,262) for the year ended December 31, 2022, and 2021, respectively. Losses from unrealized changes in fair value of biological assets and realized fair value adjustments on inventory sold for the three months ended December 31, 2022, and 2021 were \$(188) and \$(101), respectively. Fair value adjustments were impacted primarily due to lower valuation to unrealized biological assets during the year ended December 31, 2022.

In the year ended December 31, 2022, the impact of global inflation on the Company resulted in higher than usual operating costs, and in particular higher costs of raw materials, shipping and transport services and the cost of hiring skilled labor to ensure the Company remains on track with scheduled manufacturing and regulatory milestones. There is no assurance that inflation will not continue to have similar impacts on the Company's operations in the first quarters of 2023.

EXPENSES

GENERAL AND ADMINISTRATIVE

General and administrative expenses from continuing operations for the year ended December 31, 2022, and 2021 were \$21,460 and \$17,221, respectively, representing an increase of \$4,239 or 25%. For the three months ended December 31, 2022, and 2021, general and administrative expenses were \$9,790 and \$5,377, respectively, representing an increase of \$4,413 or 82%.

The increase in the general and administrative expense is attributable mainly to a full year consolidation of the previously acquired Israeli entities that were not fully consolidated in 2021, as well as non-recurring costs related to fair value adjustment of Company's purchase option of a pharmacy. The general and administrative expenses are comprised mainly from salaries to employees in the amount of \$4,027, professional fees in the amount of \$4,689, depreciation and amortization in the amount of \$819, insurance costs in the amount of \$1,566, and other general and administration costs in the amount of \$10,358 comprised mainly of non-recurring costs.

SELLING AND MARKETING

Selling and marketing expenses from continuing operations for the year ended December 31, 2022, and 2021 were \$11,473 and \$6,725, respectively, representing an increase of \$4,748 or 71%. For the three months ended December 31, 2022, selling and marketing expenses were \$3,094, compared to \$2,880 for the three months ended December 31, 2021, representing an increase of \$214 or 7%. The increase in the selling and marketing expenses was due mainly to the Company's increased marketing efforts in Israel, increased distribution expenses relating to the growth in sales, and full year consolidation of entities acquired in 2021. The increase in cost is also partially attributed to the rising distribution costs of the Company's products.

RESTRUCTURING EXPENSES

On April 6, 2022, Focus Medical announced its decision, from March 30, 2022, to close the Focus Facility in Israel and therefore the Company recorded restructuring expenses related to impairment of property, plant and equipment, biological assets and right of use asset and liabilities, in the total amount of \$4,383.

SHARE-BASED COMPENSATION

Share-based compensation expense from continuing operations for the year ended December 31, 2022, and 2021 was \$2,637 and \$5,422, respectively, representing a decrease \$2,785 or 51%. For the three months ended December 31, 2022, and 2021, share-based compensation expense was \$428 and \$1,467, respectively, representing a decrease of \$1,039 or 71%. The decrease for the year ended December 31, 2022, was mainly due to the cancellation of incentive stock options ("**Options**") held by employees who no longer worked for the Company as well as to fair value adjustments to options held by Company's consultants.

FINANCING

Financing income (expense), net, from continuing operations for the year ended December 31, 2022, and 2021 was \$4,731 and \$22,871, respectively, representing a decrease of \$18,140 or 79% in the financing income. For the three months ended December 31, 2022, and 2021, financing income (expense), net was \$949 and \$675, respectively, representing an increase of \$274 or 41%.

The change for the year was mainly due to the updated Company's warrants valuation that was impacted by the Company's decreased share price leading to financial income in the amount of \$(21,638).

NET INCOME/LOSS

Net loss from continuing operations for the year ended December 31, 2022, and 2021 was \$24,922 and \$664, respectively, representing a net loss increase of \$24,258 or 3,653%. For the three months ended December 31, 2022, and 2021, Net loss was \$9,651 and \$8,360 respectively, representing a net loss increase of \$1,291 or 15%. The net loss increase related to factors impacting net income from operations described above, and financing income driven by revaluation of warrants and other financial instruments in the amount of \$6,001 which were recorded against liability on the grant day and were re-evaluated at December 31, 2022 through profit or loss.

NET INCOME (LOSS) PER SHARE BASIC AND DILUTED

Basic loss per share is calculated by dividing the net profit attributable to holders of Common Shares by the weighted average number of Common Shares outstanding during the period. Diluted profit per Common Share is calculated by adjusting the earnings and number of Common Shares for the effects of dilutive warrants and other potentially dilutive securities. The weighted average number of Common Shares used as the denominator in calculating diluted profit per Common Share excludes unissued Common Shares related to Options as they are antidilutive. Basic Income (Loss) per Common Share from continuing operations for the year ended December 31, 2022, and 2021 were \$(3.13) and \$0.02 per Common Share, respectively. For the three months ended December 31, 2022, and 2021 were \$(1.32) and \$(0.19), respectively.

Diluted Income (Loss) per Common Share from continuing operations for the year ended December 31, 2022 and 2021 were \$(3.81) and \$(3.62) per Common Share, respectively. Diluted Income (Loss) per Common Share for the three months ended December 31, 2022, and 2021 were \$(1.28) and \$(0.19), respectively.

TOTAL ASSETS

Total assets as at December 31, 2022 were \$60,676, compared to \$287,388 as at December 31, 2021, representing a decrease of \$226,712 or 79%. This decrease was primarily due to the goodwill impairment of Trichome in the amount of \$107,854, the deconsolidation of Trichome that led to reduction of Intangible assets, right-of-use assets, property plant and equipment, and inventory, in the amounts of approximately \$10,999, \$17,157, \$14,645 and \$7,228, respectively, and impairment of purchase option of pharmacy in the amount of \$4,236. Additional decrease is attributed to the closure of the Focus Facility in the amount of \$4,383 and also by the effect of translation of items denominated in NIS in the Company's balance sheet.

INTANGIBLE ASSETS

On March 18, 2021, the transaction with Trichome and certain of its subsidiaries was completed whereby the Company acquired all of the issued and outstanding securities of Trichome for a total Common Share consideration valued at approximately \$99,028 ("**Trichome Transaction**"). Upon completion of the Trichome Transaction, the businesses of IM Cannabis and Trichome have been combined.

- Through the Trichome Transaction, the Company recognized goodwill of approximately \$67,269 and intangible assets, primarily attributed to the cultivation license, worth approximately \$6,458 (based on a preliminary purchase price allocation). The goodwill arising on acquisition was attributed to the expected benefits from the synergies of the combination of the activities of the Company and Trichome, as well as value attributed to the assembled workforce, which was included in goodwill. The goodwill recognized was not expected to be deductible for income tax purposes. The Canadian Restructuring and commencement of an exit from the Canadian market, which was announced on November 7, 2022, resulted in indicators of impairment under IAS 36. These indicators of impairment led to an impairment analysis, in which it was concluded that a write-down was required. In Q3 2022, an impairment loss of \$67,171 was recorded for the goodwill initially recognized through the Trichome Transaction.
- The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a provisional measurement. The purchase consideration and the fair value of the acquired assets and liabilities may be adjusted within 12 months from the acquisition date. At the date of final measurement, adjustments are generally made by restating comparative information previously determined provisionally. As of the date of the Annual Financial Statements, a final valuation for the fair value of the identifiable assets acquired and liabilities assumed by an external valuation specialist had been obtained.
- On July 9, 2021, the Company completed the MYM Transaction. As a result, the Company recognized goodwill of approximately \$39,932 and intangible assets consisting of brand name and customer relationships worth approximately \$17,200 (based on a preliminary purchase price allocation study). The goodwill arising on acquisition was attributed to the expected benefits from the synergies of the combination of the activities of the Company and MYM, as well as value attributed to the assembled workforce, which was included in goodwill. The goodwill recognized was not expected to be deductible for income tax purposes. As part of the closure of the Sublime Transaction the Company recorded an impairment loss for the intangible assets in the amount of \$1,581.
- The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a provisional measurement. The purchase consideration and the fair value of the acquired assets and liabilities may be adjusted within 12 months from the acquisition date. At the date of final measurement, adjustments are generally made by restating comparative information previously determined provisionally. As of the date of the Annual Financial Statements, a final valuation for the fair value of the identifiable assets acquired and liabilities assumed by an external valuation specialist had been obtained.

Furthermore, similar to the impairment loss recorded in Q3 2022 on the goodwill acquired via the Trichome Transaction, the Company also recorded an impairment loss of \$40,592 on the goodwill generated through the MYM Transaction. This too was a result of the Canadian Restructuring and expected exit of the Canadian market.

INVESTMENT IN XINTEZA

On December 26, 2019, IMC Holdings entered into a share purchase agreement with Xinteza API Ltd. ("**Xinteza**"), a company with a unique biosynthesis technology, whereby the Company acquired, on an as-converted and fully diluted basis, 25.37% of Xinteza's outstanding share capital, for consideration of US\$1,700 (approximately \$2,165 as of December 31, 2021) paid in several installments (the "**Xinteza SPA**"). As of December 31, 2022, the Company has paid all outstanding installments pertaining to the Xinteza SPA and currently holds 23.35% of the outstanding share capital of Xinteza on an as-converted and fully diluted basis. On February 24, 2022, IMC Holdings entered into a simple agreement for future equity with Xinteza, under which IMC Holdings paid US\$100 (approximately \$125), in exchange for the right to certain shares of Xinteza.

TOTAL LIABILITIES

Total liabilities as of December 31, 2022, were \$36,879, compared to \$82,443 at December 31, 2021, representing an decrease of \$45,564 or 55%. The decrease was mainly due to the deconsolidation of Trichome that led to reduction of liabilities in the amount of \$53,515, a decrease of \$3,605 in purchase consideration payable, offset by an increase in trade payables in the amount of \$5,990 and offset by an increase in bank loans of \$8,428.

LIQUIDITY AND CAPITAL RESOURCES

For the twelve months ended December 31, 2022, the Company recorded revenues of \$54,335. In addition, Company collected \$333 in proceeds from the exercises of Options.

The Company can face liquidity fluctuations from time to time, resulting from delays in sales and slow inventory movements.

In January 2022, Focus entered the Mizrahi Facility. The Mizrahi Facility is guaranteed by Focus assets. Advances from the Mizrahi Facility will be used for working capital needs. The Mizrahi Facility has a total commitment of up to NIS 15 million (approximately \$6,000) and has a one-year term for on-going needs and 6 months term for imports and purchases needs. The Mizrahi Facility is renewable upon mutual agreement by the parties. The borrowing base available for draw at any time throughout the Mizrahi Facility and is subject to several covenants to be measured on a quarterly basis. The Mizrahi Facility bears interest at the Israeli Prime interest rate plus 1.5% (6.25% per annum as of December 31, 2022). As of December 31, 2022, Focus did not meet certain covenants under the Mizrahi Facility. The Company's CEO and director, provided to the bank a personal guarantee in the amount of the outstanding borrowed amount, allowing the Mizrahi Facility to remain effective. As of December 31, 2022 Focus withdrew \$5,084.

On August 24, 2022, the Company announced that it closed the first tranche of the 2022 Private Placement, consisting of 488,749 Common Shares at a price of US\$5.00 per Common Share for aggregate proceeds of approximately US\$2,444.

On October 5, 2022, the Company announced that it closed the second tranche of the 2022 Private Placement, consisting of 111,250 Common Shares at a price of US\$5.00 per Common Share for aggregate proceeds of approximately US\$556 and increasing the total amount raised from the Private Placement to US\$3,000.

