

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

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

Commission file number: 001-40065

IM Cannabis Corp.

(Exact name of Registrant as specified in its charter)

British Columbia, Canada

(Jurisdiction of incorporation or organization)

3606 – 833 Seymour Street, Vancouver, British Columbia V6B 0G4

(Address of principal executive offices)

Oren Shuster, 972 544331111, oren@imcannabis.com

3606 – 833 Seymour Street, Vancouver, British Columbia V6B 0G4

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Shares, no par value	IMCC	Nasdaq Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: N/A

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 13,394,136 Common Shares

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the Company is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Company has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Company was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark which basis of accounting the Company has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued By the International Accounting Standards Board

Other

If "Other" has been checked in response to previous question, indicate by check mark which financial statement item the Company has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

In this Annual Report on Form 20-F (this “**Annual Report**”), “**Company**,” “**IMC**,” “**Group**,” “**we**,” “**us**” and “**our**” refer to IM Cannabis Corp., its consolidated subsidiaries and Focus Medical Herbs Ltd. (“**Focus**”), an Israeli private company over which IMC Holdings (as defined herein) exercises “de facto control” under.

Information contained in this Annual Report is given as of December 31, 2023, the fiscal year end of Company, unless otherwise specifically stated.

Market and industry data used throughout this Annual Report was obtained from various publicly available sources. Although the Company believes that these independent sources are generally reliable, the accuracy and completeness of such information are not guaranteed and have not been verified due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and the limitations and uncertainty inherent in any statistical survey of market size, conditions and prospects.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we file any of these documents as an exhibit to this Annual Report, you may read the document itself for a complete description of its terms.

Unless otherwise indicated and except for per share data and the information contained under section “*B. Compensation*”, all dollar figures in this Annual Report are expressed in thousands and all references in this Annual Report to: (i) “**dollars**” or “**CAD**” or “**\$**” are to Canadian dollars; (ii) “**USD**” or “**US\$**” are to United States of America (“**U.S.**” or “**United States**”) dollars; (iii) “**NIS**” are to New Israeli Shekels; and (iv) “**€**” or to “**Euros**” are to Euros. All intercompany balances and transactions were eliminated on consolidation. Common shares, stock options, units and warrants, and prices, are not expressed in thousands.

References herein to “Q1 2022”, “Q2 2022”, “Q2 2023”, “Q3, 2023” and “Q4 2023” refers to the three months ended March 31, 2022, June 30, 2022, June 30, 2023, September 30, 2023, and December 31, 2023, respectively.

This Annual Report should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto as at and for the years ended December 31, 2023 and 2022 (the “**2023 Annual Financial Statements**”) and the accompanying management’s discussion and analysis for the years ended December 31, 2023 and 2022 (the “**2023 Annual MD&A**”). The 2023 Annual Financial Statements were prepared by management in accordance with the International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board. IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amount of assets and liabilities at the date of the 2023 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 2023 Annual Financial Statements, includes the accounts of the Company, its consolidated subsidiaries and Focus, 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
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
Revolvy Trading and Marketing Ltd. dba Vironna Pharm (“ Vironna ”)	Israel	Subsidiary of IMC Holdings
Oranim Plus Pharm Ltd.** (“ Oranim Plus ” and together with IMC Pharma, IMC Farms, Pharm Yarok, Rosen High Way, Vironna and Oranim Plus, the “ Israeli Subsidiaries ”)	Israel	Subsidiary of IMC Holdings
Adjupharm GmbH (“ Adjupharm ”)	Germany	Subsidiary of IMC Holdings
Trichome Financial Corp.**	Canada	Wholly-owned subsidiary

*Effective February 26, 2024, IMC Holdings exercised its option to acquire a 74% ownership stake in Focus.

** Discontinued operations. Please see note 25 in the 2023 Annual Financial Statements

Please see Exhibit 8.1 for a complete list of the Company’s subsidiaries.

In this Annual Report, unless otherwise indicated, all references: (i) “**Company Subsidiaries**” are to the Israeli Subsidiaries and Adjupharm, (ii) “**Israeli Operations**” are to IMC Holdings and the Israeli Subsidiaries and (iii) “**Trichome**” are to Trichome Financial Corp. and its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report, including any documents incorporated by reference herein, contains “forward-looking information” and “forward-looking statements” within the meaning of applicable securities laws (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 beliefs with respect to future events and are based on information currently available to management as of the date of this Annual Report, or a document incorporated by reference therein, including 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.

Without limitation, this Annual Report contains 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 Company’s intentions to expand the business, operations and potential activities of the Company;
- the Company’s plans to expand its sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- 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 competitive conditions of the industry, including the Company’s ability to maintain or grow its market share and maintain its competitive advantages;
- statements relating to the Company’s commitment to responsible growth and compliance with the strictest regulatory environments;
- the Company’s focus on providing premium cannabis products to medical patients in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company’s plans to amplify its commercial and brand power to become a global high-quality cannabis player;
- the Company’s primary goal of sustainably increasing revenue in its core markets;
- the demand and momentum in the Company’s Israeli and Germany operations;
- how the Company intends to position its brands;
- the efficiencies and synergies of the Company as a global organization with domestic expertise in Israel and Germany;
- expectations that providing high-quality, reliable supply to the Company’s customers and patients will lead to recurring sales;
- expectations related to the Company’s introduction of new Stock Keeping Units (“SKUs”);
- anticipated cost savings from the reorganization of the Company and the completion thereof upon the timelines disclosed herein;
- geographic diversification and brand recognition and the growth of the Company’s brands in the jurisdictions that the Company operates in or may expand to;
- expectations related to the Company’s ability to address the ongoing needs and preferences of medical cannabis patients;
- the Company’s retail presence, distribution capabilities and data-driven insights;
- the future impact of the Regulations Amendment (as defined herein) regarding the transition reform from licenses to prescriptions for medical treatment of cannabis;
- the Company’s continued partnerships with third party suppliers and partners and the benefits thereof;
- the Company’s ability to achieve profitability in 2024;
- the number of patients in Israel licensed by the Israeli Ministry of Health (“MOH”) to consume medical cannabis;
- expectations relating to the number of patients paying out-of-pocket for medical cannabis products in Germany;
- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany;
- expectations related to the demand and the ability of the Company to source premium and ultra-premium cannabis products exclusively and competition in this product segment;
- the anticipated impact of inflation and liquidity on the Company’s performance;
- expectations with respect to the Company’s operating budget and the assumptions related thereto;
- expectations relating to the Company as a going concern and its ability to conduct business under the ordinary course of operations;
- expectations related to the collection the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Test Kits Appeal (as defined herein);
- the continued listing of the common shares in the capital of the Company (“**Common Shares**”) on the Nasdaq Stock Market (“**Nasdaq**”) and Canadian Securities Exchange (“**CSE**”);
- cannabis licensing in the jurisdictions in which the Company operates;
- the renewal and/or extension of the Company’s licenses;
- the Company’s anticipated operating cash requirements and future financing needs;
- the Company’s expectations regarding its revenue, expenses, profit margins and operations;
- the expected increase in revenue and margins in its Israeli medical cannabis market activities arising from its acquisitions;
- 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;
- contractual obligations and commitments.; and
- the Company completing the Potential Transaction with Kadimastem (each as defined herein).

With respect to the forward looking-statements contained in this Annual Report, the Company has made assumptions regarding, among other things:

- the Company has the ability to achieve its business objectives and milestones under the stated timelines;
- the Company will succeed in carrying out its business, strategies and operations;
- the Company will realize upon its intentions to expand the business, operations and potential activities of the Company;
- the Company will expand its sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- the competitive conditions of the cannabis industry and the growth of medical or adult-use recreational cannabis in the jurisdictions in which the Company operates;
- the competitive conditions of the industry will be favorable to the Company, and the Company has the ability to maintain or grow its market share and maintain its competitive advantages;
- the Company will commit to responsible growth and compliance with the strictest regulatory environments;
- the Company will remain focused on providing premium cannabis products to medical patients in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company has the ability to amplify its commercial and brand power to become a global high-quality cannabis player;
- the Company will maintain its primary goal of sustainably increasing revenue in its core markets;
- the demand and momentum in the Company's Israeli and Germany operations will be favorable to the Company;
- the Company will carry out its plans to position its brands as stated;
- the Company's Company has the ability to realize upon the stated efficiencies and synergies the Company as a global organization with domestic expertise in Israel and Germany;
- providing a high-quality, reliable supply to the Company's customers and patients will lead to recurring sales;
- the Company will introduce of new SKUs;
- the Company will realize the anticipated cost savings from the reorganization;
- the Company has the ability to achieve geographic diversification and brand recognition and the growth of the Company's brands in the jurisdictions that the Company operates in or may expand to;
- the Company's has the ability to address the ongoing needs and preferences of medical cannabis patients;
- the Company has the ability to realize upon its retail presence, distribution capabilities and data-driven insights;
- the future impact of the Regulations Amendment will be favorable to the Company;
- the Company will maintain its partnerships with third parties, suppliers and partners;
- the Company has the ability to achieve profitability in 2024;
- the accuracy of number of patients in Israel licensed by the MOH to consume medical cannabis;
- the accuracy of the number of patients paying out-of-pocket medical cannabis products in Germany;
- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany will occur;
- the Company has the ability to source premium and ultra-premium cannabis products exclusively and competition in this product segment;
- the anticipated impact of inflation and liquidity on the Company's performance will be as forecasted;
- the accuracy with respect to the Company's operating budget and the assumptions related thereto;
- the Company will remain as going concern;
- a favorable outcome with respect to the collection the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Test Kits Appeal;
- the Company's Common Shares will remain listed on the Nasdaq and CSE;
- the Company's ability to maintain cannabis licensing in the jurisdictions in which the Company operates;
- the Company has the ability to obtain the renewal and/or extension of the Company's licenses;
- the Company has the ability to meet operating cash requirements and future financing needs;
- the Company will meet or surpass its expectations regarding its revenue, expenses, profit margins and operations;
- the Company will increase its revenue and margins in its Israeli medical cannabis market activities arising from its acquisitions;
- the Company has the ability to capitalize on future opportunities for the Company in Israel, particularly in the retail and distribution segments of the cannabis market;
- the Company will carry out its future expansion and growth opportunities for the Company in Germany and Europe and the timing of such;
- the Company will fulfill its contractual obligations and commitments; and
- the Company will complete the Proposed Transaction with Kadimastem.

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:

- the Company's inability to achieve its business objectives and milestones under the stated timelines;
- the Company inability to carry out its business, strategies and operations;
- the Company's inability to realize upon its intentions to expand the business, operations and potential activities of the Company;
- the Company will not expand its sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- the competitive conditions of the cannabis industry and the growth of medical or adult-use recreational cannabis markets will be unfavorable to the Company in the jurisdictions in which the Company operates;
- the competitive conditions of the industry will be unfavorable to the Company, and the Company's inability to maintain or grow its market share and maintain its competitive advantages;
- the Company will not commit to responsible growth and compliance with the strictest regulatory environments;
- the Company's inability to remain focused on providing premium cannabis products to medical patients in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company inability to amplify its commercial and brand power to become a global high-quality cannabis player;
- the Company will not maintain its primary goal of sustainably increasing revenue in its core markets;
- the demand and momentum in the Company's Israeli and Germany operations will be unfavorable to the Company;
- the Company will not carry out its plans to position its brands as stated;
- the Company's inability to realize upon the stated efficiencies and synergies of the Company as a global organization with domestic expertise in Israel and Germany;
- providing a high-quality, reliable supply to the Company's customers and patients will not lead to recurring sales;
- the Company will not introduce of new SKUs;

- the Company's inability to realize upon the anticipated cost savings from the reorganization;
- the Company's inability to achieve geographic diversification and brand recognition and the growth of the Company's brands in the jurisdictions that the Company operates in or may expand to;
- the Company's inability to address the ongoing needs and preferences of medical cannabis patients;
- the Company's inability to realize upon its retail presence, distribution capabilities and data-driven insights;
- the future impact of the Regulations Amendment will be unfavorable to the Company;
- the Company will not maintain its partnerships with third party suppliers and partners;
- the Company's inability to achieve profitability in 2024;
- the inaccuracy of number of patients in Israel licensed by the MOH to consume medical cannabis;
- the inaccuracy of the number of patients paying out-of-pocket for medical cannabis products in Germany;
- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany will not occur;
- the Company's ability to source premium and ultra-premium cannabis products exclusively and competition in this product segment;
- the anticipated impact of inflation and liquidity on the Company's performance will not be as forecasted;
- the inaccuracy with respect to the Company's operating budget and the assumptions related thereto;
- the Company will not remain as going concern;
- an unfavorable outcome of the negotiations or the Construction Proceedings;
- an unfavorable outcome with respect to the collection the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Test Kits Appeal;
- the Company's Common Shares will not remain listed on the Nasdaq and CSE;
- the Company's inability to maintain cannabis licensing in the jurisdictions in which the Company operates;
- the Company's inability to obtain the renewal and/or extension of the Company's licenses;
- the Company's inability to meet operating cash requirements and future financing needs;
- the Company will not meet or surpass its expectations regarding its revenue, expenses, profit margins and operations;
- the Company will not increase its revenue and margins in its Israeli medical cannabis market activities arising from its acquisitions;
- the Company's ability to capitalize on future opportunities for the Company in Israel, particularly in the retail and distribution segments of the cannabis market;
- the Company will not carry out its future expansion and growth opportunities for the Company in Germany and Europe and the timing of such;
- the Company will not fulfill its contractual obligations and commitments; and
- the Company will not complete the Proposed Transaction with Kadimastem.