Between January 16, 2023 to February 16, 2023, the Company completed the LIFE Offering, comprised of an aggregate of 2,828,248 Units issued and sold under the Life Offering for an aggregate gross proceeds of US\$3,535, such amount exclusive of 131,700 Units issued to a director of the Company as part of the LIFE Offering whose subscription price was satisfied by the settlement of US\$164 in debt owed by the Company to the director.

Concurrently, the Company completed the Concurrent Offering, comprised of an aggregate of 2,317,171 Units issued and sold under the Concurrent Offering for an aggregate gross proceeds of US\$2,896.

As of December 31, 2022, the Group's cash and cash equivalents totaled \$2,449 and the Group's working capital deficit from continuing operations (current assets less current liabilities) amounted to (\$1,147). In the year ended December 31, 2022, the Group had an operating loss from continuing operation of (\$30,791) and negative cash flows from continuing operating activities of (\$12,340).

The Group's current operating budget includes various assumptions concerning the level and timing of cash receipts from sales and cash outlays for operating expenses and capital expenditures, including cost saving plans and restructuring actions taken in 2022. The Company's board of directors approved a cost saving plan, implemented in whole or in part, to allow the Company to continue its operations and meet its cash obligations. The cost saving plan consists of cost reduction due to efficiencies and synergies, which include mainly the following steps: discontinuing operation of loss-making activities, reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Annual Financial Statements do not include any adjustments relating to the recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

As of December 31, 2022, the Group's financial liabilities consisted of accounts payable which have contractual maturity dates within one year. The Group manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Group's working capital position on December 31, 2022, management considers liquidity risk to be moderate.

As of December 31, 2022, the Group has identified the following liquidity risks related to financial liabilities (undiscounted):

	Less than one year	1 to 5 years	6 to 10 years	> 10 years
Contractual Obligations	\$ 10,168	\$ 2,229	\$ 598	-

The maturity profile of the Company's other financial liabilities (trade payables, other account payable and accrued expenses, and warrants) as of December 31, 2022, are less than one year.

Contractual Obligations	Payments Due by Period				
	Total	Less than one year	1 to 3 years	4 to 5 years	After 5 years
Debt	\$ 9,645	\$ 9,246	\$ 399	\$ -	\$ -
Finance Lease Obligations	\$ 3,350	\$ 922	\$ 1,110	\$ 720	\$ 598
Total Contractual Obligations	\$ 12,995	\$ 10,168	\$ 1,509	\$ 720	\$ 598

The Annual Financial Statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Annual Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Common Shares without par value 12,846,645 of which were issued and outstanding as at the date hereof. The Common Shares confer upon their holders the right to participate in the general meeting with each Common Share carrying the right to one vote on all matters. The Common Shares also allow holders to receive dividends if and when declared and to participate in the distribution of surplus assets in the case of liquidation of the Company.

OTHER SECURITIES

As of December 31, 2022, the Company also has the following outstanding securities which are convertible into, or exercisable or exchangeable for, voting or equity securities of the Company: 446,920 Options, 55,000 restricted share units and 38,491 2019 Broker Compensation Options (as defined below), 304,348 2021 Offered Warrants (as defined below).

FINANCIAL BACKGROUND

On October 11, 2019, the Company completed the Reverse Takeover Transaction, effected by way of a "triangular merger" between the Company, IMC Holdings and a wholly owned subsidiary of the Company pursuant to Israeli statutory law.

In connection with the Reverse Takeover Transaction, the Company completed a private placement offering of 19,460,527 subscription receipts (each a "**Subscription Receipt**") on a pre-2021 Share Consolidation basis (as defined below) of a wholly owned subsidiary of the Company at a price of \$1.05 per Subscription Receipt for aggregate gross proceeds of \$20,433. Upon completion of the Reverse Takeover Transaction, each Subscription Receipt was exchanged for one unit comprised of one (1) common share and one-half of one (1/2) warrant (each whole warrant, a "**2019 Listed Warrant**"). Each 2019 Listed Warrant was exercisable for one Common Share at an exercise price of \$1.30 until October 11, 2021. A total of 9,730,258 2019 Listed Warrants were issued and listed for trading on the CSE under the ticker "IMCC.WT". The 2019 Listed Warrants expired on October 11, 2021.

The Company also issued to the agent who acted on its behalf in connection with the Reverse Takeover Transaction, a total of 1,199,326 2019 Broker Compensation Options (the “**2019 Broker Compensation Options**”). Following the 2021 Share Consolidation, the 2019 Broker Compensation Options were adjusted to require four 2019 Broker Compensation Options to be exercised for one underlying unit at an adjusted exercise price of \$4.20, with each unit exercisable into one Common Share and one-half of one Common Share purchase warrant (the “**2019 Unlisted Warrants**”). Following the 2021 Share Consolidation, the 2019 Unlisted Warrants were adjusted to require four 2019 Unlisted Warrants to be exercised for one Common Share at an adjusted exercise price of \$5.20. The 2019 Broker Compensation Options and the 2019 Unlisted Warrants expired on August 2022.

On February 12, 2021, the Company consolidated all of its issued and outstanding Common Shares on the basis of one (1) post-consolidation Common Share for each four (4) pre-consolidation Common Shares (the “**2021 Share Consolidation**”) to meet the NASDAQ minimum share price requirement.

On November 17, 2022, the Company completed a second share consolidation (the “**2022 Share Consolidation**”) by consolidating all its issued and outstanding Common Shares on the basis of one (1) post-Consolidation Common Share for each ten (10) pre-Consolidation Common Shares.

On May 7, 2021, the Company completed an offering (the “**2021 Offering**”) for a total of 6,086,956 Common Shares and 3,043,478 Common Share purchase warrants (the “**2021 Offered Warrants**”). Following the 2022 Share Consolidation, the 2021 Offered Warrant were adjusted to require the (10) 2021 Offered Warrant to be exercised for one (1) Common Share at an adjusted exercise price of US\$72 for a term of 5 years from the date of closing of the 2021 Offering.

The Company also issued a total of 182,609 broker compensation options (the “**2021 Broker Compensation Options**”) to the agents who acted on its behalf in connection with the 2021 Offering. Following the 2022 Share Consolidation, the 2021 Broker Compensation Option were adjusted to require the (10) 2021 Broker Compensation Options for one (1) Common Share at an adjusted exercise price of US\$66.1, at any time following November 5, 2021 until November 5, 2024. There are 182,609 2021 Broker Compensation Options outstanding.

For the year ended December 31, 2022 and 2021, the Company recognized a revaluation gain (loss) of \$nil and \$15,928, respectively. For the three months ended December 31, 2022 and 2021, the Company recognized a revaluation gain (loss) of \$nil and \$72 in the consolidated statement of profit or loss and other comprehensive income, in which the unrealized gain is included in finance income (expense).

As of December 31, 2022, and 2021, there were 304,348 and 304,348 2021 Offered Warrants outstanding, respectively, re-measured by the Company, using the Black-Scholes pricing model, in the amount of \$8 and \$6,022, respectively. For the year ended December 31, 2022, and 2021, the Company recognized a revaluation gain (loss) in the consolidated statement of profit or loss and other comprehensive income, of \$6,015 and (\$5,810), in which the unrealized gain is included in finance income (expense). For the three months ended December 31, 2022, and 2021, the Company recognized a revaluation gain (loss) in the consolidated statement of profit or loss and other comprehensive income, of \$109 and (\$428), in which the unrealized gain is included in finance income (expense).

OPERATING, FINANCING AND INVESTING ACTIVITIES

The following table highlights the Company's cash flow activities from continuing operations for the twelve and three months ended December 31, 2022 and 2021:

	For the year ended December 31,		For the three months ended December 31,	
	2022	2021	2022	2021
Net cash provided by (used in):				
Operating activities	\$ (12,340)	\$ (23,751)	\$ (2,317)	\$ 7,513
Investing activities	\$ (793)	\$ (7,578)	\$ (580)	\$ (6,131)
Financing activities	\$ 6,612	\$ 33,867	\$ 2,668	\$ (940)
Effect of foreign exchange	\$ (2,168)	\$ (329)	\$ (950)	\$ (3,687)
Increase (Decrease) in cash	\$ (8,689)	\$ 2,209	\$ (1,179)	\$ (3,245)

Operating activities from continuing operations used cash of \$12,340 and \$23,751 for the year ended December 31, 2022, and 2021, respectively. For the three months ended December 31, 2022, and 2021, operating activities from continuing operation (used) provided cash of (\$2,317) and \$7,513, respectively. This variance is primarily due to increase in the business activities of the Company including corporate expenses for salaries, professional fees and marketing expenses in Israel and, Germany and related to the corporate activities in Canada.

Investing activities from continuing operations used cash of \$793 and \$7,578 for the year ended December 31, 2022, and 2021, respectively. For the three months ended December 31, 2022, and 2021, investing activities from continuing operation used cash of \$580 and \$6,131, respectively. Decrease derived mainly from seize of acquisitions of businesses in 2022 as well as reduction in Capital expenditures following the closing of the facilities in Israel and Canada.

Financing activities from continuing operations provided cash of \$6,612 and \$33,867 for the year ended December 31, 2022, and 2021, respectively. For the three months ended December 31, 2022, and 2021, financing activities provided (used) cash of \$2,668 and \$(940), respectively. During the year ended December 31, 2022, most of the cash was derived from receipt of loans in the amount of \$2,510 as well as from the first tranche of the financing in the amount of approximately \$2,900 (USD\$2,444), offset by payment of lease in the amount of \$2,337.

SELECTED ANNUAL INFORMATION – CONTINUING OPERATIONS

For the year ended	December 31, 2022	December 31, 2021	December 31, 2020
Revenues	\$ 54,335	\$ 34,053	\$ 15,890
Net Loss	\$ (24,922)	\$ (664)	\$ (28,734)
Basic net income (Loss) per share:	\$ (3.13)	\$ 0.02	\$ (1.86)
Diluted net income (Loss) per share:	\$ (3.81)	\$ (3.62)	\$ (1.86)
Total assets	\$ 60,676	\$ 129,066	\$ 38,116
Total non-current liabilities	\$ 3,060	\$ 21,354	\$ 19,237

SUMMARY OF QUARTERLY RESULTS

For the three months ended	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Revenues	\$ 14,461	\$ 14,170	\$ 12,703	\$ 13,001
Net Loss	\$ (9,650)	\$ (4,532)	\$ (3,736)	\$ (7,081)
Basic net income (Loss) per share:	\$ (1.32)	\$ (0.06)	\$ (0.27)	\$ (0.14)
Diluted net loss per share:	\$ (1.28)	\$ (0.06)	\$ (0.30)	\$ (0.17)
For the three months ended	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Revenues	\$ 9,912	\$ 8,040	\$ 8,591	\$ 7,511
Net income (Loss)	\$ (8,363)	\$ 828	\$ 1,332	\$ 5,536
Basic net income (Loss) per share:	\$ (0.19)	\$ (0.06)	\$ (0.10)	\$ (0.11)
Diluted net income (Loss) per share:	\$ (0.19)	\$ (0.06)	\$ (0.22)	\$ (0.06)

The Company has consistently increased its revenues on a quarterly basis as a result of the Group's acquisition strategy and its organic growth. While revenues increased, net income (loss) from continuing operations was effected by the Company's rapid growth which included acquisitions fees, integration costs, costs related to the Company's listing and offerings and cost of restructurings.

METRICS AND NON-IFRS FINANCIAL MEASURES

This MD&A makes reference to "Gross Margin", "EBITDA", and "Adjusted EBITDA". These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should neither be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

Management defines Gross Margin as the difference between revenue and cost of goods sold divided by revenue (expressed as a percentage), prior to the effect of a fair value adjustment for inventory and biological assets. Management defines EBITDA as income earned or lost from operations, as reported, before interest, tax, depreciation and amortization. Adjusted EBITDA is defined as EBITDA, adjusted by removing other non-recurring or non-cash items, including the unrealized change in fair value of biological assets, realized fair value adjustments on inventory sold in the period, share-based compensation expenses, and revaluation adjustments of financial assets and liabilities measured on a fair value basis. Management believes that Adjusted EBITDA is a useful financial metric to assess its operating performance on a cash adjusted basis before the impact of non-recurring or non-cash items. The closest IFRS metric to EBITDA and Adjusted EBITDA is "operating loss".

The non-IFRS financial measures can provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. These financial measures are metrics that have been adjusted from the IFRS statements in an effort to provide readers with a normalized metric in making comparisons more meaningful across the cannabis industry. However, other companies in our industry may calculate this measure differently, limiting their usefulness as comparative measures.

Our management also uses these non-IFRS financial measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. As required by Canadian securities laws, we reconcile these non-IFRS financial measures to the most comparable IFRS measures.

GROSS MARGIN

Year ended	December 31, 2022	December 31, 2021
Net Revenue	\$ 54,335	\$ 34,053
Cost of sales	\$ 43,044	\$ 25,458
Gross profit before FV adjustments	\$ 11,291	\$ 8,595
Gross margin before FV adjustments (Non-IFRS)	21%	25%

Three months ended	December 31, 2022	December 31, 2021
Net Revenue	\$ 14,461	\$ 9,912
Cost of sales	\$ 11,670	\$ 8,832
Gross profit before FV adjustments	\$ 2,791	\$ 1,080
Gross margin before FV adjustments (Non-IFRS)	19%	11%

EBITDA AND ADJUSTED EBITDA FROM CONTINUING OPERATIONS

	For the year ended December 31,		For the three months ended December 31,	
	2022	2021	2022	2021
Operating Loss	\$ (30,791)	\$ (23,035)	\$ (10,709)	\$ (8,741)
Add: Depreciation & Amortization	\$ 2,815	\$ 2,125	\$ 873	\$ 1,022
EBITDA (Non-IFRS)	\$ (27,976)	\$ (20,910)	\$ (9,836)	\$ (7,719)
Add: IFRS Biological assets fair value adjustments, net ⁽¹⁾	\$ 2,129	\$ 1,448	\$ 188	\$ (638)
Add: Share-based payments	\$ 2,637	\$ 3,305	\$ 428	\$ (650)
Add: Costs related to the NASDAQ listing ⁽²⁾	\$ -	\$ 1,261	\$ -	\$ -
Add: Restructuring cost ⁽³⁾	\$ 4,383	\$ -	\$ -	\$ -
Add: Other non-recurring costs ⁽⁴⁾	\$ 7,336	\$ 570	\$ 7,336	\$ -
Adjusted EBITDA (Non-IFRS)	\$ (11,491)	\$ (14,326)	\$ (1,884)	\$ (9,007)

Notes:

1. Losses from unrealized changes in fair value of biological assets and realized fair value adjustments on inventory. See “Cost of Revenues” section of the MD&A.
2. Non-recurring professional services associated with the Company’s listing on the Nasdaq.
3. Costs attributable to the Israel Restructuring and closure of Sde Averaham Farm.
4. Mainly fair value adjustment of the Company’s purchase option to acquire a pharmacy. See “Subsequent Events – Panaxia Transaction Update” of the MD&A.

The Company’s Adjusted EBITDA loss for the year ended December 31, 2022, was reduced, and improved primarily due to improved performance of the Company’s general and administrative expenses such as insurance cost reduction, cost efficiencies from synergies and other corporate expenses reduction from continuing operations.

CONTINGENT LIABILITIES AND COMMITMENTS

RENTAL LIABILITIES

The table below summarizes the maturity profile of the Group’s lease liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2022:

	Less than one year	1 to 5 years	6 to 10 years	>10 years
Lease liabilities	\$ 922	\$ 1,830	\$ 598	-

December 31, 2021:

	Less than one year	1 to 5 years	6 to 10 years	>10 years
Lease liabilities	\$ 21,683	\$ 12,236	\$ 15,379	-

The maturity profile of the Company’s other financial liabilities with liquidity risk (trade payables, other account payable and accrued expenses) as of December 31, 2022 and 2021, are less than one year.

LITIGATION AND REGULATORY PROCEEDINGS

CLASS ACTION T.Z. 35676-08-19 TEL AVIV - JAFFA DISTRICT COURTS

On August 19, 2019, a cannabis consumer (the “**Applicant**”) filed a motion for approval of a class action to Tel Aviv - Jaffa District Court (the “**Motion**”) against 17 companies (the “**Parties**”) operating in the field of medical cannabis in Israel, including Focus. The Applicant’s argument is that the Parties did not accurately mark the concentration of active ingredients in their products. The personal suit sum for each class member stands at NIS 15,585 and the total amount of the class action suit is estimated at NIS 685,740,000. On June 2, 2020, the Parties submitted their response to the Motion. The Parties argue in their response that the threshold conditions for approval of a class action were not met, since there is no reasonable possibility that the causes of action in the Motion will be decided in favor of the class group. On July 3, 2020, the Applicant submitted his response to the Parties’ response. On July 5, 2020, the Applicant was absent from the hearing. As a result, on July 23, 2020, the Parties filed an application for a ruling of expenses which received a response from the Applicant on August 12, 2020, asking to decline this request. On September 29, 2020, the court ruled that the Applicant would pay the Parties’ expenses amount of NIS 750. On July 14, 2021, a prehearing was held. The court recommended the parties negotiate independently to avoid litigation, and if negotiations fail, then to begin mediation proceedings. The parties agreed to follow the court’s recommendations. On November 3, 2021, the court ruled the Parties will file an update regarding the mediation procedure in 30 days. The parties conducted unsuccessful negotiations. On March 14, 2022, the Applicant filed a request to amend the Motion (the “**Applicant’s Request for Amendment**”) and the judge disqualified herself from hearing the case. As a result, the case was redirected. On June 21, 2022, the Parties filed a response to the Applicant’s Request for Amendment. On September 12, 2022, the court ruled on the Applicant’s Request for Amendment and accepted the Applicant’s request to clarify its claims regarding product labeling, while rejecting the Applicant’s other requests. On November 27, 2023, the Applicant submitted an amended application for approval of the motion, and the Parties’ response was submitted on February 8, 2023. The date of the preliminary hearing is set for April 27, 2023.

Due to the current preliminary state of the litigation process and based on the opinion of legal counsel to Focus, the Company’s management believes that it is not reasonably possible to assess the outcome of the proceeding.

PLANNING AND CONSTRUCTION 66813-06-21 BEER SHEVA MAGISTRATE COURT

On July 11, 2021, the Company was informed that on June 30, 2021, a claim was filed to Beer Sheva Magistrate Court, by the municipal committee presiding over planning and construction in southern Israel against Focus, Focus’ directors and officers, including Oren Shuster and Rafael Gabay, and certain landowners, claiming for inadequate permitting for construction relating to the Focus Facility (the “**Construction Proceedings**”).

On December 6, 2021 the defendants filed a motion request for dismissal the indictment on the ground of defense of justice. The municipal committee filed its response and after that the defendants filed a response to the municipal committee’s response. As of the date of this letter no decision has yet been made on the application.

A hearing was initially set to December 1, 2021, but postponed several times in order to allow the parties to negotiate towards a resolution. The hearing is set June 22, 2023. A draft agreement between the parties sent by the defendant to the municipal committee in order for it to be sent to the state attorney's office for their comments, which once obtained, will be filed with the Court for its approval. The Court is not obligated to approve the agreement between the parties, if obtained.

At this stage, based on the opinion of Focus' legal counsel, Company management cannot assess the chances of the claim advancing or the potential outcome of the Construction Proceedings.

COVID-19 TEST KITS CLAIM, DISTRICT COURT OF STUTTGART

On November 19, 2021, Adjupharm filed a statement of claim (the "**Claim**") to the District Court of Stuttgart (the "**Stuttgart Court**") against Stroakmont & Atton Trading GmbH ("**Stroakmont & Atton**"), its shareholders and managing directors regarding a debt owed by Stroakmont & Atton to Adjupharm in an amount of approximately EUR 947,563 for COVID-19 test kits purchased by Stroakmont & Atton from Adjupharm in May 2021. The Claim was accepted on December 2, 2021. In January 2022, Stroakmont & Atton filed its statement of defence to the Stuttgart Court in which they essentially stated two main arguments for their defense:

1. that the contractual partner of the Company is not the defendant, Stroakmont & Atton is not the real purchaser rather a company named Uniclaro GmbH.
2. that the Company allegedly placed an order with Uniclaro GmbH for a total of 4.3 million Clongene COVID-19 tests, of which Uniclaro GmbH claims to have a payment claim against the Company for a partial delivery of 380,400 Clongene COVID-19 tests in the total amount of EUR 941,897.20. Uniclaro GmbH has assigned this alleged claim against the Company to Stroakmont & Atton Trading GmbH, and Stroakmont & Atton Trading GmbH has precautionary declared a set-off against the Company's claim.

On March 22, 2022, Adjupharm filed a response to Stroakmont & Atton's statement of defence and rejected both allegations with a variety of legal arguments and facts and also offered evidence to the contrary in the form of testimony from the witnesses in question.

The burden of proof for both allegations lie with the opponents and they offered evidences to the court in the form of testimony from certain witnesses. If the opponents succeed in proving both allegations to the court, the chances of winning the lawsuit will be considerably reduced. However, it will not be easy for the opponents to present evidence of these allegations.

On May 27, 2022, the conciliation hearing and main hearing were held. The Stuttgart Court ruled that the Company shall submit another writ by August 29, 2022. The Stuttgart Court also scheduled a pronouncement date for September 7, 2022, when the Stuttgart Court will enter a judgement or hold an evidentiary hearing with witnesses. Following the pronouncement date on September 7, 2022, an evidentiary hearing with witnesses was held on two occasions, January 11, 2023, where witnesses on behalf of Adjupharm testified, and on February 22, 2023, witnesses on behalf of Stroakmont & Atton testified.

The court provided the parties a deadline until March 24 2023, to evaluate the testimonies of the witnesses and to deliver to the court a summary of the factual and legal situation after the court hearings. The court will announce its decision for further proceedings or its judgment on April 5, 2023.

At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

On December 22, 2022, Uniclaro GmbH filed a statement of claim against Adjupharm with the district court in Hamburg. According to the statement of claim, Uniclaro GmbH is (“**Uniclaro**”) claiming the purchase price for 300,000 Covid-19 rapid tests in the total amount of EUR 1,046,010 (including VAT) in exchange for 300,000 Covid-19 rapid tests which Uniclaro has in its storage.

Uniclaro alleges in this lawsuit that Adjupharm placed an order for 4.3 million Covid-19 rapid tests of the brand "Clongene". Furthermore, Uniclaro claims that the order was placed verbally on 23.03.2021 and that Adjupharm has already paid for a portion of these tests and received them, but not yet the entire 4.3 million tests. They reserve the right to extend the lawsuit for the remaining amount (which they did not specify).