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 heading "Risk Factors" in this Annual Report. Unless otherwise indicated, forward-looking statements in this Annual Report describe our expectations as of the date of this Annual Report. 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 the Annual MD&A under "*Legal and Regulatory – Risk Factors*", available on the Company's profile on SEDAR+ at www.sedarplus.ca and on EDGAR at www.sec.gov/edgar.

CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

This Annual Report may contain future oriented financial information (“**FOFI**”) within the meaning of Canadian securities legislation and analogous U.S. securities laws, about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action, which FOFI is not presented in the format of a historical balance sheet, income statement or cash flow statement. The FOFI has been prepared by management to provide an outlook of the Company’s activities and results and has been prepared based on a number of assumptions including the assumptions discussed under the heading above entitled “*Cautionary Note Regarding Forward-Looking Statements*” and assumptions with respect to the costs and expenditures to be incurred by the Company, capital expenditures and operating costs, taxation rates for the Company and general and administrative expenses. Management does not have, or may not have had at the relevant date, firm commitments for all of the costs, expenditures, prices or other financial assumptions which may have been used to prepare the FOFI or assurance that such operating results will be achieved and, accordingly, the complete financial effects of all of those costs, expenditures, prices and operating results are not, or may not have been at the relevant date of the FOFI, objectively determinable.

Importantly, the FOFI contained in this Annual Report are, or may be, based upon certain additional assumptions that management believes to be reasonable based on the information currently available to management, including, but not limited to, assumptions about: (i) the future pricing for the Company’s products, (ii) the future market demand and trends within the jurisdictions in which the Company may from time to time conduct the Company’s business, (iii) the Company’s ongoing inventory levels, and operating cost estimates, and (iv) the Company’s financial results for 2024. The FOFI or financial outlook contained in this Annual Report do not purport to present the Company’s financial condition in accordance with IFRS as issued by the International Accounting Standards Board, and there can be no assurance that the assumptions made in preparing the FOFI will prove accurate. The actual results of operations of the Company and the resulting financial results will likely vary from the amounts set forth in the analysis presented in any such document, and such variation may be material (including due to the occurrence of unforeseen events occurring subsequent to the preparation of the FOFI). The Company and management believe that the FOFI has been prepared on a reasonable basis, reflecting management’s best estimates and judgments as at the applicable date. However, because this information is highly subjective and subject to numerous risks including the risks discussed under the heading above entitled “*Cautionary Note Regarding Forward-Looking Statements*” and under the heading “*Risk Factors*” in the Company’s public disclosures, FOFI or financial outlook within this Annual Report should not be relied on as necessarily indicative of future results.

Readers are cautioned not to place undue reliance on the FOFI, or financial outlook contained in this Annual Report. Except as required by Canadian securities laws and analogous U.S. securities laws, the Company does not intend, and does not assume any obligation, to update such FOFI.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Reserved.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The Company's operations and financial performance are subject to the normal risks of its industry and are subject to various factors which are beyond the control of the Company. Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that it currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

Risks Relating to Our Business

There are certain risks associated with owning securities of the Company that holders should carefully consider. The risks and uncertainties below are not the only risks and uncertainties facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business, operations and future prospects of the Company, cause the price of its securities to decline and cause future results to differ materially from those described herein. If any of the following risks actually occur, the business of the Company may be harmed, and its financial condition and results of operations may suffer significantly. In that event, the trading price of the Company's securities could decline, and holders may lose all or part of their investment.

The cannabis-related business and activities of the Group are heavily regulated in all jurisdictions where it carries on business. The Group's operations are subject to various laws, regulations and guidelines by governmental authorities, particularly the MOH, and the Federal Opium Agency of Germany's Federal Institute for Drugs and Medical Devices in Germany ("BfArM"), relating to the grow, propagate, manufacture, marketing, management, transportation, storage, distribution, sale, pricing and disposal of dried and fresh cannabis, cannabis plants and seeds, edible cannabis, cannabis extracts, clones and plants and cannabis extracts. The Group's operations are also subject to laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment.

The Company consolidates certain financial results under IFRS 10 and any failure to maintain common control could result in a material adverse effect on the business, results of operations and financial condition of the Company

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.

The Company analyzed the terms of the contractual agreements with Focus in accordance with IFRS 10 to conclude whether it should continue to consolidate the accounts of Focus 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, it has sufficient rights to unilaterally direct the relevant activities (a concept known as “de facto control”), mainly due to the following:

- 1) the Company receiving economic benefits from Focus (and the terms of the Commercial Agreements (as defined herein) cannot be changed without the approval of the Company);
- 2) the Company having the option to purchase the divested 74% interest in Focus held by Oren Shuster, the Chief Executive Officer, director and a promoter of the Company, and Rafael Gabay, a former consultant director, a former consultant and a promoter of the Company;
- 3) Messrs. Shuster and Gabay each being a director of Focus (while Mr. Shuster concurrently being a director, officer and substantial shareholder of the Company and Mr. Gabay concurrently being a substantial shareholder of the Company); and
- 4) the Company providing management and support activities to Focus through the Services Agreement (as defined herein).

Accordingly, under IFRS 10, the Company has “de facto control” over Focus, and therefore consolidates the financial results of Focus 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 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.

For the period ended December 31, 2023, the Company analyzed the terms of the definitive agreements with each of its Consolidated Entities (as defined within IFRS 10) in accordance with accounting criteria IFRS 10. Viewed as effectively exercising control over their Consolidated Entities, the Company consolidate the financial results of the Consolidated Entities as of the date of signing each such definitive agreement.

The regulatory authorities in Israel may determine that the Company is in contravention of Israeli cannabis regulations

There is a risk that regulatory authorities in Israel may determine that the Company is in contravention of Israeli cannabis regulations. Namely, prior approval of the Israeli Medical Cannabis Agency (“IMCA”) is required for any shareholder owning 5% or more of an Israeli company licensed to engage in cannabis-related activities. Any contravention of Israeli cannabis regulations could jeopardize the good standing of the Company’s licenses. Such a determination may adversely affect the Company’s ability to conduct sales and marketing activities and could have a material adverse effect on the Company’s business, operating results or financial condition.

The Company is subject to governmental regulations in the markets in which it operates and any delays in obtaining, or failure to obtain regulatory approvals could significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company

Israel – MOH Regulation

Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Israeli Subsidiaries and Focus, which can include the power to limit or restrict business activities, the import and export of cannabis products and the imposition of additional quality criteria and disclosure requirements on the products and services provided by Israeli Subsidiaries and Focus. Achievement of the Israeli Subsidiaries and Focus business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the production and sale of its products.

The Company cannot predict the time required for the Israeli Subsidiaries or Focus to secure all appropriate regulatory approvals for the products and activity, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company.

Failure to comply with the laws and regulations applicable to its operations may lead to possible sanctions including the revocation or imposition of additional conditions on licenses to operate the Israeli Subsidiaries and/or the Focus business, the suspension or expulsion from a particular market or jurisdiction or of its key personnel, and the imposition of fines and censures. To the extent that there are changes to the existing laws and regulations or the enactment of future laws and regulations that affect the sale or offering of the Israeli Subsidiaries and/or Focus products or services in any way, this could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company.

Germany – BfArM Regulation

Legalization

At the end of March 2024, legalization in Germany applies only to cannabis stemming from cultivation for medicinal purposes under state control and in preparations as finished medicinal products, 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. Medical cannabis in Germany must comply with the corresponding monographs of the German and European pharmacopoeia. 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. Medical cannabis in Germany must comply with the corresponding monographs of the German and European pharmacopoeia. This legislative amendment is now set to come into force on 1 April 2024 and will enable limited home cultivation as well as cultivation via so-called cultivation associations. This change in the law also means that medical cannabis will no longer be classified as a narcotic and will therefore no longer be covered by the Narcotics Act ("**BtMG**") but by the Medical Cannabis Act ("**MedCanG**").

At the end of March 2024, the import, export, manufacturing and distribution of medical cannabis currently requires a wholesale permit pursuant to the *German Medicines Act* (the "**AMG**") and a distribution permit for narcotics pursuant to the BtMG (from 1 April, when the MedCanG comes into force, this would then be used instead of the BtMG to obtain an additional licence). All BtMG permit applications must specify the strains and estimated quantities of medical cannabis involved and any subsequent changes must be reported to the BopSt as division of the BfArM. The import of medical cannabis from other European Union ("**EU**") and non-EU countries requires quantity-based import licenses pursuant to the BtMG (comparable regulations also exist under the MedCanG). In addition, if medical cannabis is to be imported that has already undergone processing steps that fall under the EU GMP guidelines, compliance with these guidelines must be confirmed by a European inspection and certificate. The importing company also requires an import and manufacturing authorisation in accordance with the AMG in order to import these goods.

Until now, the cultivation of medicinal cannabis was only possible under public procurement law. Such an award procedure was ultimately only carried out once in full. In this context, the BfArM formed a cannabis division to oversee the cultivation, harvesting, processing, quality control, storage, packaging and distribution to wholesalers, pharmacists and manufacturers (the "**Cannabis Agency**"). 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. The Cannabis Agency has no influence on the actual retail price of medical cannabis products in general. It only controlled the price of medicinal cannabis grown in Germany. The responsibilities of the Cannabis Agency are based on the requirements of the Narcotic Convention. The Cannabis Agency 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. The Cannabis Agency contracted with a distributor that was selected in a tender procedure and commissioned it to carry out the distribution of medical cannabis products in accordance with all pharmaceutical and narcotic legal requirements in Germany. Once the MedCanG comes into force, cultivation will no longer be based on tenders but can be applied for in a completely regular authorisation procedure.

The current regime (and also based on the MedCanG) permits the importation of cannabis plants and plant parts for medicinal purposes grown in a country under state control subject to the requirements under the Narcotic Convention. Pursuant to Narcotic Convention, 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. 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. Medical cannabis products imported pursuant to an import license under the BtMG (and MedCanG) and AMG permits are sold exclusively to wholesalers and pharmacies. Only the pharmacies are authorised 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. In addition to magistral preparations, medical cannabis products are also marketable as pre-packaged, licensed drugs.

Failure to comply with the laws and regulations applicable to the Company's operations may lead to possible sanctions, including revocation or suspension of licences (and thus the Company's inability to operate), recalls and withdrawals (both regulatory and as a result of competition law proceedings), the loss of eligibility as a corporate body of a corporation or as a medicinal product or narcotics law functionary (and thus the Company's inability to operate), flanked by administrative fines for regulatory offences, fines and imprisonment for criminal offences as well as administrative orders (requirements, prohibitions, etc.) as well as competition law warnings and proceedings (such as injunctions).

The Company's ability to produce, store, import, distribute and sell cannabis and derivative products in Israel, Canada and Germany is dependent on licensing and any failure to maintain the respective licenses would have a material adverse impact on the business, financial condition and operating results of the Company

Israel – Reliance on the Israeli Licenses

The Company's ability to produce, store, import, distribute and sell cannabis in Israel is dependent on the Israeli Subsidiaries and Focus maintaining the Israeli Licenses with the IMCA. Failure to comply with the requirements or any failure to maintain the Israeli Licenses would have a material adverse impact on the business, financial condition and operating results of the Company. There can be no guarantees that the IMCA will extend or renew any of Israeli Licenses as necessary or, if it extended or renewed, that any of the Israeli Licenses will be extended or renewed on the same or similar terms. Should the IMCA not extend or renew any of Israeli Licenses or should it renew any of the Israeli Licenses on different terms, the business, financial condition and results of the operations of the Company would be materially adversely affected.