According to Uniclaro's statement of claim the lawsuit does not concern the same purchase price and the same Covid-19 rapid tests as in the Stroakmont & Atton Claim mentioned above. On 23 February 2023, the Company provided its statement of defense to the court. The statement of defense contains similar arguments to reject the allegations in this respect as in the court proceedings in Stuttgart about the counterclaims. As a next step, Uniclaro is allowed to respond to the Company's statement of defense.

At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

INITIATION OF PROCEEDINGS FOR LOAN REPAYMENT

On April 4, 2022, MYM issued a Notice of Default and on April 20, 2022, issued a Notice of Intent to Enforce Security pursuant to section 22 of the *Bankruptcy and Insolvency Act* (Canada) for the outstanding Biome Loan in the amount of \$2.680, including accrued and unpaid interest, owing by the Obligors. MYM has applied to the Superior Court to appoint a receiver to take control of the Obligors' assets, including MYM's security that is held in escrow, to effect repayment of the Biome Loan.

On May 12, 2022, the Company applied to and received from the Superior Court an interim order to, among other things, freeze the assets of the Obligors including the assets which comprise MYM's Collateral for the Biome Loan. MYM has applied to the Superior Court, which granted MYM's request for the receivership of the assets of the Obligors and has scheduled an in-person hearing for the receivership application on September 12, 2022.

In September 2022, MYM and the Obligors reached an agreement and signed the Biome Term Sheet on September 9, 2022, prior to the September 12, 2022, in-person receivership application hearing with the Superior Court. The Superior Court approved the adjournment of the receivership application, pending the implementation of the settlement outlined in the Biome Term Sheet, pursuant to which, the Biome Loan will continue to bear interest at a rate of 8% per annum on the principal balance of the Biome Loan, compounding every four months on the aggregate balance of the outstanding “Indebtedness”. The Biome Loan matures December 9, 2023, unless extended through mutual agreement by both parties.

Based on the Biome Term Sheet, the Obligors are required to make a payment to MYM on December 31, 2022. The value of the payment on December 31, 2022, will depend on the VWAP of the Company's common shares during the final ten trading days of November 2022. The repayment will be 5% or 10% of the total Indebtedness, depending on the VWAP over that period of time.

On October 4, 2022, the Biome Settlement Agreement was executed in line with the terms noted in the Biome Term Sheet.

The Obligors did not make payment to MYM on December 31, 2022, as required under the Biome Settlement Agreement and the parties are discussing modifications to the Settlement Agreement.

As mentioned above in detail, MYM as part of the Trichome Group is under CCAA Proceedings and its operation is governed by the appointed Monitor.

PROCEEDINGS UNDER CCAA

See “*Corporate Highlights and Events – Key Highlights for the quarter and year ended December 31, 2022*” for a summary of the CCAA Proceedings.

Court materials filed in connection with Trichome's CCAA Proceedings can be found at <https://www.ksvadvisory.com/insolvency-cases/case/trichome>.

OFF-BALANCE SHEET ARRANGEMENTS

IM Cannabis had no off-balance sheet arrangements as of December 31, 2022.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties mainly includes compensation for management services and bonus in the ordinary course of business and short-term lease payments.

- Under the Focus Agreement (as defined below), IMC Holdings retains an option with Messrs. Shuster and Gabay to re-acquire the sold interest in Focus Medical at its sole discretion and in accordance with Israeli cannabis regulations. See “*Legal and Regulatory – Restructuring*” section of the MD&A.
- The Company is a party to Indemnification Agreement with certain directors and officers of the Company and Trichome to cover certain tax liabilities, interest and penalties arising from the Trichome Transaction. See “*Risk Factors - Tax Remittance*” section of the MD&A.
- On August 5, 2022, the Company sold the wholly owned subsidiary of TJAC, Sublime, to a group of purchasers that included current and former members of the Sublime management team for aggregate proceeds of \$100 less working capital adjustments, for a final net purchase price of \$89. The transaction constituted a “related party transaction” within the meaning of Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”), however pursuant to Sections 5.5(a) and 5.7(1)(a) of MI 61-101, the transaction is exempt from the formal valuation and minority shareholder approval requirements of such instrument.

- The Stalking Horse Purchase Agreement constituted a related party transaction as L5 is an entity controlled by Marc Lustig, who is a director of Trichome and the Executive Chairman of the Board of the Company. On March 8, 2023, the Company announced that the SISP approved by the Ontario Superior Court of Justice (Commercial List) did not result in any bids for the going-concern business of Trichome Group. In addition, L5, controlled by Marc Lustig, advised that it would not complete the proposed transaction contemplated by the Stalking Horse Share Purchase Agreement.
- On August 24, 2022, the Company announced that it closed the first tranche of the 2022 Private Placement and on October 5, 2022 announced that it closed the second tranche of the 2022 Private Placement. Insiders of the Company, led by the CEO and Director, and CFO, subscribed for 156,349 Common Shares for aggregate proceeds of US\$782 in the first tranche of the 2022 Private Placement, and Executive Chairman and Director of the Company, subscribed for 111,250 Common Shares for aggregate proceeds of US\$556 in the second tranche of the 2022 Private Placement. As a result of the participation by the Insiders, the 2022 Private Placement was considered a “related party transaction” pursuant to MI 61-101. The Company relied on Sections 5.5(a) and 5.7(1)(a) of MI 61-101 for exemptions from the requirements to obtain a formal valuation and minority shareholder approval, respectively, because the fair market value of the Insiders’ participation in the 2022 Private Placement was below 25% of the Company’s market capitalization for purposes of MI 61-101.
- On January 16, 2023, the Company announced the closing of the first tranche of the Concurrent Offering comprised of an aggregate of 1,159,999 Units for aggregate gross proceeds of US\$1,500. The Units under the first tranche of the Concurrent Offering were issued and sold to insiders of the Company, including CEO and a director of the Company.
- On January 20, 2023, the Company closed the second tranche of the LIFE Offering comprised of 102,152 Units for an aggregate subscription price of approximately US\$128. The second tranche of the LIFE Offering was comprised of a single subscription by a non-independent director of the Company whose subscription price was satisfied by the settlement of approximately US\$128 in debt owed by the Company to the non-independent director for certain consulting services previously rendered to the Company.
- On February 16, 2023, the Company closed the fifth and final tranche of the LIFE Offering. A non-independent director of the Company subscribed for 29,548 Units in the fifth tranche at an aggregate subscription price of US\$36,935. The non-independent director’s subscription price was satisfied by the settlement of US\$37 in debt owed by the Company to the director for certain consulting services previously rendered by the director to the Company.

The participation by Company’s insiders in each of the Concurrent Offering and the LIFE Offering constituted “related party transactions” pursuant to MI 61-101. The Company relied on Sections 5.5(a) and 5.7(1)(a) of MI 61-101 for exemptions from the requirements to obtain a formal valuation and minority shareholder approval, respectively, because the fair market value of the insiders’ participation in the Concurrent Offering and the LIFE Offering, as applicable, was below 25% of the Company’s market capitalization for the purposes of MI 61-101.

Other than the aforesaid transactions noted above, the Company had no other transactions with related parties outside of the Group except those pertaining to transactions with key management personnel and shareholders in the ordinary course of their employment or directorship. Transactions with related parties for the sale of Focus Medical due to the restructuring process were adjusted in the Company’s consolidated financial statements following the application of IFRS 10. See the “*Legal and Regulatory – Restructuring*” section of the MD&A.

PROPOSED TRANSACTIONS

There are no proposed transactions as at the date of this MD&A that have not been disclosed.

CRITICAL ACCOUNTING ESTIMATES

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

JUDGMENTS

Determining the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

Discount rate for a lease liability

When the Group is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Group uses an incremental borrowing rate. That rate represents the rate of interest that the Group would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Group determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. In certain situations, the Group is assisted by an external valuation expert in determining the incremental borrowing rate.

ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

ASSESSMENT OF GOING CONCERN

The use of the going concern basis of preparation of the financial statements. At each reporting period, management assesses the basis of preparation of the financial statements. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Group's current operating budget includes various assumptions concerning the level and timing of cash receipts from sales and cash outlays for operating expenses and capital expenditures, including cost saving plans and restructuring actions taken in 2022. The Company's board of directors approved a cost saving plan, implemented in whole or in part, to allow the Company to continue its operations and meet its cash obligations. The cost saving plan consists of cost reduction due to efficiencies and synergies, which include mainly the following steps: discontinuing operation of loss-making activities, reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

BIOLOGICAL ASSETS AND INVENTORY

In calculating the value of the biological assets and inventory, management is required to make several estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Group must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

BUSINESS COMBINATIONS

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND FINITE LIFE INTANGIBLE ASSETS

The Company assesses impairment of property, plant and equipment and finite life intangible assets when an impairment indicator arises (e.g., change in use or discontinued use, obsolescence or physical damage). When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the cash generating unit ("CGU") level. In assessing impairment, the Company compares the carrying amount of the asset or CGU to the recoverable amount, which is determined as the higher of the asset or CGU's fair value less costs of disposal and its value-in-use. Value-in-use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects applicable market and economic conditions, the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset or CGU exceeds its recoverable amount and is recorded in the consolidated statements of comprehensive loss.

IMPAIRMENT OF INTANGIBLE ASSETS WITH INDEFINITE LIFE AND GOODWILL

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested whenever there is an indication of impairment. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGUs for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amounts of the CGUs' assets have been determined based on either fair value less costs of disposal or value-in-use method. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the assets of the CGU on a pro rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior period. Impairment losses on goodwill are not subsequently reversed.

LEGAL CLAIMS

In estimating the likelihood of legal claims filed against the Group entities, the Group management rely on the opinion of its legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims may be determined in courts, the results could differ from these estimates.

DEFERRED TAX ASSETS

Deferred tax assets are recognized for unused carry forward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

VALUATION OF LOANS RECEIVABLE

For loans receivable measured at amortized cost or at Fair Value Through Profit or Loss ("FVTPL") under IFRS 9 *Financial Instruments* ("IFRS 9"), judgment is used by the Company in determining the fair value of the loan at inception of the lending arrangement and at each reporting period. The fair value of the loan at any given point in time is calculated based on the present value of estimated future loan payments, discounted using an interest rate that would be charged by another market participant for a financing arrangement with similar characteristics. Judgment is used by the Company in determining what the interest rate would be for sourcing a similar financing arrangement in the market. This can lead to material fair value gains or losses on loans held at FVTPL.

LOSS OF CONTROL OF SUBSIDIARY

On November 7, 2022, Trichome filed a petition with the Superior Court for CCAA Proceedings in order to restructure its business and financial affairs. See “*Corporate Highlights and Events – Key Highlights for the quarter and year ended December 31, 2022*” for a summary of the CCAA Proceedings.

Management applied judgement in assessing whether this event represented a loss of control of Trichome. On filing of CCAA, which included the a request for an order to approve a sale and investment solicitation process and to approve a stalking horse agreement of purchase and sale, management concluded that the Company ceased to have the power to direct the relevant activity of Trichome because substantive rights were granted to other parties through the CCAA Proceedings that restricted the decision making ability of the Company to the extent that the Company was unable to demonstrate power over Trichome. As a result, the Company accounted for a loss in control and Trichome was deconsolidated on November 17, 2022.

DERECOGNITION AND MODIFICATION OF LOANS RECEIVABLE

The Company uses its judgment in determining whether the change in the terms of the lending arrangement qualifies as a derecognition of the loan or a modification of the loan under IFRS 9. Depending on the Company’s judgment, the manner in which the loan is treated, be it a modification or a settlement, can result in materially different results in interest revenue or other income. If there is a modification in a lending arrangement subsequent to initial recognition, the Company also reassesses the need to modify the expected credit loss associated with the loan.