Germany – Reliance on the Adjupharm Licenses

The Company's ability to produce and distribute cannabis through Adjupharm's certification as an EU-GMP and EU-GDP producer and distributor in Germany with wholesale, narcotics handling, manufacturing, procurement, storage and distribution authority is granted by German regulatory authorities. Failure to comply with the requirements of the BfArM issued licenses or any failure to maintain their respective licenses would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company relies on licensed facilities in Israel and Germany to conduct its operations and any adverse changes or developments affecting such facilities could have a material adverse effect on the Company's business, financial condition, results of operations and prospects

Israel – Reliance on the Company's Facilities

The Israeli Facilities

The Israeli Licenses are specific to each respective facility holding such license and therefore both the license and the facility must remain in good standing for each of the Company's pharmacies (Virona, Oranim Plus and R.A Pharm Yarok, together the "**Israeli Pharmacies**") and the Company's trading house to be able to conduct the Israeli cannabis activities authorized thereunder (the facilities of the Israeli Pharmacies and trading house, together "**Israeli Facilities**"). Adverse changes or developments affecting the Israeli Facilities, including but not limited to the failure to maintain all requisite regulatory and ancillary permits and licenses, the failure to comply with state or municipal regulations, or a breach of security, could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Any breach of any lease agreement relevant to the operations of the Israeli Facilities or any failure to renew such lease agreements, on materially similar or more favorable terms, may also have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Germany – Reliance on Logistics Center

The Company's EU-GMP logistics centre in Germany (the "**Logistics Center**") allows Adjupharm to manage all aspects of its supply chain including the production, the repackaging and distribution of bulk medical cannabis. Any breach of regulatory requirements, including any failure to comply with recommendations or requirements arising from inspections by government regulators, could also have an impact on Adjupharm's ability to maintain the licenses and/or keep the Logistics Center in good standing, and to continue operating it under the licenses, could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company relies in Germany and in Israel on various supply and distribution agreements with third-parties, such as cannabis cultivators, packaging suppliers, service providers and distribution partners. The loss of such suppliers and/or service providers and/or distributors and/or their timely service would have a material adverse effect on the Company's business and operational results

Israel – Supply, Manufacture and Distribution Agreements

Focus and the Israeli Subsidiaries rely on and are substantially dependent on various supply agreements with third-party cannabis cultivators in Israel and Canada, imported cannabis products, manufacture and packaging agreements and distribution agreements to fulfill the supply requirements of its distribution and sales agreements with pharmacies in the Israeli medical cannabis market. The Israeli Subsidiaries and Focus acquire cannabis from third parties in amounts sufficient to operate its business. However, there can be no assurance that there will continue to be a supply of cannabis available for the Company to purchase to operate or expand. Additionally, the price of cannabis and other inputs may rise which would increase the cost of goods. If any suppliers fail to supply any contracted materials to Focus or the Israeli Subsidiaries, the Israeli Subsidiaries and Focus may fail to meet purchase commitments from their distribution partners. If the Company were unable to acquire the cannabis or other inputs required to operate or expand or to do so on favorable terms or fail to maintain the manufacture agreements with IMC-GMP manufacture companies, it could have a material adverse impact on the Company's business, financial condition and results of operations. If any of the Company's suppliers fails to provide inputs meeting the Company's quality standards, it may need to source cannabis or other inputs from other suppliers, which may result in additional costs and delay in the delivery of its products and services to distributors, pharmacies and patients. There is no assurance that suppliers will be able to supply and deliver the required materials to the Company in a timely manner or that the materials they supply to the Company will not be defective or substandard. Any delay in the delivery of materials, or any defect in the materials, supplied to the Company may materially and adversely affect or delay its production schedule and affect its product quality. Consequently, the Company relies on the suppliers of such supply agreements to provide necessary cannabis products to Focus and the Israeli Subsidiaries. If the Company cannot secure cannabis of similar quality and at reasonable prices from alternative suppliers in a timely manner, or at all, Focus or the Israeli Licensed may not be able to deliver its products to distributors, pharmacies or patients on time with the required quality. The various suppliers and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, upon which the Company's operations rely. Loss of its suppliers, service providers or distributors or their timely service would have a material adverse effect on the Company's business and operational results.

Adjupharm relies on its sales and distribution agreements to supply IMC-branded products to distribution partners in Germany, which are then distributed to German pharmacies for sales to medical cannabis patients and on direct sales by Adjupharm of IMC-branded products to German pharmacies.

Adjupharm relies on supply agreements with cannabis cultivators and producers to meet the demands of their respective sales agreements with distribution partners and pharmacies. Consequently, the Company relies on the suppliers of such supply agreements to provide necessary cannabis products to Adjupharm. If any suppliers fail to supply any contracted materials to Adjupharm, Adjupharm may fail to meet purchase commitments from their distribution partners and this could result a material adverse effect on the Company's business, financial and operational results.

There can be no assurances 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

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 *Income Tax Act* (the "ITA") and Canada Revenue Agency's (the "CRA") 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.

If operational cash flows continue to be negative, the Company may be required to fund future operations with alternative financing options such as offerings of shares

During the year ended December 31, 2023, the Company had negative cash flows from operating activities. There is no assurance that the Company will generate positive cash flows from its future operating activities. If operational cash flows continue to be negative, the Company may be required to fund future operations with alternative financing options such as offerings of shares.

The Company may not be able to secure the funds necessary to implement its strategies, which could cause significant delays in carrying out business objectives or result in a material adverse effect on the Company's business, financial condition, operational results and prospects

There is no assurance that the Company will be able to secure the funds necessary to implement its strategies. Additional debt incurred by the Company from engagements such as major acquisitions may cause the Company's debt level to increase and result in difficulties in completing or negotiating future debt financings. Any triggering of credit defaults or failure to raise capital by the Company may cause significant delays in carrying out business objectives or result in a material adverse effect on the Company's business, financial condition, operational results and prospects.

Increased competition could materially and adversely affect the business, financial condition and results of operations of the Group

There is potential that the Group will face intense competition from other companies or groups of companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing experience than the Group. Because of the early stage of the industry in which the Group operates, as well as evolving legislation and governmental initiatives in several jurisdictions, the Group expects to face additional competition from new entrants in the jurisdictions in which it currently operates or is contemplating operations. If the number of users of medical cannabis products in Israel and Europe increases, the demand for products in such areas will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and pricing strategies. Increased competition by larger and better-financed competitors could materially and adversely affect the business, financial condition and results of operations of the Group.

The Group's business and operating results may be hindered by applicable restrictions on promotion marketing and advertising activities imposed by regulatory authorities

The development of the Group's business and operating results may be hindered by applicable restrictions on promotion marketing and advertising activities imposed by the MOH or BfArM. If the Group is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through the selling price for its products, the Group's sales and operating results could be adversely affected.

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships that could cause a material adverse effect on the business, financial condition, results of operations and prospects of the Group

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. It is possible that industry maturation could create larger companies that may have increased geographic scope. Such acquisitions or other consolidating transactions could harm the Group in several ways, including the loss of strategic partners (if they are acquired by or enter into relationships with a competitor), customers, or revenue and market share, all of which could harm the Group's operating results. The Group's operating results could also be harmed if the Group was forced to expend greater resources to meet new or additional competitive threats. Additional competition from larger, better-financed competitors with geographic advantages could outcompete the Group by placing downward pressure on retail prices for products and services. This could ultimately cause a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

The Group is vulnerable to the political, economic, legal, social, regulatory, and military conditions affecting Israel and the Middle East that could have a material adverse effect on the Group's business, results of operations, financial condition and prospects

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.

On October 7, 2023, a war between the terror organization Hamas and Israel began. The war has had an impact on the Company's business operations, which may or may not continue in the short and long term. The Company has experienced damages to its ability to function, affecting various aspects, including employees, supplies, imports, sales, and more. While there are damages, it is still too early to fully assess the extent of their impact. However, the first and certain effect of the war is the postponement of the medical cannabis reform, which was initially set to commence on December 29, 2023. 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. **The Company may not be able 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 and 2023. The Company is managing its cash flow daily and will look for external funding for its operations. The Company's board of directors (the "**Board**") 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 2023 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.

The Company is subject to certain credit exposure

The maximum credit exposure as of December 31, 2023, 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.

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.

Conflict and political instability in eastern Europe and Israel could negatively affect the Group's revenues and capital markets activity

The first part of 2023 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 ongoing presence in 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 ongoing presence in Ukraine and the threat, or outbreak of more widespread armed conflict in Eastern Europe could cause financial market activity to continue to decrease, which would negatively affect the Group's revenues and capital markets activity.

The Group is also vulnerable to political, economic, legal, regulatory, and military conditions affecting Israel and Middle East. Armed conflicts between Israel and its neighbouring countries and territories occur periodically in the region which 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, 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.

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.

Political risk in the markets in which the Group operates could have a material adverse effect on the Group's business, financial condition, operating results and prospects

Political risk is an additional risk that the Group may be exposed to when operating in Israel and Europe markets. Examples of political risk include without limitation social unrest, threats or occurrences of war, organized crime, political instability, changes of government and changes in taxation policies in domestic and international markets and jurisdictions in which the Group operates.

While the Group actively analyzes risks and developments in markets that it currently or will participate in, there is no assurance that unpredicted impacts will not occur. Depending on the magnitude of such unpredicted impacts, there may be a material adverse effect on the Group's business, financial condition, operating results, and prospects.

The Group may not be able to effectively or successfully address macroeconomic risks and uncertainties or successfully implement operating strategies to mitigate the impact of such risks and uncertainties, which could materially harm the Group's business

Global economies are currently experiencing elevated inflation which could curtail levels of economic activity, including in our primary production markets. This inflation is predominantly driven by costs of goods as input costs continue to increase with the overall increase in costs caused by several external factors including but not limited to general uncertainties caused by global supply chain constrictions, rising energy prices and the global COVID-19 pandemic. 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 Group's business and it is reasonable to expect that inflation, supply shortages or increases in demand could impact the Group's future economic performance and competitiveness, as it may entail a meaningful increase in costs for various goods and services that the Group may not be able to pass onto patients or customers. In addition, the operations of the Group could be affected by the economic context should interest rates, inflation or unemployment levels reach levels that consumer trends and spending and, consequently, impact the sales and profitability of the Group. The Group 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 Group fails to do so, such failure could materially harm the Group's business.

The Group's facilities are subject to the risk of theft of its product and other security breaches, which could have an adverse effect on the Group's business, financial condition, results of operations and prospects

Due to the nature of the Group's products and the limited legal channels for distribution, the Israeli Facilities and the Logistics Center of the Group is subject to the risk of theft of its product and other security breaches. A security breach in any one of the Group's facilities and external cultivation, manufacturing and storage facilities possessing of the Company's products could result in a significant loss of available product and as a result decrease in sales, revocation of cannabis licenses, exposure to additional liability under applicable regulations and to potentially costly litigation or increased expenses relating to insurance premiums and other resolutions and future prevention of security breaches, any of which could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

In Israel, the Group stores products in the Israeli Pharmacies and other pharmacies not owned by the Group, instead it is stored with Israeli trade houses, and external service providers such as cultivation, manufacturing, and storage partners. In addition, in Germany, the Group stores products in the Logistics Center before distribution. Pursuant to the applicable Israeli and German licensing requirements, the Israeli Subsidiaries and Adjupharm are required to maintain certain standards of storage for cannabis products. The risk of inventory theft from these facilities is mitigated by the Israeli Subsidiaries and Adjupharm through the implementation of the security measures required under applicable laws, such as usage of qualified storage units, designated storage locations, locked storage vaults, access control, security cameras, and alert systems. Notwithstanding such security measures, any breaches of security may result in losses of inventory, potential litigation, and increased costs to bolster security and insurance.

The Group relies on business licenses, permits and approvals and the failure to maintain any of these licenses, permits and approvals could have a material adverse effect on the business, financial condition and results of the operations of the Group

The Group is dependent on ancillary business licenses, permits and approvals granted by government authorities or other third parties in order to operate effectively including, without limitation, building permits, municipal permits, third-party licenses including distributors and suppliers, and foreign trade licenses. Should the Group fail to maintain any of these licenses, permits and approvals, or should it fail to renew any of such licenses, permits and approvals on materially similar or more favorable terms, the business, financial condition and results of the operations of the Group may be subject to a material adverse effect.

Violations of securities laws and breaches of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of the Group's right to carry on its existing business

Given the nature of the Group's business, it may from time to time be subject to claims or complaints from investors or others in the normal course of business. The legal risks facing the Group, its directors, officers, employees, or agents in this respect include potential liability for violations of securities laws, breach of fiduciary duty or misuse of investors' funds. Violations of securities laws and breach of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of the Group's right to carry on its existing business. The Group may incur significant costs in connection with such potential liabilities.

The Group and its investees' operations are subject to various laws, regulations and guidelines, and any potential noncompliance could cause the business, financial condition and results of operations of the Group to be adversely affected

The Group and its investees' operations are subject to various laws, regulations and guidelines. The Group endeavours to and cause its investees to comply with all relevant laws, regulations and guidelines. However, there is a risk that the Group's and its investees' interpretation of laws, regulations and guidelines, including, but not limited to applicable stock exchange rules and regulations, may differ from each other, and the Group and its investees' operations may not be in compliance with such laws, regulations and guidelines. Any potential noncompliance could cause the business, financial condition and results of operations of the Group to be adversely affected. Further, any amendment to or replacement of cannabis legislations and applicable rules and regulations governing the activities of the investees may cause adverse effects to the Group's operations. The risks to the business of the Group associated with the decision to amend or replace cannabis legislation and regulation, could reduce the addressable market for the Group's products and could materially and adversely affect the business, financial condition and results of operations of the Group.

The Group and its investees incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws and regulations may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures or remedial actions. Parties may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws or regulations, may have a material adverse impact on the Group's and/or its investees, resulting in increased capital expenditures or production costs, reduced levels of cannabis production or abandonment or delays in the development of facilities which could have a material adverse effect on the business, results of operations and financial condition of the Group.

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretations of, or application of, existing tax laws, regulations or rules in any of the countries in which the Group invests could result in an increase in the Group's taxes, or other governmental charges, duties or impositions. No assurance can be given that new tax laws, regulations or rules will not be enacted or that existing tax laws, regulations or rules will not be changed, interpreted or applied in a manner which could result in the Group's profits being subject to additional taxation or which could otherwise have a material adverse effect on the Group.

The Group's operations are subject to a variety of laws, regulations, and guidelines, and any changes to such laws, regulations or guidelines could have a material adverse effect on the business, results of operations, financial condition and prospects of the Group

The Group's operations are subject to a variety of laws, regulations, and guidelines relating to the marketing, acquisition, manufacture, management, distribution (including import and export), transportation, storage, sale, and disposal of cannabis products. The Group's operations are also subject to laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Any changes to such laws and regulations that are beyond the control of the Group could have a material adverse effect on the business, results of operations, financial condition, and prospects of the Group.

Any failure to successfully manage growth and integrate acquired businesses may result in a material adverse effect on the Company's business, financial condition, operating results and prospects

The Company may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. If the Company is unable to deal with this growth, any negative impact may have a material adverse effect on the Company's business, financial condition, results of operation and prospects.

In addition, the realization of the benefits of acquisitions made by the Company, including the acquisition of certain operations from Panaxia, the Israeli Pharmacies and the trading house of Rosen High Way, depend in part on successfully consolidating functions and integrating and leveraging operations, procedures and personnel in a timely and efficient manner as well as the Company's ability to share knowledge and realize revenues, synergies and other growth opportunities from combining the acquired businesses and operations with those of the Company. The integration of acquired businesses may depend on a number of factors, including without limitation: (i) the input of substantial management effort, time and resources; (ii) the successful incorporation of key personnel from acquired companies for post-acquisition periods. Any failure in successfully integrating acquired businesses may result in a material adverse effect on the Company's business, financial condition, operating results and prospects. The risks we face in connection with an acquisition include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of research and development and sales and marketing functions;
- retention of employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources, and other administrative systems;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures, and policies;
- potential write-offs of intangible assets or other assets acquired in transactions that may have an adverse effect on our operating results in a given period;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, consumers, former stockholders, or other third parties.

Ability to meet target production capacity may result in a material adverse effect on the Group's business, financial condition

The Group's sales capabilities are subject to estimates in target production capacity. These estimates may prove to be inaccurate due to uncontrollable external factors such as genetic drifts in strain of plants grown and general difficulties in estimating growth of cannabis plants and also unexpected delays in product supply by third party cultivation partners and importation due to reasons related to regulation and the supplier and operational constraints. Any adverse misalignments between the target production capacity and actual production capacity may result in a material adverse effect on the Group's business, financial condition.

The Group's operations are subject to environmental and occupational safety laws and regulations, any failure to comply with such environmental and occupational safety laws and regulations could have a material adverse effect on the business, results of operations and financial condition of the Group

The Group's operations are subject to environmental and occupational safety laws and regulations in certain jurisdictions, concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and nonhazardous materials and wastes, and employee health and safety. The Group incurs ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Any failure to comply or maintain compliance with environmental and occupational safety laws and regulations may result in additional costs for corrective measures, penalties or restrictions on manufacturing operations and could have a material adverse effect on the business, results of operations and financial condition of the Group.

The failure to secure suppliers or distribution partners could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's success depends on its ability to secure suppliers and distribution partners. There are many factors which could impact the Group's ability to secure suppliers and distribution partners, including but not limited to IMC and other brand awareness, the Group's ability to continually produce desirable and effective cannabis products, compliance with regulatory requirements in connection with import and export of cannabis products, and the successful implementation of new partnership plans. The failure to secure suppliers or distribution partners could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group relies on key business inputs and any failure to secure required supplies and services or to do so on appropriate terms could also have a material adverse effect on the business, financial condition, and operating results of the Group

The Group's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing and distribution operations as well as electricity, water, and other utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs (e.g. rising energy costs) could cause a material adverse effect on the business, financial condition, and operating results of the Group. Any failure to secure required supplies and services or to do so on appropriate terms could also have a material adverse effect on the business, financial condition, and operating results of the Group.

The failure to effectively compete in the Group's markets and introduce new product offerings may cause a material adverse effect on the Group's business, results of operations, financial condition and prospects

In addition to being subject to general business risks applicable to a business involving an agricultural product and a regulated consumer product, the Group will need to make investments in its business strategy. These investments include the procurement of raw material, new cannabis strains supplier and distributor outreach projects, marketing efforts and research and development projects. The Group expects that competitors will undertake similar investments to compete with it. Competitive conditions, third-party partner preferences, patient requirements and spending patterns in this industry and market are relatively unknown and may have unique circumstances that differ from other existing industries and markets and contribute to unsuccessful future business development or expansion efforts by the Group or other undesirable consequences. As a result, the Group may not be successful in its efforts to secure suppliers or distribution partners or to develop new cannabis products and produce and distribute these cannabis products. In addition, these activities may require significantly more resources than the Company currently anticipates in order to be successful.

Any new cannabis products that the Group develops or distributes may be subject to time-intensive regulatory approval procedures that might delay any release schedules or lead to adverse market conditions that might affect product profitability. The Group may ultimately fail to effectively bring new product offerings to market for reasons that include, but are not limited to, stringent regulatory approval procedures. Any inability to introduce new product offerings may cause a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group relies on international third-party transportation services to deliver and receive product-related shipments, which may cause delays and impact the Group's profitability

The Group relies on international third-party transportation services to deliver and receive product-related shipments. In the process of the deliveries, time delays, labor strikes, COVID-19-related issues, Israel-Hamas war related issues, product storage issues or other logistical problems may occur and force late delivery or receipt of items or receipt of damaged items. Such delays, receipt of damaged items or other logistical problems may cause a material adverse effect on the Group's business, operations or financial condition. Rising costs associated with courier services used by the Group may also adversely impact the business of the Group and its ability to operate profitably.

In addition, any breach of security of the products' package during the possession of the third-party transportation service may result in violations of regulations regarding possession of cannabis products and thus may have a material adverse effect on the Group's business, financial condition and operating results.

In pursuit of new opportunities in the cannabis industry, the Company may fail to select appropriate investment candidates and negotiate acceptable arrangements, which could adversely affect the Company's ability to enter into new investments

As part of the Company's business strategy, it seeks new opportunities in the cannabis industry. In pursuit of such opportunities, the Company may fail to select appropriate investment candidates and negotiate acceptable arrangements. The Company cannot provide assurance that it can complete any investment that it pursues or is pursuing, on favorable terms, or that any investment completed will ultimately benefit the Company. In addition, the Company's capital solutions may not attract a following in the cannabis industry. In the event that the Company chooses to raise debt capital to finance any acquisition or other arrangement, the Company's leverage will be increased. In addition, the introduction of new tax laws or regulations, or accounting rules or policies, or rating agency policies, or changes to, or differing interpretations of, or application of, existing tax laws or regulations or accounting rules or policies or rating agency policies, could make the productivity and services offered by the Company less attractive to investees. Such changes could adversely affect the Company's ability to enter into new investments.

Strategic alliances that the Group enters into could present unforeseen integration obstacles or costs, may not enhance the Group's business, and may involve risks that could adversely affect the Group

The Group may enter into further strategic alliances with third parties that it believes will complement or augment its existing business. The Group's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance the Group's business, and may involve risks that could adversely affect the Group, including significant amounts of management time that may be diverted from investment activities operations to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve the expected benefits to the Group's business or that the Group will be able to consummate future strategic alliances on satisfactory terms, or at all.

While the Company conducts due diligence with respect to investees, there are risks inherent in any investment. Specifically, there could be unknown or undisclosed risks or liabilities of investees for which the Company is not or will not be sufficiently indemnified. Any such unknown, undisclosed or unmitigated risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company could encounter additional transaction and enforcement related costs or other factors such as the failure to realize all of the benefits from its investments. Any of the foregoing risks and uncertainties could have a material adverse effect on Group's business, financial condition and results of operations.

Unfavorable divestments could have a material adverse effect on the Company

In certain circumstances, the Company may decide, or be required, to divest any of its direct or indirect interests in certain investees. In particular, if any of the investees violate any applicable laws and regulations, the Company may be required to divest its indirect or direct interest in such investee or risk significant fines, penalties, administrative sanctions, convictions or settlements. There is no assurance that these divestitures will be completed on terms favorable to the Company, or at all. Any opportunities resulting from these divestitures, and the anticipated effects of these divestitures on the Company may never be realized, or may not be realized to the extent the Company anticipates. Any required divestiture or an actual or perceived violation of applicable laws or regulations could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holdings (directly or indirectly) in the investees, the listing of its securities on applicable stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that may be required for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The Company relies upon the ability, judgment, discretion and good faith of key personnel, and the inability to attract, develop, motivate and retain highly qualified employees could have a material adverse effect on the Company's business, financial condition and results of operations

The Company has relied upon the ability, judgment, discretion and good faith of its executive management team. The Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified employees, especially its key personnel. If the Company were to lose any members of the executive management or key employees, any inability to find suitable replacements at reasonable costs may have a material adverse effect on the Company's business, financial condition and results of operations. Further, certain key personnel of the Company are subject to a security clearance by IMCA. There is no assurance that any of the Company's key personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by any of those individuals to maintain or renew his or her security clearance, could result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if any such individual leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance required by applicable law, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations.

The Group relies on international advisors and consultants for its operations in foreign countries

The legal, regulatory, tax and accountant requirements in the foreign countries in which the Group may invest or operate in with respect to the cultivation and sale of cannabis, banking systems and controls, as well as local business culture and practices are different from those in Canada. The Group's officers and directors must rely, to a great extent, on local legal and financial counsels and consultants in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Group's business operations, and to assist with governmental relations. The Group must rely, to some extent, on those members of management and the Board who have previous experience working and conducting business in these countries, if any, in order to enhance the Group's understanding of and appreciation for the local business culture and practices. The Group also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of the cultivation and sale of cannabis as well as in respect of banking, financing, labour, litigation and tax matters in these jurisdictions. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond the Group's control. The impact of any such changes may cause a material adverse effect to the Group's business, financial condition, operating results and prospects.

Foreign market participation subjects the Group to the global capital markets and government authorities, which could have a material adverse effect on the Group's business, financial condition and results of operations

Global capital markets have also recently experienced extreme volatility which may, in conjunction with the factors set out above and despite the actions of government authorities, contribute to a worsening of general economic conditions including, rising interest rates, high levels of inflation and unemployment, the unavailability of credit or the devaluation of currencies. Unexpected changes in these factors and financial market and economic conditions Group's financial condition, profitability and cash flows, and may also have a negative effect on the valuation of, and the ability of the Group to exit or partially divest from, investment positions. Depending on conditions, the Group may incur substantial realized and unrealized losses in future periods, all of which may materially adversely affect its results of operations and the value of any investment in the Group.

The Group continues to monitor developments and policies in the foreign markets in which it operates or invests and assess the impact thereof to its operations; however, such developments cannot be accurately predicted. The realization of any of these risks may significantly impair the Group's local operations and have a material adverse effect on the Group's business, financial condition and results of operations.

These risks may also limit or disrupt the Group's strategic alliances or investments, restrict the movement of funds, increase the Group's costs, or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation, and may have a material adverse effect on the Group's financial position and/or results of operations. In addition, the enforcement by the Group of its legal rights in foreign countries, including rights to exploit properties or utilize permits and licenses and contractual rights may not be recognized by the court systems in such foreign countries or enforced in accordance with the rule of law.

Future acquisitions or dispositions could result in the failure to realize anticipated benefits of such transactions

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including but not limited to the potential disruption of the Group's ongoing business, distraction of management, the Company may become more financially leveraged, the failure to realize anticipated benefits of those transactions fully or at all, or may take longer to realize than expected, and loss or reduction of control over certain Group assets.

Despite the Company's due diligence efforts, the presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

In addition, the Company's strategic transaction decisions are based on the economic assessments made by the Company and its external advisors. Such economic assessments involve a series of assumptions regarding factors such as future cannabis prices, production requirements, expected revenue growth, cash flow and financing requirements, future capital expenditures and operating costs. Many of these factors are subject to change and are beyond the control of the Company. In addition, future acquisition or international expansion could require the Group to incur a number of up-front expenses, including those associated with obtaining regulatory approvals, as well as additional ongoing expenses, including those associated with infrastructure, buildout, staff and regulatory compliance. If there is any significant negative change in any of these factors, the Group may experience a material adverse effect on its business, financial condition, operating results and prospects.

Foreign expansion efforts and operations could subject the Group to additional business risks, and the potential failure of the Group's operating infrastructure to support such expansions could result in operational failures and regulatory fines or sanctions

The Group's expansion into foreign jurisdictions is subject to additional business risks, including new or unexpected risks or could significantly increase the Group's exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition, as well as operational, regulatory, compliance and reputational and foreign exchange rate risk. The failure of the Group's operating infrastructure to support such expansions could result in operational failures and regulatory fines or sanctions. Additionally, there is no guarantee that the Group will be able to realize any of the anticipated benefits of any transactions related to the Group expansion strategy.

The Company has no U.S. operations

The Company and, to its knowledge, its subsidiaries do not currently 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* ("CSA Staff Notice 51-352"). To date, the Company has caused its investees to only conduct business and invest in entities in federally-legal jurisdictions by including appropriate representations, warranties and covenants in its agreements with investees. However, an investee may breach such obligations. Any such violation of such obligation would result in a breach of the applicable agreement and, accordingly, may have a material adverse effect on the business, operations and financial condition of Company.

The Company is subject to risks inherent in the agricultural business

The Company's business involves the growing of cannabis products by third party suppliers, which are agricultural products. As such, the business is subject to the risks inherent in the agricultural business, such as pests, plant diseases and similar agricultural risks. Although, the third-party cultivators the Company partners with carefully monitor the growing conditions with trained personnel and applicable equipment, there can be no assurance that natural elements will not have a material adverse effect on the production of its products and results of operations. Any decline in production could have a material adverse effect on the Group's business, operating results or financial condition.