SHARE-BASED PAYMENTS

The Company uses the Black-Scholes option pricing model in determining the fair value of Options issued to employees. In estimating fair value, the Company is required to make certain assumptions and estimates such as the expected life of the options, volatility of the Company’s future share price, the risk-free rate, future dividend yields and estimated forfeiture rates at the initial grant date.

ESTIMATED USEFUL LIVES AND DEPRECIATION/AMORTIZATION OF PROPERTY AND EQUIPMENT, AS WELL AS INTANGIBLE ASSETS

Depreciation and amortization of property and equipment, as well as intangible assets, are dependent upon estimated useful lives which are determined through the exercise of judgment. Estimated useful lives are assessed at the end of each reporting period for any changes in the expected life of the asset and consumption of economic benefits from the use of the asset. Amortization as well as depreciation commences when the asset is first put into use. The expected life of any intangible assets with a finite life are assessed at the end of each reporting period.

LEASES

Judgment is used in determining the value of the Company’s right-of-use assets and lease liabilities. The value determined for the Company’s right-of-use assets and lease liabilities can be materially different based on the discount rate selected to present value the future lease payments as well as the likelihood of the Company exercising extensions, termination, and/or purchase options. The discount rate used to present value the future lease payments over the life of the lease is based on the Company’s incremental borrowing rate at inception of the lease. This rate is determined by the Company using judgment.

In determining the value of the Company's right-of-use assets and lease liabilities, the Company assesses future business plans to determine whether to include certain extension options noted in the lease agreement.

If there is no interest rate implicit in the lease agreement, the Company uses a discount rate that would be charged to a similar borrower, with similar risk characteristics, in a mortgage loan to purchase the leased facility. This discount rate is used to present value the future lease payments in determining the right-of-use asset and lease liability values at inception of the leases.

DETERMINING THE FAIR VALUE OF AN UNQUOTED FINANCIAL ASSETS AND LIABILITIES

The fair value of unquoted financial assets in Level 3 of the fair value hierarchy is determined using valuation techniques, generally using future cash flows discounted at current rates applicable for items with similar terms and risk characteristics. changes in estimated future cash flows and estimated discount rates, after consideration of risks such as liquidity risk, credit risk and volatility, are liable to affect the fair value of these assets.

REVENUE RECOGNITION

Under IFRS 15 Revenue from Contracts with Customers, judgment is required in recognizing revenue when variable consideration is present in a contract. In certain supply agreements, the Company stands ready to accept returns on cannabis sales, indicating the possibility of variable consideration.

Judgment is used by the Company in determining which of the above two methods of revenue recognition should be used when recognizing revenue from cannabis sales. Moreover, estimates are used by the Company in determining the amount of revenue to recognize upon delivery and acceptance of cannabis inventory to a customer.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company's significant accounting policies under IFRS are contained in the Annual Financial Statements (refer to Note 2 to the Annual Financial Statements). Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments, estimates and assumptions about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The following new accounting standards applied or adopted during the twelve months ended December 31, 2021, had impact on the Annual Financial Statements:

a. Amendment to IAS 1, "Presentation of Financial Statements":

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" regarding the criteria for determining the classification of liabilities as current or non-current (the "Original Amendment"). In October 2022, the IASB issued a subsequent amendment (the "Subsequent Amendment").

According to the Subsequent Amendment:

- Only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- An entity should provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months from the reporting date. This disclosure is required to include information about the covenants and the related liabilities. The disclosures must include information about the nature of the future covenants and when compliance is applicable, as well as the carrying amount of the related liabilities. The purpose of this information is to allow users to understand the nature of the future covenants and to assess the risk that a liability classified as non-current could become repayable within twelve months. Furthermore, if facts and circumstances indicate that an entity may have difficulty in complying with such covenants, those facts and circumstances should be disclosed.

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument. The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024 and must be applied retrospectively. Early application is permitted. The Company is evaluating the effects of the Amendments on its financial statements.

b. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" (the "Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

c. Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 (the "Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the initial application of the Amendment is not expected to have a material impact on its financial statements.

d. Amendment to IAS 1, "Disclosure of Accounting Policies":

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" (the "Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is applicable for annual periods beginning on or after January 1, 2023. Early application is permitted.

FINANCIAL INSTRUMENTS

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine fair value of each financial instrument.

Financial Instruments Measured at Fair Value	Fair Value Method
Derivative assets ¹	Black & Scholes model (Level 3 category)
Warrants liability ¹	Black & Scholes model (Level 3 category)
Investment in affiliates	Market comparable (Level 3 category)
Financial Instruments Measured at Amortized Cost	
Cash and cash equivalents, trade receivables and other account receivables	Carrying amount (approximates fair value due to short-term nature)
Loans receivable	Amortized cost (effective interest method)
Trade payables, other accounts payable and accrued expenses	Carrying amount (approximates fair value due to short-term nature)

Note:

1. Finance expense (income) include fair value adjustment of warrants, investments, and derivative assets measured at fair value, for the twelve months ended December 31, 2022 and 2021, amounted to \$6,001 and \$21,638, respectively.

The Group's exposure to risk for its use of financial instruments are discussed in the Risk Factors.

PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (“**NI 52-109**”) and Rule 13a-15 under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), the establishment and maintenance of the Company’s disclosure controls and procedures (“**DC&P**”) and internal control over financial reporting (“**ICFR**”) is the responsibility of management.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management or the Board; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial instruments.

NI 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining DC&P and ICFR for the Company and have concluded that as at December 31, 2022, those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The Company maintains a set of DC&P designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. As required by NI 52-109 and Exchange Act Rule 13a-15(b), an evaluation of the design and operation of our DC&P was completed as of December 31, 2022 under the supervision and with the participation of management, including our CEO and CFO using the criteria set forth in the Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, our CEO and CFO concluded that as at December 31, 2022, the Company’s DC&P and ICFR were effective.

There have been no changes to the Company’s ICFR during the twelve months ended December 31, 2022 that have materially affected, or are likely to materially affect, the Company’s ICFR.

LIMITATIONS OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company’s management, including the CEO and CFO, believe that due to inherent limitations, any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that any design will not succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Additionally, management is required to use judgment in evaluating controls and procedures.

LIMITATION ON SCOPE OF DESIGN

In accordance with Section 3.3 of National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings (“**NI 52-109**”), the Company has limited the design of its DC&P and ICFR to exclude the controls, policies and procedures of Oranim Plus (the “**Excluded Entity**”), acquired by the Company or by one of its subsidiaries within 365 days of the end of the period ended December 31, 2022.

As of December 31, 2022, the Company has implemented its DC&P AND ICFR in all of its subsidiaries.

LEGAL AND REGULATORY

RESTRUCTURING

Current Israeli law requires prior approval by the IMCA, a unit of the MOH, of the identity of any shareholder owning 5% or more of an Israeli company licensed by the IMCA to engage in cannabis-related activities in Israel. For a number of reasons, including the opportunity to leverage a network of multiple Israeli licensed producers cultivating under the IMC brand, and in contemplation of a “go-public transaction” to geographically diversify the Company’s share ownership, IMC Holdings restructured its organization on April 2, 2019 (the “**IMC Restructuring**”) resulting in the divestiture to Oren Shuster and Rafael Gabay of its interest in Focus, which is licensed by the IMCA to engage in cannabis-related activity in Israel.

IMC Holdings retains an option with Messrs. Shuster and Gabay to re-acquire the sold interest in Focus Medical at its sole discretion and in accordance with Israeli cannabis regulations, within 10 years of the date of the IMC Restructuring (the “**Focus Agreement**”). The Focus Agreement sets an aggregate exercise price equal to NIS 765.67 per share of Focus Medical for a total consideration of NIS 2,756,500, that being equal to the price paid by Messrs. Shuster and Gabay for the acquired interests in Focus Medical at the time of the IMC Restructuring.

As part of the IMC Restructuring, on April 2, 2019, IMC Holdings and Focus Medical entered into an agreement, as amended on January 1, 2021 (the “**IP Agreement**”), which provides for Focus Medical’s obligation to use the IMC brand for the sale of any cannabis plant and/or cannabis product produced by Focus, either alone or together with other sub-contractors engaged by Focus Medical through the IP Agreement.

Focus Medical is also obligated through a services agreement, as amended on January 1, 2021, (the “**Services Agreement**”) to use IMC Holdings for certain management and consulting services including: (a) business development services; (b) marketing services; (c) strategic advisory services; (d) locating potential collaborations on a worldwide basis; and (e) financial analysis services through the Services Agreement.

Under the IP Agreement, the parties apply an arm’s length royalty as a percentage of the licensees’ net revenues, on a quarterly basis in accordance with a transfer pricing analysis to be updated from time to time, as consideration for Focus’ use of IMC Holdings’ intellectual property.

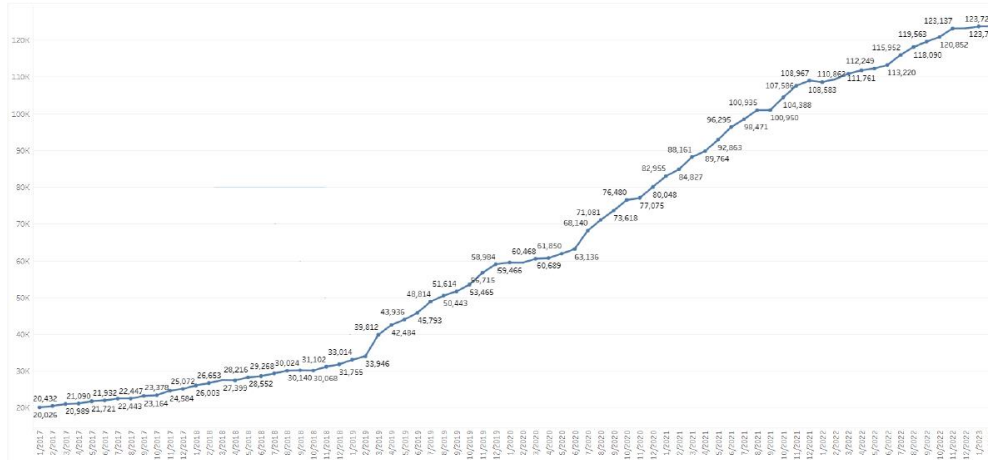
Under the Services Agreement, the Parties apply an arm's length markup on total costs, on a quarterly basis, in accordance with a transfer pricing analysis to be updated from time to time, as consideration for the provision of such services.

Subsequent to the IMC Restructuring, according to accounting criteria in IFRS 10, the Company is viewed as effectively exercising control over Focus, and therefore, the financial statements of Focus Medical continue to be consolidated with those of the Company, despite the fact that the Company does not own Focus.

ISRAELI MARKET DEVELOPMENT 2013-2023

According to Israeli Ministry of Health, as of February 2023, there are 123,722 medical cannabis licensed patients in Israel. A monthly prescription of 4,773,000 grams of medical cannabis were recorded in February 2023 an increase of 720,000 grams of cannabis from December 2021.²

The chart below reflects the growth in licensed medical cannabis patients in Israel between January 2017 to February 2023³



REGULATORY FRAMEWORK IN ISRAEL

In Israel, cannabis is currently defined as a “dangerous drug” according to the Dangerous Drugs Ordinance⁴ (“DDO”) and the 1961 Single Convention on Narcotic Drugs (“Narcotics Convention”), to which Israel is a signatory. However, both the DDO and the Narcotics Convention allow for the use of cannabis for medical or research purposes under a supervised and controlled regime. The competent regulatory authority in Israel in all matters concerning the oversight, control and regulation of cannabis for medical production, consumption, and research in Israel is the IMCA, established by Government Res. No. 3069.⁵ The production, distribution and consumption of adult-use recreational cannabis products is currently illegal in Israel.