Illegal market competition in the cannabis market could have a material adverse effect on Group's business, operating results and prospects

As a participant of the cannabis market in international jurisdictions with varying regulations, the Group may be subject to competition from entities that conduct illegal cannabis business operations. Such entities may resort to competitive measures such as producing products with prohibited concentrations of Delta-9 tetrahydrocannabinol ("THC") and industrial Hemp-based cannabidiol ("CBD") or producing imitations of the Group's products without the authorization or endorsement of the Group. If demand for these illegal products increases and local governments fail to regulate markets accordingly, the Group may experience a material adverse effect on its business, operating results and prospects.

Consumer perception of the Group's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products

The Group believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficiency and quality of the medical cannabis products produced. Consumer perception of the Group's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products.

There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for products bearing the brands marketed and sold by the Group and the business, results of operations, financial condition, prospects and the Group's cash flows.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis products in general, or the Group's products specifically, or associating the consumption of medical cannabis products with illness or other negative effects or events, could have a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Group's products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions

If the products the Group sells are not perceived to have the effects intended by the end user, its business may suffer. There is little long-term data with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry of various cannabis products. As a result, the Group's products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions.

Reputational risk to third parties could result in the failure to establish or maintain business relationships

The parties outside of the cannabis industry with which the Group does business may perceive that they are exposed to reputational risk as a result of the Group's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The failure of the Group's IT systems or a component of IT systems could, depending on the nature of any such failure, adversely impact the Group's financial condition, operating results and reputation

The Group's operations will depend, in part, on how well it and its supply and distribution partners protect networks, equipment, information technology systems ("IT Systems") and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Group's operations also will depend on the timely maintenance, upgrade and replacement of networks, equipment, IT Systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of IT Systems or a component of IT Systems could, depending on the nature of any such failure, adversely impact the Group's financial condition, operating results and reputation.

Cybersecurity risks could adversely impact the Group's financial condition, operating results and reputation

The Group's information systems and its third-party service providers and vendors are vulnerable to increasing threat of continually evolving cybersecurity risks, resulting in data breaches and data losses. These risks arising from events including without limitation malware, computer viruses, employee error, extortion, malfeasance, system errors, and hacking. In order to minimize the risk of these events from occurring, the Group is performing timely maintenance, upgrade and replacement of networks, equipment, IT systems and software and other protective measures. However, any failure or delay in maintaining, upgrading or replacing such systems and software could materially increase the risk of cybersecurity incident and data breach or data loss, and the Group may experience operational delays, information system failures, and/or increases in capital expenses. Ultimately, the Group's business, financial condition, operating results and reputation may be impacted adversely by such occurrences.

The Group has not experienced any material losses to date relating to cybersecurity-attacks or other information security breaches, but there can be no assurance that the Group will not incur such losses in the future. The Group's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Group may be required to expend additional resources to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Any theft of personal information about the Group's patients and customers or privacy breach could have a material adverse effect on the Group's business, financial condition and results of operations

The Group collects and stores certain personal information about its patients and customers and is responsible for protecting that information from privacy breaches. A privacy breach may occur through certain threats, including, without limitation, procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions, computer viruses, and cyber-attacks. Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Group's business, financial condition, and results of operations.

In addition, there are several Israeli, German and European federal and provincial laws, rules and regulations protecting the privacy and confidentiality of certain patient health information, and private information including patient records, and employee information, and restricting the collection, use transfer, storage, disposal and disclosure of that protected information. The interpretation and enforcement of such laws and regulations are uncertain, are subject to change and may require the Group to incur substantial costs to monitor and implement compliance with any additional requirements.

In the EU's General Data Protection Regulation ("GDPR") governs the collection and use of personal data in the EU. The GDPR, which is wide-ranging in scope, will impose several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, the security and confidentiality of the personal data, data breach notification and the use of third-party processors in connection with the processing of the personal data. The GDPR also imposes strict rules on the transfer of personal data out of the EU to the U.S., enhances enforcement authority and imposes large penalties for noncompliance, including the potential for fines of up to EUR 20,000 or four percent of the annual global revenues of the infringer, whichever is greater. In addition, certain breaches of the GDPR may result in regulatory investigations, reputational damage and civil lawsuits including class action lawsuits. In the State of Israel, privacy rights and obligations are mainly regulated under the *Protection of Privacy Law, 5741-1981* (the "**Israeli Privacy Law**") and the regulations promulgated thereunder (mainly the *Protection of Privacy (Data Security) Regulations, 5777-2017* and the *Protection of Privacy (Transfer of Data Abroad) Regulations, 5761-2001*) (the "**Israeli Privacy Regulations**"). Under the Israeli Privacy Law, 'information' and 'sensitive information' includes information such as those related to a person's health, personality, intimate affairs, financial condition, faith and opinions. The Israeli Privacy Law impose obligations related to database registration, notice, disclosure and use restrictions on an 'owner' of a database, and the Israeli Privacy Regulations set forth the security measurements to be implemented and the rules related to the transfer of personal information. Violation of the Israeli Privacy Law could lead to a criminal investigation or an administrative enforcement procedure on behalf of the Israeli Privacy Protection Authority, as well as an administrative fine imposed pursuant to the *Administrative Offenses Law, 5746-1985*. In addition, legal remedies such as statutory compensation of up to NIS 50,000 are available to successful claimants of privacy violations.

Additional jurisdictions in which the Group operates or in which it may enter in the future, also have data privacy and security laws and regulations that govern the collection, use, disclosure, transfer, storage, disposal, and protection of sensitive personal information. The interpretation and enforcement of such laws and regulations are uncertain, are subject to change and may require the Group to incur substantial costs to monitor and implement compliance with any additional requirements. Failure to comply with data protection laws and regulations could result in government enforcement actions, litigation and/or adverse publicity and could negatively affect the Group's operating results, business and prospects.

The price of cannabis products is affected by numerous factors beyond the Group's control

The cannabis industry is a margin-based business in which gross profits depend on the excess of sales prices over costs. Consequently, profitability is sensitive to fluctuations in wholesale and retail prices caused by changes in supply (which itself depends on other factors such as weather, fuel, equipment and labour costs, shipping costs, economic situation, government regulations and demand), taxes, government programs and policies for the cannabis industry (including price controls and wholesale price restrictions that may be imposed by government agencies responsible for the sale of cannabis), and other market conditions, all of which are factors beyond the control of the Group. The Group's operating incomes may be significantly and adversely affected by a decline in the price of cannabis products and will be sensitive to changes in the price of cannabis products and the overall condition of the cannabis industry, as the Group's profitability is directly related to the price of cannabis products. The price of cannabis products is affected by numerous factors beyond the Group's control. Any price decline may have a material adverse effect on the Group's business, financial condition and results of operations.

Fraudulent or illegal activity may cause a material adverse effect on the Group's business, reputation, financial condition, and results of operations.

The Group's employees, independent contractors and consultants may expose the Group to additional risk if they engage in fraudulent or other illegal activity prohibited by relevant laws. Although the Group has set preventative measures in place to minimize such fraud or illegal activities from occurring, there is no guarantee that the measures will be effective. If the measures fail and fraud or illegal activities take place, the Group may be subject to lawsuits for failure to comply with regulations and be ordered to pay such penalties as prescribed by the court if found to be in violation. Thus, the occurrence of fraud or illegal activities may cause a material adverse effect on the Group's business, reputation, financial condition and results of operations.

Corruption and anti-bribery law violations could cause severe penalties and other consequences that may have a material adverse effect on its business, reputation, financial condition and results of operations

The Group's business is subject to applicable anti-corruption or anti-bribery laws to which the Group is or may become subject, which generally prohibit companies and employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, the Group is subject to the anti-bribery laws of any other countries in which it conducts business now or in the future. The Group's employees or other agents may, without its knowledge and despite its efforts, engage in prohibited conduct under the Group's policies and procedures and anti-bribery laws for which the Group may be held responsible. The Group's policies mandate compliance with these anti-corruption and anti-bribery laws. However, there can be no assurance that the Group's internal control policies and procedures will always protect it from recklessness, fraudulent behaviour, dishonesty or other inappropriate acts committed by its affiliates, employees, contractors or agents. If the Group's employees or other agents are found to have engaged in such practices, the Group could suffer severe penalties and other consequences that may have a material adverse effect on its business, reputation, financial condition and results of operations.

The Group uses intellectual property protections such as trademarks, trade secrets and contractual confidentiality obligations in order to protect its products, brands and technologies

The Group uses intellectual property protections such as trademarks, trade secrets and contractual confidentiality obligations in order to protect its products, brands and technologies. The administrative task of maintaining such protections across multiple jurisdictions can result in high costs to the Group. The Group would also be required to pay for any costs attributed to the enforcement of intellectual property protections. In addition, in any infringement proceeding, some or all of the Group's intellectual property rights or other proprietary know-how, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could create the risk of invalidation or narrow interpretation of the Group's affected intellectual property rights. Such results could cause a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Furthermore, the possession of intellectual property protections does not completely eliminate the risk of litigation. Even with such protections properly registered, the Group is still vulnerable to infringement claims and would be liable for the costs of defending such claims. If the claims succeed, the Group would be liable for the costs of the resulting court orders and may need to negotiate licensing of the intellectual property rights from third-party owners.

In addition, despite any intellectual property protections in place, unauthorized parties may attempt to replicate or otherwise obtain and use the Group's trademarks, know-how, trade secrets, products or technology. Identifying unauthorized use of intellectual property rights is difficult as the Group may be unable to effectively monitor and evaluate the products being distributed by its competitors, including parties such as illegal distributors, and the processes used to produce such products. The Group makes no assurance that it will successfully identify unauthorized replication, acquisition or use of the Group's trademarks, know-how, trade secrets, products, or technology before the effects of such actions cause a material adverse effect on the Group's business, financial condition, results of operation and prospects.

Company is subject to the rules and regulations of the Canadian Stock Exchange and the Nasdaq Capital Market

The Common Shares and certain warrants of the Company began trading on the CSE on November 5, 2019 and November 19, 2019, respectively. The Common Shares began trading on Nasdaq on March 1, 2021.

The Company is subject to the rules and regulations of Nasdaq and CSE. Further, in order to maintain compliance with all continued listing requirements, the Company pays legal, accounting and compliance fees to advisors and regulatory organizations and will have to continue to pay additional fees if its Common Shares remain listed on Nasdaq. Any changes to rules, regulations policies or guidelines issued by regulatory authorities may impact any such fees paid and increase the risk of non-compliance. There is no assurance that the Company will be able to comply with the applicable Nasdaq or CSE continued listing standards within any projected timeframes, or at all, and maintain listing status on either Nasdaq or CSE.

In the past, the Company was subject to a deficiency notice from Nasdaq that was resolved via a share consolidation; however, currently, the Company is once again subject to such deficiency and received notice from the Nasdaq. The Company is in the process of satisfying the Nasdaq's listing deficiencies. Any failure to comply with applicable continued listing requirements and regulations may result in the delisting of the Company's Common Shares and/or warrants from the CSE and/or the Common Shares from Nasdaq. Such events may have material adverse effects on the Company's business and financial condition.

Significant sales of the Company's listed securities could depress the market price of the Company's securities and impair the Company's ability to raise capital

Sales of a substantial number of Common Shares or other equity-related securities in the public markets by the Company or its shareholders could depress the market price of the Company's securities and impair the Company's ability to raise capital through the sale of additional equity securities. The Company cannot predict the effect that future sales of Common Shares or other equity-related securities would have on the market price of the Common Shares. The price of the Common Shares could be affected by possible sales of the Common Shares by hedging or arbitrage trading activity.

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company

The Company may issue additional securities in the future, which may dilute a shareholder's holdings, or a holder of a convertible security's underlying relative interest, in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with any such further issuance. The directors of the Company have discretion to determine the price and the terms of further issuances, subject to applicable stock exchange policies. Moreover, additional Common Shares will be issued by the Company on the full exercise of stock options, restricted share units and warrants, issued or to be issued by the Company in the future, and the exercise of any resulting convertible securities of such as applicable.

The Company's cash flows and ability to pursue future business and expansion opportunities are dependent on the earnings of its subsidiaries and investees and the distribution of those earnings to the Company

IMC is a holding company. Substantially all of the Company's operating assets are the capital stock of its Subsidiaries and arrangements with investees. Substantially all of the Company's business is conducted through Subsidiaries or investees, which are separate legal entities. Consequently, the Company's cash flows and ability to pursue future business and expansion opportunities are dependent on the earnings of its subsidiaries and investees and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's Subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

The Company has not paid any dividends on the outstanding Common Shares and maintains no current intention to declare dividends in the foreseeable future

The Company has not paid any dividends on the outstanding Common Shares, and the Company maintains no current intention to declare dividends on the Common Shares in the foreseeable future. Any decision to pay dividends on the Common Shares in the future will be at the discretion of the Board and will depend on, among other things, the Company's results of operations, current and anticipated cash requirements and surplus, financial condition, any future contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant.

The market price of the Company's Common Shares and warrants may fluctuate, which may have a material adverse effect on the Company's operations, financial condition and operating results

The market price of the Common Shares and warrants may fluctuate to a wide degree as a result of a number of factors, including without limitation market conditions, financial analyst predictions, changes in law, press releases and public filings of the Company, operational activity and results and competitor activity. In particular, the dual-listing of the Common Shares on the CSE and Nasdaq may result in higher volatility as a result of the exposure to both U.S. and Canadian financial market conditions. Overall, such factors, whether related or unrelated to operational performance of the Company, may cause a temporary or non-temporary negative pressure on prices of the Company's securities or assets. If the negative pressure on prices arising from these factors persist, impairment losses may be recorded and the Company could experience a material adverse effect on its operations, financial condition and operating results.

The failure to design, develop or maintain effective internal controls may affect the Company's ability to prevent fraud, detect material misstatements, and fulfill reporting obligations

Effective internal controls are required for the Company to provide reasonable assurance that its financial results and other financial information are accurate and reliable. Any failure to design, develop or maintain effective controls, or difficulties encountered in implementing, improving or remediation lapses in internal controls may affect the Company's ability to prevent fraud, detect material misstatements, and fulfill our reporting obligations. As a result, investors may lose confidence in the Company's ability to report timely, accurate and reliable financial and other information, which may expose the Company to certain legal or regulatory actions, thus negatively impacting its business and financial condition, including the liquidity and/or market value of its securities.

The possible lack of liquidity of securities may cause difficulty for security holders to re-sell securities at desired prices

Despite the listing of the Common Shares and warrants on public exchanges, there is no guarantee to security holders that the securities will be sufficiently liquid to any degree without a substantial decrease in price, particularly if selling significant quantities within a short time frame. Accordingly, there is a possibility that a lack of liquidity may cause difficulty for security holders to re-sell securities at desired prices.

The Group's debtors may default on payments owed to the Group

The Group may be owed current or long-term debts such as accounts receivables over the course of its operations. As a result, the Group may be exposed to the risk of debtor defaults on payments as they come due. The Company makes no guarantee on the level of credit risk that it will hold at any given time but intends to minimize this risk as determined by the Board.

The Group is subject to the inherent liquidity risk that it will not be able to pay its financial obligations as they become due

The Group is subject to the inherent risk that it will not be able to pay its financial obligations as they become due. In light of its recent negative cash flows, the Company monitor liquidity risk carefully and plan its liquid holdings strategically to avoid any payment defaults. The Group's liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. 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, 2023, management considers liquidity risk to be high.

There is a risk that losses will be incurred by the Group if there is an adverse shift in exchange rates or increases in prevailing interest rates

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes exchange rate risk and interest rate risk.

Exchange rate risk is the risk of loss arising from changes to foreign exchange rates. As the Group is a party to certain international contracts that require the Group to make or receive payments in foreign currencies, there is a risk that losses will be incurred if there is an adverse shift in exchange rates.

Interest rate risk pertains to the risk of loss arising from changes in prevailing interest rates. Any increases in prevailing interest rates may increase interest expenses paid by the Group on any long-term debt.

The Company is dependent upon the global capital markets to raise capital by equity or debt financing

An economic downturn of the global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it continues to develop its operations. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations and the trading price of the Company's securities.

Future crises may be precipitated by any number of causes, including natural disasters, public health crises, geopolitical instability, war, natural disasters, changes to energy prices or sovereign defaults. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. Increased levels of volatility and market turmoil can adversely impact the Group's operations and the value, and the price of the Common Shares and/or Warrants could be adversely affected.

In addition, there is a risk that one or more of the Group's current service providers may themselves be adversely impacted by difficult economic circumstances, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

A judgment against any member of the Group in excess of available insurance coverage could have a material adverse effect on the Group in terms of damages awarded and negatively impact the reputation of the Group

The Group maintains various types of insurance which may include product liability insurance, errors and omission insurance, directors and officers' insurance, trustees' insurance, property coverage and general commercial insurance. There is no assurance that claims will not exceed the limits of available coverage, that any insurer will remain solvent or willing to continue providing insurance coverage with sufficient limits or at a reasonable cost; or, that any insurer will not dispute coverage of certain claims due to ambiguities in the policies. A judgment against any member of the Group in excess of available coverage could have a material adverse effect on the Group in terms of damages awarded and negatively impact the reputation of the Group.

The insurance purchased by the Group cannot cover all risks that the Group is exposed to, and any uninsured amounts of liabilities incurred by member(s) of the Group may be paid directly by such members

The insurance purchased by the Group cannot cover all risks that the Group is exposed to. Additionally, some insurance policies are outside of budget limitations and are therefore elected to be excluded. There is no guarantee that any insurance coverage maintained by any member(s) of the Group will sufficiently cover any or all liabilities incurred by that Group member. Any uninsured amounts of liabilities incurred by member(s) of the Group may be paid directly by such members. Accordingly, such direct payments may have a material adverse effect on the Group's business, results of operations, and financial condition.

The Group's products face an inherent risk of exposure to product liability claims, regulatory action and litigation if such products are alleged to have caused significant loss or injury

Focus, Adjupharm and the Israeli Subsidiaries are producers, importers, distributors and/or sellers of products designed to be ingested or inhaled by humans. Such products face an inherent risk of exposure to product liability claims, regulatory action and litigation if such products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of such products involve the risk of injury or loss to consumers or patients due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or patients or other third parties. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur.

The Group may be subject to various product liability claims, including, among others, that products manufactured, imported, distributed, stored or sold by the Group or bearing one of the Group's brands caused injury, illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Group could result in increased costs, could adversely affect the Group's reputation with its clients, patients and consumers generally, and could have a material adverse effect on the Group's results of operations and financial condition.

There can be no assurances that the Group will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Group's products.

Members and/or representatives of the Group are or may become parties to litigation from time to time in the ordinary course of business that could adversely affect the Group's business

Certain members and/or representatives of the Group are parties to certain legal proceedings or investigations and certain legal proceedings as described in "Legal Proceedings" below. Should such Group members and/or representatives fail to receive favorable decisions at the conclusion of these legal proceedings or incur significant costs in litigation thereof, the Group's business, financial condition or operating results may be subject to a material adverse effect.

Members and/or representatives of the Group are or may become parties to litigation from time to time in the ordinary course of business that could adversely affect its business. Should any litigation in which the Group members and/or representatives become involved be determined against such Group members and/or representatives, such a decision could adversely affect the Group's ability to continue operating and the market price for the Common Shares and/or warrants. Even if such Group members and/or representatives are involved in litigation and win, the litigation process can consume significant resources of the Group.

A failure of the Group's quality control systems could result in significant costs incurred in replacing, destroying or repurposing defective inventory, providing replacement products to its customers or recalling such products

The quality and safety of the Group's products and products purchased from third party suppliers are critical to the success of the Group's business and operations. As such, it is imperative that the Group's (and its service providers') quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Group strives to ensure that it and all of its service providers have implemented and adhere to high calibre quality control systems, the Group could experience a significant failure or deterioration of such quality control systems. A failure of the Group's quality control systems could result in significant costs incurred in replacing, destroying or repurposing defective inventory, providing replacement products to its customers or recalling such products. The Group may be unable to meet customer demand and may lose customers who have to purchase alternative brands or products. In addition, consumers may lose confidence in the Group's brands whether affected or not and such brand reputation may be materially damaged. Any loss of sales volume from a contamination event may affect the Group's ability to fulfill its contractual obligations. During this time, the Group's competitors may benefit from an increased market share that could be difficult and costly to regain.

If the Group's products are recalled due to an alleged product defect or for any other reason, the Group could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall and may lose a significant amount of sales

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If products are recalled due to an alleged product defect or for any other reason, the Group could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall.

The Group may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention.

Although the Group has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Group's significant brands were subject to recall, the image of that brand and the Group could be harmed. A recall for any one of the foregoing reasons could lead to decreased demand for the Group's products and could have a material adverse effect on the results of operations and financial condition of the Group. Additionally, product recalls may lead to increased scrutiny of the Group's operations by the applicable regulatory body, including but not limited to MOH or BfArM or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Inaccuracies in forecasting market conditions could have a material adverse effect on the Group's business, financial condition and results of operations

The Group's sales forecasts are largely dependent on the Group's own market research. There is no assurance pertaining to the accuracy of the Group's predictions regarding the cannabis industry. Any assumptions made in producing forecasts may be inaccurate as a result of external factors that are unpredictable to the Group. Such inaccuracies could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's business may be negatively impacted by catastrophic events, natural disasters, severe weather and disease

The Group's business may be negatively impacted by a number of events that are beyond its control, including cyber-attacks, energy blackouts, pandemics, terrorist attacks, acts of war, earthquakes, hurricanes, tornados, fires, floods, ice storms or other catastrophic events. Further, the Group relies on certain suppliers and distribution partners whose businesses may be impacted by the occurrence of any of the foregoing events. Catastrophic events can evolve rapidly and their impacts can be difficult to predict. There can be no assurance that the occurrence of a catastrophic event or the associated consequences will not disrupt the Group's operations, ability to carry on business or supply and distribution chains. In addition, liquidity and volatility, credit availability, market and financial conditions and cannabis cultivation, supply and distribution conditions, among other critical factors to the Group's business, could change at any time as a result. These events and any associated consequences may cause a material adverse effect on the business, financial condition and results of operations of the Group. A catastrophic event, including an outbreak of infectious disease, a pandemic or a similar health threat, such as the COVID-19 pandemic, or fear of any of the foregoing, could adversely impact the Group and its ability to maintain normal operations.

The Group is subject to a variety of anti-money laundering laws and regulations

The Group is subject to a variety of laws and regulations domestically and internationally that involve money laundering, financial recordkeeping and proceeds of crime, including any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities internationally. In the event that any of the Group's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments were found to be contrary to money laundering legislation, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to effectively enforce security over underlying assets, which could have a material adverse effect on the Group

There is no guarantee that the Group will be able to effectively enforce any guarantees, indemnities or other security interests it may have. Should a bankruptcy or other similar event occur that precludes an investee from performing its obligations under an agreement with any member of the Group, the Group would have to enforce its security interest. In the event that the investee has insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities owed to the Group. In addition, bankruptcy or other similar proceedings are often a complex, lengthy and expensive process, the outcome of which may be uncertain and could result in a material adverse effect on the Company.

If the Group is unable to enforce its security interests due to any reasons including regulatory reasons related to its cannabis activity, there may be a material adverse effect on the Group.

The Company, its officers and directors may be subject to various potential conflicts of interest, which could adversely affect Company operations

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In some cases, the executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company and its affairs, and that could adversely affect Company operations. These business interests could require significant time and attention of the Company's executive officers and directors. In addition, the Company may also become involved in other transactions which conflict with the interests of the Company's directors and officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those the Company desires. The interests of these persons could conflict with the Company's interests.

In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, directors are required to act honestly, in good faith and in the Company's best interests.

The Company is a foreign private issuer under United States Securities Laws

The Company is a "foreign private issuer", as defined in Rule 405 under the Securities Act of 1933, as amended (the "U.S. Securities Act"), and Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). It is therefore not subject to the same requirements that are imposed upon U.S. domestic issuers by the United States Securities and Exchange Commission (the "SEC"). Under the Exchange Act, the Company is subject to reporting obligations that, in certain respects, are less detailed and less frequent than those of U.S. domestic reporting companies. As a result, the Company does not file the same reports that a U.S. domestic issuer would file with the SEC, although the Company is required to file with or furnish to the SEC the continuous disclosure documents that it is required to file in Canada under Canadian securities laws. In addition, the Company's officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act. Therefore, the Company's shareholders may not know on as timely a basis when the Company's officers, directors and principal shareholders purchase or sell Common Shares, as the reporting periods under the corresponding Canadian insider reporting requirements are longer.

As a foreign private issuer, the Company is exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements. The Company is also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. While the Company complies with the corresponding requirements relating to proxy statements and disclosure of material non-public information under Canadian securities laws, these requirements differ from those under the Exchange Act and Regulation FD and shareholders should not expect to receive the same information at the same time as such information is provided by U.S. domestic companies. In addition, the Company may not be required under the Exchange Act to file annual and quarterly reports with the SEC as promptly as U.S. domestic companies whose securities are registered under the Exchange Act.

In addition, as a foreign private issuer, the Company has the option to follow certain Canadian corporate governance practices, except to the extent that such laws would be contrary to U.S. securities laws, and provided that the Company discloses the requirements it is not following and describes the Canadian practices it follows instead. The Company may in the future elect to follow home country practices in Canada with regard to certain corporate governance matters. As a result, the Company's shareholders may not have the same protections afforded to shareholders of U.S. domestic companies that are subject to all corporate governance requirements.

Loss of foreign private issuer status under United States securities laws could increase the Company's regulatory and compliance costs

In order to maintain its status as a foreign private issuer, a majority of the Common Shares must be either directly or indirectly owned by non-residents of the U.S. unless the Company also satisfies one of the additional requirements necessary to preserve this status. The Company may in the future lose its foreign private issuer status if a majority of its Common Shares are held in the U.S. and if the Company fails to meet the additional requirements necessary to avoid loss of its foreign private issuer status. The regulatory and compliance costs under U.S. federal securities laws as a U.S. domestic issuer may be significantly more than the costs incurred as a foreign private issuer. If the Company is not a foreign private issuer, it would not be eligible to use the Multijurisdictional Disclosure System or other foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. In addition, the Company may lose the ability to rely upon exemptions from Nasdaq corporate governance requirements that are available to foreign private issuers.