² Israel Ministry of Health – licensed patients’ data as of December 2022 https://www.gov.il/BlobFolder/reports/licenses-status-december-2022/he/subjects_cannabis_docs_licenses-status-december-2022.pdf

³ Ministry of Health – licensed patients’ data as of February 2023 - <https://www.gov.il/he/departments/publications/reports/licenses-status-february-2023>

⁴ Cannabis is listed in schedule 1 of the Dangerous Drugs Ordinance [New Version], 1973 [in English] https://www.health.gov.il/LegislationLibrary/Samim_01_EN.pdf

⁵ Israeli Government Res. No. 3609 [in Hebrew], August 7th, 2011 https://www.gov.il/he/departments/policies/2011_des3609

Patient Medical Consumption

The use of cannabis is allowed for patients and for medical purposes, in respect of certain medical conditions, under a special approval of the MOH. Procedure 106 of the IMCA sets out a list of medical conditions that are allowed to be treated with medical cannabis products. Such authorized medical conditions are examined and updated from time to time, and include, among others, cancer, pain, nausea, seizures, muscle spasms, epilepsy, Tourette syndrome, multiple sclerosis, amyotrophic lateral sclerosis, and post-traumatic stress disorder.

Licensing and Authorization for Commercial Activities in the Medical Cannabis Field

In December 2017, the IMCA issued regulations that standardized the licensing process for any cannabis related activity (the **Road Map**).⁷ Pursuant to the Road Map, each operation in the medical cannabis field, including the propagation, cultivation, products manufacturing, storage and distribution to licensed pharmacies, and distribution from licensed pharmacies to licensed patients, requires compliance with the provisions of applicable laws, including the procurement of an appropriate license under the DDO from the IMCA and the maintenance of such license in good standing. Cannabis licenses may not be transferred, exchanged or assigned without the prior approval of the IMCA. The licenses are valid for a period of up to 3 years and can be renewed with the approval of the IMCA only.

The IMCA has issued a set of directives containing procedures and requirements for applicants for cannabis related activity licenses and has authorized certain entities to issue official certificates upon compliance with such directives. These directives include (i) Directive 150 (GSP Standard certification); (ii) Directive 151 (GAP Standard certification); (iii) Directive 152 (GMP Standard certification); and (iv) Directive 153 (GDP Standard certification). Regular and periodic examinations are conducted for licensed entities, in order to ensure compliance with the analytical standards and the level of quality required during each of the phases of production and distribution of medical cannabis.

Medical Cannabis Imports and Exports

The Narcotics Convention governs the import and export of cannabis between member countries. Since Israel is a member country, any export and import of cannabis is subject to the Narcotic Convention.

In October 2020, the IMCA issued an updated procedure, titled "Guidelines for Approval of Applications for Importation of Dangerous Drug of Cannabis Type for Medical Use and for Research" ("**Procedure 109**"), describing the application requirements for cannabis import licenses for medical and research purposes. Therefore, each import of medical cannabis is to be approved by the IMCA issuing a specific import permit for each imported shipment, rather than a general license for import. An application for import of medical cannabis can be submitted by an entity licensed by the IMCA for the conduct of medical cannabis related activity. The Israeli government approved the export of pharmaceutical-grade cannabis and cannabis-based products on January 27, 2019,⁸ and in December 2020, the IMCA published guidelines for the medical cannabis export permit application process.⁹

⁶ Ministry of Health Pharmaceutical Division Policy Number 106 – Licenses for Use of Cannabis

https://www.health.gov.il/hozer/CN_106_2019.pdf (in Hebrew)

⁷ Directive 107 - Guidelines for the process of licensing the practice of cannabis for medical use, as amended on October 2020 [Hebrew] -

https://www.health.gov.il/hozer/CN_107_2019.pdf

⁸ Directive 4490 [Hebrew] - https://www.gov.il/he/departments/policies/dec4490_2019

⁹ Directive 110, December 2020 [Hebrew] - https://www.health.gov.il/hozer/CN_110.pdf

Legalization of Adult-Use Recreational Cannabis and CBD for Non-Medical Purposes in Israel

Currently, adult-use recreational cannabis use in Israel and CBD for non-medical use is illegal. In November 2020, an Israeli government committee responsible for advancing the cannabis market reform published a report supporting and recommending the legalization of adult-use recreational cannabis in Israel. The Israeli parliament dissolved since then without applying the committee's recommendations and all legislative initiatives were suspended. However, the new government, formed on June 13, 2021, declared, and settled in the coalition agreement, its commitment to legalization of adult-use recreational cannabis. Since the formation of the new government, several legislative initiatives were filed, including for the decriminalization of the possession of cannabis for individual recreational adult-use and the legalization of CBD for non-medical use. In February 2022, a Ministry of Health committee contemplated the legality of CBD and published its recommendation that CBD should be excluded from the DDO. The main recommendations of the committee were adopted by the Minister of Health, however, to date, the Minister has not enacted an order directing that CBD be removed from the DDO. On April 1, 2022, new regulations came into force which deemed the previously criminal offences of cannabis possession and use for self-consumption into administrative offences, which do not impact a criminal record, and limited the penalty to a monetary fine only.

Previous Regime and Price Control

Until September 2019, under the previous regime, patients licensed for consumption of medical cannabis products by the IMCA received all of their medical cannabis products authorized under their respective licenses at a fixed monthly price of NIS 370, regardless of each patient's authorized amount. Since September 2019, under the new regime, licenses to patients were no longer entitling them for such fixed monthly price. However, some medical cannabis patient licenses granted under the previous regime remain valid, entitling their holders to receive medical cannabis products pursuant to the price controls and supplier restrictions of the former regime. All licenses under the previous regime expired in Q1 2022.

Regulatory Reform from Licenses to Prescriptions for Medical Treatment of Cannabis

In August 2022, the MOH published a draft outline of the transition reform from licenses to prescriptions for medical treatment of cannabis (the **Proposed Outline**). The Proposed Outline will allow accessibility and significant bureaucratic relief for patients. The main changes proposed in the Proposed Outline are: (i) any specialized doctor can issue permits without the need for specialized training; (ii) the permits for the use of cannabis will be in the form of prescriptions, and not in the form of licenses from the MOH as the current framework requires; (iii) cannabis products can be sold in any pharmacy, and not only in pharmacies that have received a special permit from the IMCA and a license from the MOH. The final outline is subject to the approval of the MOH and the approval of the Knesset. Currently, the required approvals have not yet been received.

On March 10, 2017, the German federal government enacted bill Bundestag-Drucksache 18/8965 – Law amending narcotics and other regulations that amended existing narcotics legislation to recognize cannabis as a form of medicine and allow for the importation and domestic cultivation of medical cannabis products. Under the updated legislation, cannabis is listed in Annex 3 to the Federal Narcotics Act (“**BtMG**”) as a “marketable narcotic suitable for prescription”. Legalization in Germany applies only to cannabis for medicinal purposes under state control in accordance with the Narcotic Convention. Currently, the production, distribution, exportation and importation of medical cannabis products in Germany is legal, subject to regulations and licensing requirements, while operations involving adult-use recreational cannabis products remain illegal. Nevertheless, current German government has declared in the coalition agreement its intention to open up the German market also in the adult-use recreational market. In October 2022, a key points paper¹⁰ on the controlled supply of cannabis to adults for consumption purposes, although a restructuring of the existing regulatory framework on cannabis in general is also discussed, published by the cabinet, which is to be submitted to the European Union Commission for a preliminary legal examination. In this respect, the Federal Government intends to issue a declaration of interpretation with regard to existing international agreements governing the adult-use recreational cannabis usage, and to submit a draft law to the European Union Commission within the framework of a notification. A draft law is therefore only to be drafted and presented when the preliminary examination shows that the planned measures for controlled cannabis dispensing are legally implementable. According to Federal Government announcement, the draft law should be published by the end of the first quarter 2023.

Medical cannabis in Germany must comply with the corresponding monographs of the German and European pharmacopoeia. Currently, there are only (non-harmonised) national pharmacopoeial monographs for cannabis flowers (e.g. in the German Pharmacopoeia (Deutsches Arzneibuch (DAB)) and cannabis extracts (DAB) in the EU. The Committee on Herbal Medicinal Products (HMPC) as the European Medicines Agency’s (EMA) committee responsible for compiling and assessing scientific data on herbal substances, preparations and combinations, announced that in view of uniform EU quality requirements (including with respect to import and export of cannabis), three new European Pharmacopoeia (Ph. Eur.) Cannabis monographs that are in preparation and may be of importance in the future:

- Cannabi-s flos (3028),
- Cannabis extractum siccum (3068),
- Cannabis extractum spissum (3069).

All BtMG permit applications must specify the strains and estimated quantities of medical cannabis involved and any subsequent changes must be reported to the Federal Opium Agency of Germany.

Unlike cannabis, CBD is not subject to German narcotics laws, unless it is synthetic CBD that has been included as a substance that can be prescribed and marketed in Annex 3 of the BtMG, which may or may not be subject to German drug laws depending on its use and dosage. Annex 1 of the Ordinance on the Prescription of Medicinal Products stipulates that CBD is in principle subject to prescription but does not specify a minimum quantity or a specific dosage form. However, a distinction must be made between consumable products that naturally contain CBD and those that are infused with CBD extract; the European Commission considers the latter to be a type of “food” and has recently indicated that all current novel food applications have at least insufficient data on safety and therefore none of the applications can currently lead to approval. In light of the above, various products containing CBD can be found in the German market. There are currently various court decisions that problematize CBD in food (specifically food supplements) and in cosmetics (specifically: mouth oil). On the one hand, CBD is regarded as a medicinal substance and/or as a novel food subject to authorization and therefore unsuitable for use in a foodstuff, and on the other hand as unsuitable for cosmetic use in the mouth, as CBD would ultimately be consumed in this case (like a foodstuff).

¹⁰

https://www.bundesgesundheitsministerium.de/fileadmin/Dateien/3_Downloads/Gesetze_und_Verordnungen/GuV/C/Kabinettdvordl_Eckpunktepapier_Abgabe_Cannabis.pdf (in German language).

Cultivation in Germany and Distribution of Medical Cannabis Cultivated in Germany

The Federal Opium Agency of Germany's Federal Institute for Drugs and Medical Devices ("BfArM") formed a cannabis division (the "Cannabis Agency") to oversee cultivation, harvesting, processing, quality control, storage, packaging and distribution to wholesalers, pharmacists and manufacturers. The Cannabis Agency also regulates pricing of German-produced medical cannabis products and serves as an intermediary of medical cannabis product sales between manufacturers, wholesalers and pharmacies on a non-profit basis. In late 2018, the Cannabis Agency issued a call for tenders to award licenses for local medical cannabis cultivation and distribution of German-cultivated medical cannabis products (the "German Local Tender"). The Cannabis Agency would serve as an intermediary in the supply chain between such cultivation and distribution. In April 2019, three licenses for local cultivation were granted. In consequence three companies in Germany cultivate on behalf of the Cannabis Agency of the BfArM. Each license permitted the holder to grow up to 200kg per year for total production of 2,600kg per year collectively from the 13 cultivation lots and 10,400kg over the four-year license period. In July 2021, the BfArM launched the state sale of cannabis grown in Germany. Since then, pharmacies have been able to purchase medical cannabis in pharmaceutical drug quality for the supply of patients from the BfArM via the portal www.cannabisagentur.de. The sale from the BfArM to pharmacies is at a price of 4.30 euros per gram.

The Cannabis Agency has no influence on the actual retail price of medical cannabis products and is not responsible for the import of medical cannabis products and will therefore neither purchase nor distribute imported medical cannabis products. As a wholesaler, the Cannabis Agency sells German-based medical cannabis products in its own name.

Import volumes and procedures

The current regime permits the importation of cannabis plants and plant parts for medicinal purposes under state control subject to the requirements under the Narcotic Convention, according to which, Germany must estimate the expected demand of medical cannabis products for medical and research purposes for the following year and report such estimates to the International Narcotics Control Board.

As a prerequisite to obtaining a German import license, the supplier must grow and harvest in compliance with EU-GACP-Guidelines and manufacture in compliance with EU-GMP-Guidelines and certifications, or alternatively, it is a pure EU-GACP product and the EU-GMP manufacturing steps then take place in Germany. All medical cannabis products imported to Germany must derive from plant material cultivated in a country whose regulations comply with the Narcotic Convention and must comply with the relevant monographs described in the German and European pharmacopeias. While these requirements also apply to the exportation of medical cannabis products, the current German regime does not allow domestically cultivated medical cannabis products to be directly sold to commercial entities other than the Cannabis Agency.

Dispensing Exclusively via Pharmacies

Medical cannabis products imported pursuant to an import license under the BtMG and AMG/BtMG permits are sold exclusively to pharmacies for final dispensing to patients on a prescription basis as 'magistral preparations', a term used in Europe to refer to medical products prepared in a pharmacy in accordance with a medical prescription for an individual patient. Magistral preparations require certain manufacturing steps in the pharmacy. Such manufacturing steps of the pharmacist typically include the testing and dosing of pre-packaged cannabis inflorescences (typically referred to as "floss"), medical cannabis products for oral administration (dronabinol), medical cannabis products for inhalation upon evaporation, and medical cannabis-infused teas. In addition to magistral preparations, medical cannabis products are also marketable as pre-packaged, licensed drugs (e.g. Sativex®).

NO U.S. CANNABIS-RELATED ACTIVITIES

The Group does not engage in any U.S. cannabis-related activities as defined in Canadian Securities Administrators Staff Notice 51-352 (Revised) –*Issuers with U.S. Marijuana-Related Activities*.

RISK FACTORS

The Company has implemented risk management governance processes that are led by the Board, with the active participation of management, and updates its assessment of its business risks on an annual basis. Notwithstanding, it is possible that the Company may not be able to foresee all the risks that it may have to face. The market in which IM Cannabis currently competes is complex, competitive and changing rapidly, and its business is subject to risks inherent in a high growth, heavily regulated enterprise, and the Company has identified certain risks pertinent to the Group's business that may have affected or may affect the Group's business, financial conditions, results of operations and cash flows, as further described throughout this MD&A and under "Risk Factors" in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2022 available on the Company's profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov/edgar (the "**Annual Report**"). For additional risk factors, readers are directed to the Annual Report. Sometimes new risks emerge, and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in forward looking statements. Readers of this MD&A should not rely upon forward looking statements as a prediction of future results.

CREDIT RISK

The maximum credit exposure as of December 31, 2022, is the carrying amount of cash and cash equivalents, accounts receivable and other current assets. The Company does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major Israeli financial institutions.

Loan receivable credit risk is managed by each loan separately according to the Company's policy, procedures and control relating to the borrower's credit risk management. At the end of each period, the individual loan values are assessed based on a credit risk analysis. As of December 31, 2022, the Company had no outstanding loans receivables (2021: 2 loans with a total balance of approximately \$2.71 million related to deconsolidated operation).

The expected credit loss analysis is generally based on Management's understanding of the borrower's experience/integrity, financial health, business plans, capacity, products, customers, contracts, competitive advantages/disadvantages, and other pertinent factors when assessing credit risk. This would also include the assessment of the borrower's forecasts as well as taking into consideration any security and/or collateral the Company has on the outstanding balance.

As of December 31, 2021, the Company assessed the overall risk of the loan receivable balance and concluded that no expected credit loss under IFRS 9 was required.

LIQUIDITY RISK

The Company's liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As of December 31, 2022, the Company's financial liabilities with liquidity risk consist of trade payables and other accounts payable which have contractual maturity dates within one year, and lease liabilities. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company working capital position as of December 31, 2022, management considers liquidity risk to be moderate.

CURRENCY RATE RISK

As of December 31, 2022, a portion of the Company's financial assets and liabilities held in Euro, NIS and USD consist of cash and cash equivalents in the amount of EUR 30 thousand (approximately \$44), NIS 6,045 thousand (approximately \$2,328), USD 29 thousand (approximately \$39), respectively. The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in NIS. The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point of time.

SHARE PRICE RISK

The Company's investments in unlisted shares are sensitive to the market price risk arising from uncertainties about the future value of these investments. The Company manages the price risk through diversification and tight management attention.

The Board reviews and approves all decisions related to investments in shares.

At the reporting date, the Company's exposure to investments in unlisted shares measured at fair value was \$2,410.

INFLATION RISK

Global economies are currently experiencing elevated inflation which could curtail levels of economic activity, including in the Company's primary production markets. This inflation is predominantly driven by costs of goods as input costs continue to increase as a result of several external factors including but not limited to general uncertainties caused by the Ukraine war, global supply chain constraints and rising energy prices. As such, delivery and distribution costs, utility costs and other necessary supplies at an economic cost cannot be assured. These are integral requirements for the Company's business, and it is reasonable to expect that inflation, supply shortages or increases in demand could impact the Company's future economic performance and competitiveness, as it may entail a meaningful increase in costs for various goods and services that the Company may not be able to pass onto patients or customers. In addition, the operations of the Company could be affected should interest rates, inflation or unemployment levels reach levels that curtail consumer trends and spending and, consequently, impact the sales and profitability of the Company. The Company may not be able to effectively or successfully address such risks and uncertainties or successfully implement operating strategies to mitigate the impact of such risks and uncertainties. In the event that the Company fails to do so, such failure could materially harm the Company's business.

TAX REMITTANCE

The Company is subject to the provisions of the ITA¹² and to review by CRA¹³. The Company files its annual tax compliance based on its interpretation of the ITA and CRA's guidance. There is no certainty that the returns and tax position of the Company will be accepted by CRA as filed. Any difference between the Company's tax filings and CRA's final assessment could impact the Company's results and financial position.

There can be no assurance that income tax laws or the interpretation thereof in any of the jurisdictions in which the Company operates will not be changed or interpreted or administered in a manner which adversely affects the Company and its shareholders. In addition, there is no assurance that CRA will agree with the manner in which the Company calculates taxes payable or that any of the other tax agencies will not change their administrative practices to the detriment of the Company or its shareholders.

CONSOLIDATION OF CERTAIN FINANCIAL RESULTS UNDER IFRS 10 AND MAINTENANCE OF COMMON CONTROL

The Company complies with IFRS 10, which applies a single consolidation model using a definition of "control" that requires an investor (as defined in IFRS 10) to consolidate an investee (as defined in IFRS 10) where: (i) the investor has power over the investee; (ii) the investor has exposure or rights to variable returns from involvement with the investee; and (iii) the investor can use its power over the investee to affect the amount of the investor's returns.

Subsequent to the restructuring of IMC Holdings on April 2, 2019, the Company analyzed the terms of the contractual agreements with Focus Medical in accordance with IFRS 10 to conclude whether it should continue to consolidate the accounts of Focus Medical in its financial statements.

Under IFRS 10, consolidation occurs when an investor can exercise control over an investee. Control is achieved through voting rights or other evidence of power. Where there are no direct holdings, under IFRS 10, an investor (as defined in IFRS 10) should consider other evidence of power and ability to unilaterally direct an investee's (as defined in IFRS 10) relevant activities. In view of the contractual agreements and the guidance in IFRS 10, notwithstanding that the Company has no direct or indirect ownership of Focus Medical, it has sufficient rights to unilaterally direct the relevant activities (a concept known as "de facto control"), mainly due to the following:

- (a) the Company receiving economic benefits from Focus Medical (and the terms of the contractual agreements between the Company and Focus Medical cannot be changed without the approval of the Company);
- (b) the Company having the option to purchase the divested 74% interest in Focus Medical held by Oren Shuster, the CEO, director and a promoter of the Company, and Rafael Gabay, a former director and a promoter of the Company;
- (c) Messrs. Shuster and Gabay each being a director of Focus Medical (while Mr. Shuster concurrently being a CEO, director and substantial shareholder of the Company and Mr. Gabay concurrently being a substantial shareholder of the Company); and
- (d) the Company providing management and support activities to Focus Medical through a services agreement.

Accordingly, under IFRS 10, the Company has "de facto control" over Focus Medical, and therefore consolidates the financial results of Focus Medical in the Company's financial statements.

Any failure of the Company or Messrs. Oren Shuster and Rafael Gabay to maintain "de facto control" over Focus Medical as defined under IFRS 10 could alter the Company's consolidation model, potentially resulting in a material adverse effect on the business, results of operations and financial condition of the Company.

POSSIBLE DIRECT INVOLVEMENT IN THE ISRAELI CANNABIS INDUSTRY

According to current Israeli regulatory medical cannabis framework, any engagement in Cannabis Activities requires receiving the applicable license from the “IMCA”, an agency operated by the Israeli Ministry of Health, which requires, among other things, pre-approvals by the IMCA (the “IMCA Pre-Approval Requirement”) of the directors, officers and shareholders holding 5% or more of the shares of the license applicant (“Material Holders”), and of all directors, officers and shareholders that become Material Holders following the grant of the applicable license. Therefore, if the Company will be considered by the IMCA as directly engaged in Cannabis Activities the aforementioned approvals by the IMCA might apply, on future security holdings, as described above.

Furthermore, any failure of the Company or its shareholders to comply with the IMCA Pre-Approval Requirement may impact the Group’s ability to continue operating in compliance with any licenses to engage in Cannabis Activities or to renew such licenses. Any inability of the Group to maintain licenses for Cannabis Activities in good standing may result in a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

COMPANY’S ABILITY TO CONTINUE AS A GOING CONCERN

The Group’s current operating budget includes various assumptions concerning the level and timing of cash receipts from sales and cash outlays for operating expenses and capital expenditures, including cost saving plans and restructuring actions taken in 2022. The Company’s board of directors approved a cost saving plan, implemented in whole or in part, to allow the Company to continue its operations and meet its cash obligations. The cost saving plan consists of cost reduction due to efficiencies and synergies, which include mainly the following steps: discontinuing operation of loss-making activities, reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures.

These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The Annual Financial Statements do not include any adjustments relating to the recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

CONFLICT AND POLITICAL INSTABILITY IN EASTERN EUROPE

The first part of 2022 has seen significantly higher levels of volatility in global markets due to market participants’ reactions to, and uncertainty surrounding, the magnitude and timing of government and central bank action to be taken in response to heightened inflation, as well as Russia’s invasion of Ukraine. This volatility has resulted in a decline in the level of activity in the financial markets. Continued market volatility or uncertainty related to actions taken or to be taken by central banks, a decline in the global macroeconomic outlook, including as a result of Russia’s invasion of Ukraine and the threat, or outbreak of more widespread armed conflict in Eastern Europe would cause financial market activity to continue to decrease, which would negatively affect the Group’s revenues and capital markets activity.