Loss of emerging growth company status under United States securities laws could increase the Company's regulatory and compliance costs

The Company is an "emerging growth company" as defined in section 3(a) of the Exchange Act (as amended by the JOBS Act, enacted on April 5, 2012), and the Company will continue to qualify as an emerging growth company until the earliest to occur of: (a) the last day of the fiscal year during which the Company has total annual gross revenues of US\$1,235,000 (as such amount is indexed for inflation every five years by the SEC) or more; (b) the last day of the fiscal year of the Company following the fifth anniversary of the date of the first sale of common equity securities of the Company pursuant to an effective registration statement under the U.S. Securities Act; (c) the date on which the Company has, during the previous three year period, issued more than US\$1,000,000 in non-convertible debt; and (d) the date on which the Company is deemed to be a "large accelerated filer", as defined in Rule 12b-2 under the Exchange Act. The Company will qualify as a large accelerated filer (and would cease to be an emerging growth company) at such time when on the last business day of its second fiscal quarter of such year the aggregate worldwide market value of its common equity held by non-affiliates will be US\$700,000 or more.

For so long as the Company remains an emerging growth company, it is permitted to and intends to rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. The Company cannot predict whether investors will find the Common Shares less attractive because the Company relies upon certain of these exemptions. If some investors find the Common Shares less attractive as a result, there may be a less active trading market for the Common Shares and the Common Share price may be more volatile. On the other hand, if the Company no longer qualifies as an emerging growth company, the Company would be required to divert additional management time and attention from the Company's development and other business activities and incur increased legal and financial costs to comply with the additional associated reporting requirements, which could negatively impact the Company's business, financial condition and results of operations.

The Group operates in multiple jurisdictions and is subject to currency fluctuations

The Group currently has assets and operations in Israel and Germany and transacts business in such jurisdictions and in additional jurisdictions such as Canada in the local currency. As of December 31, 2023, a portion of the Group's financial assets and liabilities held in NIS, Euros, Canadian and U.S. dollars consist of cash and cash equivalents. 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 as applicable. 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. Currency fluctuations could have a material adverse effect on the Group's business, financial condition and results of operations.

The Company's shareholding in other entities is subject to price fluctuations

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.

Judicial and legislative reforms in Israel

Israel is and has been 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

For more information of the Company's Companies' Creditors Arrangement Act ("CCAA") proceedings, please see the section entitled "*Canadian Restructuring*".

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Name, Address and Incorporation

The Company was incorporated on March 7, 1980 under the name “Nirvana Oil & Gas Ltd.” pursuant to the *Business Corporations Act* (British Columbia) (the “BCBCA”). Since 2019, the Company is acting in the medical cannabis industry.

The Common Shares trade under the ticker symbol “IMCC” on both the Nasdaq and CSE effective March 1, 2021 and November 5, 2019, respectively, and certain warrants of the Company are listed and posted for trading on the CSE under the symbol “IMCC.WT”.

On June 22, 2018, the Company completed a consolidation of its Common Shares on a 5:1 basis.

On October 4, 2019, in connection with the reverse take over transaction by IMC Holdings, the Company completed a consolidation of its Common Shares on a 2.83:1 basis, changed its name to “IM Cannabis Corp.” and changed its business from mining to the international medical cannabis industry.

On February 12, 2021, in connection with its Nasdaq listing application, the Company completed a consolidation of its Common Shares on a 4:1 basis.

On November 17, 2022, in connection with regaining compliance with Nasdaq’s continued listing standards, the Company completed a 10:1 consolidation of its Common Shares, which was approved by shareholders at the Company’s annual and special meeting of shareholders held on October 20, 2022.

The Company’s head office is located at Kibbutz Gilil Yam, Israel and its registered office is located at 833 Seymour Street, Suite 3606, Vancouver, British Columbia, V6B 0G4, Canada. The company does not have a telephone number associated with its registered office.

The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our internet site is <https://www.imcannabis.com>.

Events in the Development of the Business

DEVELOPMENTS DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2023

WAGNERS™ Brand Update

On January 19, 2022, Focus imported premium indoor-grown Canadian cannabis flowers from Trichome JWC Acquisition Corp. (“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. In Q3 of 2023, The WAGNERS™ brand relaunched “Cherry Jam”, “Pink Bubba”, “Golden Ghost”, “Tiki Rain”, “Rain”, “Forest Crunch” and “Silverback”. For more information, please see the section entitled “*Israeli Medical Cannabis Business*”.

Revolving Credit Facility Agreement with an Israeli Bank - Bank Mizrahi

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 15,000 (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%. During the first quarter of 2023, the Company reduced total commitments to NIS 10,000 (approximately, C\$3,600) and as of December 31, 2023, Focus has drawn down \$3,227 in respect of the Mizrahi Facility as at December 31, 2023.

On May 17, 2023, the Company and the Mizrahi Facility entered into a subsequent revolving credit facility arrangement with a total commitment of up to NIS 10,000 (approximately C\$3,600) (the “**New Mizrahi Facility**”). The New Mizrahi Facility consists of a (i) NIS 5,000 credit line; and (iii) a NIS 5,000 loan to be settled with 24 monthly installments that commenced on May 17, 2023. The loan portion of the New Mizrahi Facility bears interest at the Israeli Prime interest rate plus 2.9%. As of December 2023, Focus has drawn down C\$3,227 in respect the New Mizrahi Facility (comprised of approximately \$1,827 from (i) the credit line; and \$1,500 from the loan portion). The New Mizrahi Facility is also subject to several covenants to be measured on a quarterly basis which were not met as of December 31, 2023; therefore, the loan is classified as short-term loan.

The Company’s Chief Executive Officer and director, provided the Mizrahi Facility a personally guarantee in the amount of the outstanding borrowed amount, allowing the New Mizrahi Facility to remain effective.

Panaxia Transaction Update

On February 13, 2023, the Company provided an update on its previously announced transaction with Panaxia Pharmaceutical Industries Israel Ltd., and Panaxia Logistics Ltd., part of the Panaxia Labs Israel Ltd. group of companies (collectively, “**Panaxia**”). Under the transaction terms, the Company purchased the home-delivery services and an online retail footprint operating under the name “Panaxia-to-the-Home” in Israel, which includes a customer service center, an Israeli medical cannabis distribution with IMC-GDP license, and an online related business together with associated intellectual property (the “**Panaxia Transaction**”). 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. The Panaxia Transaction included a further option to acquire, for no additional consideration, a pharmacy, including requisite license to dispense and sell medical cannabis to patents (“**Panaxia Pharmacy Option**”).

The Company and Panaxia reached an agreement to terminate the Panaxia Pharmacy Option on February 13, 2023. In consideration for termination of the Panaxia Pharmacy Option, the Company will not be required to make the fifth installment of \$2,619 worth of Common Shares owed by the Company to Panaxia under the Panaxia Transaction and was supposed to receive an agreed compensation amount of \$9,464 from Panaxia to be paid by Panaxia in services and cannabis inflorescence in accordance with the terms as agreed by the parties.

Acquisition of Jerusalem’s Leading Medical Cannabis Pharmacy – Oranim Pharm Update

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 (the “**Oranim Pharm Partnership**”), 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 5,363 were supposed to be paid in several installments throughout 2023 and until February 15, 2024. Through a new amendment signed January 10, 2024, the sixth (6) payment as well as the reconciliation between the parties regarding all remaining unpaid installments has been postponed to April 15, 2024. All six installments (that remain unpaid) will incur a 15% interest charge. Failure to meet the remaining payments will result in the transfer of IMC Holdings shares (51%) back to the seller, along with the revocation of the transaction.

Based on the Group's working capital position as of December 31, 2023, management considers the risk of not being able to pay all six installments, potentially resulting in the revocation of the transaction, to be high.

In satisfaction of the share consideration component, the Company issued 251,001 Common Shares at a deemed issue price of US\$1.90 per share (approximately \$2.37), calculated based on the average closing price of the Common Shares on the Nasdaq for the 14-trading day period immediately preceding March 28, 2022. The Common Shares issued were subject to a staggered three-month lockup commencing on the date of issuance.

Closure of the Focus Facility

On April 6, 2022, the Company announced 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 consumers. As part of these changes, in Q2 2022, the Company closed its cultivation facility in Sde Avraham, Israel (the "**Focus Facility**") to concentrate on leveraging its skilled sourcing team and strategic alliances with Canadian suppliers. In July 2022, Focus 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. 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.

Debt Settlement with L5 Capital Inc.

On May 8, 2023, the Company closed a debt settlement transaction (the "**Debt Settlement**") with L5 Capital Inc., a company controlled by Marc Lustig, executive chairman and a director of the Company ("**L5 Capital**"). Pursuant to the Debt Settlement, the Company settled outstanding indebtedness of \$839 (approximately US\$616) through issuing 492,492 units at a price of US\$1.25 per unit. Each unit consisted of one Common Share and one Common Share purchase warrant. Each 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.

NASDAQ Compliance Notice

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 August 1, 2023, 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 29, 2024, being 180 calendar days following receipt of such notice to regain compliance with the Minimum Share Price Listing Requirement. On January 31, 2024, the Company received an extension a 180-calendar day extension, until July 29, 2024, from Nasdaq staff to regain compliance with the Minimum Share Price Listing Requirements.

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 of the issued and outstanding shares of SublimeCulture Inc. ("**Sublime**"), a wholly owned subsidiary TJAC, 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.

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 aimed for a leaner organization with a primary focus on achieving profitability in 2023.

The Canadian operations were held through Trichome and being orderly wound-down under CCAA pursuant to an initial order of the Ontario Superior Court of Justice (Commercial List) (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 Trichome 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 Trichome, 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 Trichome 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 Trichome to approve, among other things: a sale and investment solicitation process (the "**SISP**") in respect of the business and assets of Trichome; and a stalking horse share purchase agreement (the "**Stalking Horse Purchase Agreement**") between Trichome and L5 Capital 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'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 Capital informed Trichome that it would not be completing the transaction contemplated by the Stalking Horse Purchase Agreement and, as a result, Trichome terminated the Stalking Horse Purchase Agreement, and (iii) the Monitor continues to market for sale Trichome's business and assets, including the brands and other intellectual property owned by Trichome.

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

On March 9, 2023, the Court issued an order extending the Stay until April 21, 2023 in order to allow Trichome to complete the orderly wind-down of its operations.

Pursuant to an order of the Court made on April 6, 2023 in the CCAA Proceedings (the "**Reverse Vesting Order**"), the Court approved a share purchase agreement (the "**Share Purchase Agreement**") dated March 28, 2023 among Trichome, 1000370759 Ontario Inc. (the "**Purchaser**"), TJAC, Trichome Retail Corp. ("**TRC**"), MYM Nutraceuticals Inc. ("**MYM**"), MYM International Brands Inc. ("**MYMB**") and Highland Grow Inc. ("**Highland**"), and collectively with TJAC, TRC, MYM and MYMB, the "**Purchased Entities**"). The Purchased Entities and its business and operations were sold to a party that is not related to the Company. Thus, the Company has exited operations in Canada and considers these operations discontinued. The Share Purchase Agreement is solely in respect of the Purchased Entities. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, will not be affected by it.

The Share Purchase Agreement contemplated a reverse vesting transaction pursuant to which Trichome agreed to sell to the Purchaser, and the Purchaser agreed to purchase, all of the issued and outstanding shares in the capital of TJAC and MYM owned by Trichome for a purchase price of \$3,375 along with certain deferred consideration. Pursuant to the Share Purchase Agreement and Reverse Vesting Order, the Purchased Entities retained the Purchased Entities' assets, contracts and liabilities (the "**Assumed Liabilities**") specified in the Share Purchase Agreement free and clear of any claims other than the Assumed Liabilities, and all other assets, contracts, and liabilities of the Purchased Assets were transferred to, and assumed by, five newly created corporations being 1000491916 Ontario Inc. ("**TJAC Residual Co.**"), 1000492008 Ontario Inc. ("**TRC Residual Co.**"), 1000491929 Ontario Inc. ("**MYM Residual Co.**"), 1000492005 Ontario Inc. ("**MYMB Residual Co.**") and 1000492023 Ontario Inc. ("**Highland Residual Co.**"), and collectively with TJAC Residual Co., TRC Residual Co., MYM Residual Co. and MYMB Residual Co., the "**Residual Corporations**"), the shares of which are owned directly or indirectly by Trichome. The closing of the transactions contemplated by the Share Purchase Agreement occurred on April 6, 2023.

On September 14, 2023, a CCAA termination order was granted upon service on the service list of an executed certificate and the above CCAA Proceedings under the CCAA and Stay was terminated without any further act or formality.

On September 29, 2023, Trichome filed (or was deemed to have filed) an assignment (or bankruptcy order was made against Trichome, and Goldhar & Associates Ltd., was appointed as trustee of the estate of the bankrupt by the official receiver (or the Court). The first meeting of the creditors was held on October 17, 2023.

In the context of the deconsolidation of the Canadian operations, there are no remaining liabilities to the Company or any of its consolidated subsidiaries related to the Canadian entities, except tax obligations of \$839 related to a debt settlement with L5 Capital. The CCAA Proceedings were solely in respect of Trichome. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, were not parties to 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>.

Life Offering

In January and February of 2023, the Company issued an aggregate of 2,828,248 units of the Company (each a '**Life Unit**') at a price of US\$1.25 per Life 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 exempt under Part 5A of National Instrument 45-106 – *Prospectus Exemptions* (the "**LIFE Offering**"). Each Life Unit consisted of one Common Share and one Common Share purchase warrant (each a '**Life Warrant**'), with each Life 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 Life 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 certain consulting services previously rendered by the director to the Company.