CONFLICT AND POLITICAL INSTABILITY IN ISRAEL

The Group is vulnerable to the political, economic, legal, regulatory, and military conditions affecting Israel and the Middle East. Armed conflicts between Israel and its neighbouring countries and territories occur periodically in the region and may adversely affect the Group’s business, results of operations and financial condition. In addition, the Group may be adversely affected by other events or factors affecting Israel such as the interruption or curtailment of trade between Israel and its trading partners, or any restrictions or pressure on the Group’s partners or customers or others to prevent or discourage them from doing business activities with Israel or Israeli businesses, a significant downturn in the economic or financial condition of Israel, a significant downgrading of Israel’s internal credit rating, labour disputes and political instability, including riots, uprisings and government failures. Restrictive laws or policies directed towards Israel or Israeli businesses could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

From April 2019 until March 2021, Israel held four general elections as efforts to compose and approve a new government failed to find lasting success. As a result, the Israeli government was unable to pass a budget for fiscal year 2021 and many legislative matters were delayed. In December of 2022, Israel's new government took office as a result of a coalition of six political parties; however, the continued uncertainty surrounding future elections and/or the results of such elections in Israel may continue. Actual or perceived political instability in Israel or any negative changes in the political environment, may individually or in the aggregate adversely affect the Israeli economy and, in turn, the Group's business, financial condition, results of operations and prospects.

Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions, could harm the Group's results of operations, and could make it more difficult for us to raise capital. Parties with whom the Group does business may decline to travel to Israel during periods of heightened unrest or tension, forcing the Group to make alternative arrangements when necessary in order to meet our business partners face to face. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements. Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business.

Furthermore, under Israeli law, citizens and permanent residents of Israel are obligated to perform military reserve duty for extended periods of time and are subject to being called to active duty at any time under emergency circumstances. In response to increased hostilities, there have been periods of significant call-ups of military reservists. It is possible that there will be additional call-ups in the future, which may include officers and key personnel of the Group's, which could disrupt business operations for a significant period of time.

JUDICIAL AND LEGISLATIVE REFORMS IN ISRAEL

During February and March 2023, Israel is undergoing political and social instability relating to the judicial and legislative reforms proposed by the newly elected government, creating certain instability and uncertainty. This instability which has a certain effect on the activity of the financial markets may cause material impact on the Groups' ability to operate in the Israeli market, which derives, among other, from: exposure to currency exchange rate and interest rate, reduced sales due to disruptive days and lower probability for capital investments.

CCAA PROCEEDINGS

On February 22, 2023, the Monitor issued the Monitor's Third Report in respect of the CCAA Proceedings advising, among other things, that (i) no qualified bids were received pursuant to the SISP, (ii) L5 informed the Trichome Group that it would not be completing the transaction contemplated by the Stalking Horse Purchase Agreement and, as a result, the Trichome Group terminated the Stalking Horse Purchase Agreement, and (iii) the Monitor continues to market for sale the Trichome Group's business and assets, including the brands and other intellectual property owned by the Trichome Group. As a direct or indirect shareholder of the entities that make up the Trichome Group, the Company is subject to the priorities of other stakeholders in the CCAA proceedings and will likely realize no return in the restructure of the Trichome Group business.

CAUTION CONCERNING FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may contain “forward-looking statements” or “forward-looking information,” within the meaning of applicable Canadian and United States securities legislation (collectively referred to herein as “forward-looking statements”). All statements other than statements of fact may be deemed to be forward-looking statements, including statements with regard to expected financial performance, strategy and business conditions. The words “believe”, “plan”, “intend”, “estimate”, “expect”, “anticipate”, “continue”, or “potential”, and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would”, and “could” often identify forward-looking statements. These statements reflect management’s current expectations and plans with respect to future events and are based on information currently available to management including based on reasonable assumptions, estimates, internal and external analysis and opinions of management considering its experience, perception of trends, current conditions and expected developments as well as other factors that management believes to be relevant as at the date such statements are made. No assurance can be given that the expectations in any forward-looking statement will prove to be correct and, as such, the forward-looking statements included in this MD&A should not be unduly relied upon. Forward-looking statements is by its nature prospective and requires IM Cannabis to make certain assumptions and is subject to inherent risks and uncertainties. All forward-looking statements are provided as of the date of this MD&A. The Company does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise, except as required by law.

Forward-looking statements in this MD&A may include, without limitation, forward-looking statements pertaining to:

- the Company’s business objectives and milestones and the anticipated timing of execution;
- the performance of the Company’s business, strategies and operations;
- the intention to expand the business, operations and potential activities of the Company;
- geographic diversification and brand recognition;
- preparations to target, upon legalization, new cannabis markets;
- expectations relating to the number of patients in Israel licensed by the MOH to consume medical cannabis;
- the future impact of the acquisitions of the Israeli Pharmacies and the Panaxia Transaction;
- the expansion of its Israeli sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- the future product portfolios of the Group and the Company’s ability to export its products, strains and genetics to Israel and Germany;
- the opportunity and ability to expand in Germany and export to new, legal adult-use recreational cannabis markets in Europe;
- the competitive conditions of the cannabis industry and the growth of medical or adult-use recreational cannabis markets in the jurisdictions in which the Company operates;
- the growth of the Company’s brands in the respective jurisdictions;
- the Company’s retail presence, distribution capabilities and data-driven insights;
- the competitive conditions of the industry, including the Company’s ability to maintain or grow its market share;
- cannabis licensing in the jurisdictions in which the Company operates;

- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany;
- expectations regarding the renewal and/or extension of the Group's licenses;
- the Group's anticipated operating cash requirements and future financing needs;
- the Group's expectations regarding its revenue, expenses, profit margins and operations;
- the anticipated Gross Margins, EBITDA and Adjusted EBITDA from the Company's operations;
- the expected increase in revenue and margins in its Israeli medical cannabis market activities arising from its acquisitions
- statements relating to the Company exiting the Canadian cannabis market to focus Israel, Germany and Europe;
- the Company's ability to achieve profitability in 2023;
- the continued listing of the Company's Common Shares on the Nasdaq;
- expectations related to demand and momentum in the Company's Israeli operations;
- the results of the restructuring of the Trichome Group under CCAA;
- cost savings from restructurings;
- future opportunities for the Company in Israel, particularly in the retail and distribution segments of the cannabis market;
- future expansion and growth opportunities for the Company in Germany and Europe and the timing of such;
- the Group's reliance on third party suppliers and partners and its ability to enter into additional supply agreements to provide sufficient quantities of medical cannabis to fulfil the Group's obligations; and
- contractual obligations and commitments.

With respect to the forward looking-statements contained in this MD&A, the Company has made assumptions regarding, among other things:

- the anticipated increase in demand for medical and adult-use recreational cannabis in the markets in which the Company operates;
- the Company's satisfaction of international demand for its products;
- the Company's ability to implement its growth strategies and leverage synergies of acquisitions;
- the Company's ability to reach patients through e-commerce and brick and mortar retail;
- the development and introduction of new products;
- the ability to import and the supply of premium and indoor grown cannabis products from third- party suppliers and partners;
- the changes and trends in the cannabis industry;
- the Company's ability to maintain and renew or obtain required licenses, permits or authorization related to its domestic and international operations;
- the Company's ability to rely on the export of, creation and maintenance of and maintain a consistent supply of imported cannabis from suppliers and partners;
- the ability to maintain cost-efficiencies and network of suppliers to maintain purchasing capabilities;
- the effectiveness of its products for medical cannabis patients and adult-use recreational consumers;
- future cannabis pricing and input costs;
- cannabis production yields;
- the Company being able to continue to drive growth from suppliers and partners into Israel, Germany and Europe; and
- the Company's ability to market its brands and services in Israel, Germany and Europe successfully to its anticipated customers.

Readers are cautioned that the above lists of forward-looking statements and assumptions are not exhaustive. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking statements due to a number of factors and risks. These include:

- general business risk and liability, including claims or complaints in the normal course of business;
- any failure of the Company to maintain “de facto” control over Focus Medical in accordance with IFRS 10;
- regulatory authorities in Israel viewing the Company as the deemed owner of more than 5% of Focus Medical or licensed entities in contravention of Israeli regulations;
- limitations on stockholdings of the Company in connection with its direct engagement in the Israeli medical cannabis market;
- the ability and/or need to obtain additional financing for continuing operations;
- the lack of control over the Company’s investees;
- the risk of defaulting on existing debt;
- the Company’s ability to continue as a going concern;
- the ability of the Company to access future financing if needed or on terms acceptable to the Company;
- the failure of the Company to comply with applicable regulatory requirements in a highly regulated industry;
- unexpected changes in governmental policies and regulations affecting the production, distribution, manufacture or use of medical cannabis in any jurisdictions in which the Company currently operates or intends to operate;
- the Company’s ability to continue to meet the listing requirements of the CSE and the NASDAQ;
- the Israeli government deciding to abandon the decriminalization or legalization of adult-use recreational cannabis;
- any change in the political environment which would negatively affect the prospect of decriminalization or legalization of adult-use recreational cannabis in Israel;
- any unexpected failure of Focus Medical to maintain in good standing or renew its licenses;
- any adverse outcome of the Construction Proceedings;
- any unexpected failure of Adjupharm to maintain in good standing or renew any of its Adjupharm Licenses;
- the Group’s ability to maintain ancillary business licenses, permits and approvals required to operate effectively;
- the interpretation of Company’s acquisitions of companies or assets by tax authorities or regulatory bodies, including but not limited to the change of control of licensed entities;
- the ability of the Group to deliver on their sales commitments or growth objectives;
- the Group’s reliance on third-party supply agreements and its ability to enter into additional supply agreements to provide sufficient quantities of medical cannabis to fulfil the Group’s obligations;

- the Group's possible exposure to liability, the perceived level of risk related thereto, and the anticipated results of any litigation or other similar disputes or legal proceedings involving the Group, including but not limited to the Construction Proceedings and the class action proceedings described herein;
- the impact of increasing competition;
- any lack of merger and acquisition opportunities;
- inconsistent public opinion and perception regarding the use of cannabis;
- engaging in activities considered illegal under US federal law related to cannabis;
- political instability and conflict in the Middle East, Eastern Europe and Ukraine;
- adverse market conditions;
- unexpected disruptions to the operations and businesses of the Group as a result of the COVID-19 global pandemic or other disease outbreaks including a resurgence in the cases of COVID-19;
- the inherent uncertainty of production quantities, qualities and cost estimates and the potential for unexpected costs and expenses;
- the Group's ability to sell its products;
- currency fluctuations;
- the risk of defaulting on existing debt;
- inflationary risks;
- any change in accounting practices or treatment affecting the consolidation of financial results;
- the costs of inputs;
- reliance on management; and
- the loss of key management and/or employees.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. Additional information on these and other factors that could affect the business, operations or financial results of the Company are detailed under the headings "*Risk and Factors*" and "*Contingent Liabilities and Commitments*" of this MD&A. The Company and management caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company and management assume no obligation to update or revise them to reflect new events or circumstances except as required by applicable securities laws.

Additional information about the assumptions, risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in the Company's disclosure materials, including in this MD&A under "*Legal and Regulatory – Risk Factors*" and the Company's Annual Report under "*Risk Factors*", available on the Company's profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov/edgar.

All forward-looking statements in this MD&A is qualified by these cautionary statements.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Report, is available on the Company's profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov/edgar.