In connection with the LIFE Offering, the Company and Odyssey Trust Company entered into a series of warrant indentures on January 30, 2023 (the '**First LIFE Warrant Indenture**'), February 7, 2023 (the '**Second LIFE Warrant Indenture**') and February 16, 2024 (the '**Third LIFE Warrant Indenture**') to govern the terms and conditions of the Life Warrants.

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\$2,897 (the "**Concurrent Offering**"). The Concurrent Offering was led by insiders of the Company. The units offered under the Concurrent Offering were sold under similar terms as the Life Offering and 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.

Board Changes

On March 8, 2023, the Company announced its strategic plan to reorganize the Company's management and operations to strengthen its focus on core activities (the "**Restructuring Plan**"). As part of the Restructuring Plan, the following positions in the Company's global leadership team transitioned to highly skilled internal successors:

- Shai Shemesh, resigned as Chief Financial Officer of the Company and Itay Vago, was appointed as Chief Financial Officer of the Company to fill the vacancy created by Shai Shemesh's resignation.
- Rinat Efrima, resigned as Chief Executive Officer of IMC Holdings and Eyal Fisher was appointed as the General Manager of IMC Holdings to fill the vacancy created by Ms. Efrima's resignation. Mr. Fisher previously held the position of Sales Director of IMC Holdings prior to his appointment as General Manager.
- Yael Harrosh resigned as Chief Legal and Operations Officer of the Company and Michal Lebovitz was appointed as General Counsel of the Company to fill the vacancy created by Mr. Harrosh's resignation.

On September 19, 2023, the Company announced the resignation of Itay Vago, the Company's Chief Financial Officer.

On October 10, 2023, the Company announced that Uri Birenberg was appointed as Chief Financial Officer to fill the vacancy created by Mr. Vago's resignation.

Loan from ADI

On October 11, 2022, IMC Holdings entered into a loan agreement (the "**ADI Agreement**") with A.D.I. Car Alarms Stereo Systems Ltd ("**ADI**"), 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 Logistic Center of Adjupharm. In addition, the Company's Chief Executive Officer 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.

On October 25, 2023, IMC Holdings and ADI signed an amendment to the ADI Agreement, extending the loan period by an additional 3 months. During this extended period, the interest rate will be 15%, with associated fees and commissions of 3% per annum for application fee and an origination fee of 3% per annum.

On February 26, 2024, IMC Holdings and ADI signed an additional amendment to the ADI Agreement, extending the loan period until April 15, 2024, with the same terms as the first amendment, as specified above.

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.

In Q4 2023, the Company relaunched two additional products under the BLKMKT™ brand, which included "JEALOUSY" and "BACIO GLTO". For more information, please see the section entitled "*B. Business Overview*".

35 Oak Holdings Ltd – Statement of Complaint

On November 17, 2023, the Company received a copy of a Statement of Claim that was filed in the Ontario Superior Court of Justice in Canada by 35 Oak Holdings Ltd., MW Investments Ltd., 35 Oak Street Developments Ltd., Michael Wiener, Kevin Weiner, William Weiner, Lily Ann Goldstein-Weiner, in their capacity as trustees of the Weiner Family Foundation (collectively the "**MYM Shareholder Plaintiffs**") against the Company and its board of directors, Board and officers, (collectively, the "**MYM Defendants**").

MYM Shareholder Plaintiffs claims that the MYM Defendants made misrepresentations in its disclosures prior to the Company's transaction with MYM in 2021. The MYM Shareholder Plaintiffs are claiming damages that amount to approximately \$15,000 and aggravated, exemplary and punitive damages in the amount of \$1,000.

The Company has reviewed the complaint and believes that the allegations are without merit.

The Company, together with some of the Defendants brought, on February 22, 2024, a preliminary motion to strike out several significant parts of the claim (the "**Motion**") The Motion has not been scheduled by the court.

At this time, the Company's management is of the view that the Motion has merit and is likely to succeed in at least narrowing the scope of the claim against the Company, and that it may also result in certain of the claims against individuals being dismissed altogether, and if not dismissed narrowed in scope and complexity.

The Company plans to vigorously defend itself against the allegations. At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

Annual General and Special Meeting

On December 6, 2023, the Company held an annual and special meeting where shareholders approved fixing the number of directors of the Company at five, elected the directors for the ensuing year and re-appointment of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, Tel Aviv, Israel (PCAOB ID 1281) ("**Kost Forer**") as auditor of the Company.

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 loaned NIS 1,545 (approximately \$605) to Telecana according to the following advance schedule: NIS 45 on January 15, 2023 (approximately C\$18); NIS 250 on January 31, 2023 (approximately C\$98); NIS\$500 (approximately C\$196) on February 28, 2023; NIS 500 (approximately C\$196) on April 5, 2023; and NIS 250 (approximately C\$98) on May 5, 2023. Telecana opened a pharmacy and obtained from the IMCA a license to dispense medical cannabis products. Pursuant to the Telecana Loan Agreement, subject to IMCA approval, the loan can be converted into 51% of the share capital of Telecana, with such conversion to occur at the earlier: (i) upon receipt of a preliminary license from the IMCA; and (ii) at any time at the sole discretion of IMC Holdings. As of the date of this Annual Report, notwithstanding that Telecana has received such preliminary license, the parties are in the process of obtaining IMCA approval to complete the conversion.

Medical Cannabis Reform

On December 8, 2023, the Company announced a 3-month delay of the anticipated medical cannabis reform announced by the Israeli ministry of health on August 7, 2023. Due to the Israel-Hamas war, the anticipated implementation of the medical cannabis regulatory reform, originally scheduled for December 29, 2023, was postponed by three months. The new regulations were designed to alleviate many of the stringent restrictions in the sector, thereby enhancing access to medical cannabis for patients. In addition to the regulatory reform, the Medical Cannabis Unit of the Ministry of Health released a new report that shows, among other statistics, data on the number of patients obtaining medical cannabis licenses. There was a notable surge in the number of new medical cannabis patients in November 2023, with 3,254 new patients receiving licenses, the largest increase in new patients per month since 2021.

Planning and Construction Legal Proceedings

On December 28, 2023, a settlement was reached in the Planning and Construction Legal Proceedings against Focus. As previously disclosed in the Company's annual information form dated April 26, 2021, and the press release dated July 13, 2021, as well as in the Company's financial statements and management's discussion and analysis for the year ended December 31, 2022, certain allegations were made against Focus regarding inadequate permitting for construction at its cultivation facility. The settlement involved Focus, Oren Shuster, Refael Gabay, Yaron Berger, the former Chief Executive Officer of Focus, along with the three landowners on whose property Focus operated the cultivation facility. The settlement resulted in the dismissal of all criminal charges against the individual defendants, with only Focus being charged. Focus received a monetary fine of approximately C\$129 (NIS 350), payable in 10 installments. After a long legal process since the indictment, Focus has destroyed all the buildings that didn't have the construction permits, closed the cultivation facility in Sdei Avraham in June 2022, ceased with its cultivation operation and now focusing on import and sales operations. Currently, the Company's management do not anticipate a material impact on the licensing or normal course of operations for Focus due to the indictment and the settlement that has been achieved.

EVENTS FOLLOWING THE FINANCIAL YEAR ENDED DECEMBER 31, 2023

Acquisition of Jerusalem's Leading Medical Cannabis Pharmacy – Oranim Pharm Update

On January 12, 2024, the Company announced that the final sixth payment of the Oranim Pharmacy Acquisition and the reconciliation between the parties regarding the remaining transaction payments are being rescheduled to April 15, 2024.

Through the transaction, completed on March 28, 2022, IMC Holdings Ltd. acquired 51% of the rights in Oranim Pharm Partnership through the acquisition of Oranim Plus. As part of the transaction consideration, NIS 5,363K or 1,930K CAD were supposed to be paid in six installments throughout 2023, with the final payment due February 15, 2024.

Through a new amendment signed January 10, 2024, the sixth (6) payment as well as the reconciliation between the parties regarding all remaining unpaid installments has been postponed to April 15, 2024. All six installments (that remain unpaid) will incur a 15% interest charge. Failure to meet the remaining payments will result in the transfer of IMC Holdings Ltd. shares (51%) back to the seller, along with the revocation of the transaction.

NASDAQ Compliance Notice Update

On January 31, 2024, the Company received an extension a 180-calendar day extension, until July 29, 2024, from Nasdaq staff to regain compliance with the Minimum Share Price Listing Requirements (the "**Extension**"). As at the date of this Annual Report, the Company continues to monitor the closing bid price of its Common Shares and plans to pursue available options to regain compliance with the Minimum Share Price Listing Requirement, including potentially pursuing a reverse stock split. If the Company authorizes a reverse stock split, it will plan to effectuate the split no later than ten business days prior to the end of the Extension.

Potential Reverse Merger with Kadimastem

On February 28, 2024, the Company announced that it had entered into a non-binding term sheet dated February 13, 2024, as amended (the "**Kadimastem Term Sheet**"), and the Loan Agreement (as defined below), with IMC Holdings, with Israel-based Kadimastem Ltd., a clinical cell therapy public company traded on the Tel Aviv stock exchange under the symbol (TASE: KDST) ("**Kadimastem**"), whereby the parties will complete a business combination that will constitute a reverse merger into the Company by Kadimastem (the "**Proposed Transaction**").

The Proposed Transaction is expected to be completed by way of a plan of arrangement, involving a newly created wholly-owned subsidiary of the Company and Kadimastem (the "**Arrangement**"). The resulting issuer that will exist upon completion of the Proposed Transaction (the "**Resulting Issuer**") will change its business from medical cannabis to biotechnology and, at the closing of the Proposed Transactions (the "**Closing**"), Kadimastem shareholders will hold 88% of the common shares of the Resulting Issuer (the "**Resulting Issuer Shares**") and the shareholders of the Company will hold 12% of the Resulting Issuer Share. The parties may agree, in the definitive agreement, on a different structure of equity in lieu of the warrants (as described below) with a similar result. The Proposed Transaction is an arm's length transaction.

Prior to Closing, the Company's existing medical cannabis operation and other current activities in Israel and Germany (the "**Legacy Business**") will be restructured (the "**Spin-Out**") as a contingent value right (the "**CVR**"). The CVR will entitle the holders thereof to receive net cash, equity, or other net value upon the sale of the Legacy Business following the Closing, subject to the terms of the Loan Agreement.

To facilitate the sale of the Legacy Business, a special committee of the Board was formed, which will oversee the potential sale in collaboration with legal and financial advisors.

The Legacy Business will be made available for potential sale to a third party for a period of up to 12 months from Closing (the "**Record Date**"). After the Record Date, any remaining Legacy Business in the CVR will be offered for sale through a tender process, subject to the terms of the best offer. The proceeds from the sale of the Legacy Business will be utilized to settle debts and distribute the remaining balance, if any, to CVR holders.

As a condition of Closing, Kadimastem will have approximately US\$5,000 in gross funds, at Closing including capital raised concurrently with the completion of the Proposed Transaction from existing shareholders and additional investors.

In addition to the foregoing, subject to compliance with applicable law, the Company shall grant shareholders of the Company as of Closing, with warrant(s) equal their pro rata portion, of 2% of the Resulting Issuer's issued and outstanding common share capital (the "**IMC Shares**") prior to the Closing Date (in the aggregate), with an exercise price per share equal to the 10 day volume-weighted average price of the Resulting Issuer's shares calculated on the Nasdaq, ending 2 trading days prior to Closing, the warrants will be for a period of 24 months following Closing.

In accordance with the terms of the Proposed Transaction, the holders of the issued and outstanding shares in the capital of Kadimastem (the "**Kadimastem Shares**") will be issued such number of IMC Shares in exchange for every one Kadimastem Share held immediately prior to the completion of the Proposed Transaction that reflects the ratio outlined above (the "**Exchange Ratio**"). Outstanding convertible securities of Kadimastem (the "**Kadimastem Convertible Securities**") will be treated through customary mechanics as shall be determined in the definitive agreement, which may include, the assumption of the Kadimastem Convertible Securities by the Company subject to customary adjustments to reflect the Exchange Ratio and exercise price.

Pursuant to the terms of the Kadimastem Term Sheet, a loan agreement dated February 28, 2024 (the "**Loan Agreement**") was entered between IMC Holdings and Kadimastem. Pursuant to the Loan Agreement, Kadimastem will provide a loan of up to US\$650 to the IMC Holdings, funded in two installments: US\$300 upon signing the Loan Agreement and US\$350 upon the execution of the definitive agreement regarding the Proposed Transaction (the "**Kadimastem Loan**").

The Kadimastem Loan accrues interest at a rate of 9.00% per annum, compounding annually and is secured by the following collaterals and guarantees: (a) 10% of the proceeds derived from any operation sale under the CVR ("**Charged Rights**"), limited to the outstanding Loan Amount and expenses according to the Loan Agreement, accordingly IMC Holdings may, at its sole discretion, to record a second-ranked fixed charge over the Charged Rights or, alternatively, in case the existing pledges over the Charged Rights at the date of signing the Loan Agreement are subsequently discharged or removed, then the Borrower shall promptly record a first-ranking fixed charge over the Charged Assets with all applicable public records; provided that IMC Holdings shall not impose any new lien, mortgage, charge or pledge over the Charged Rights that did not exist on the date hereof, or any other liens, subject to customary exclusions; (b) IMC Holdings shall use its best efforts to record a first-ranking fixed charge over the assets of its subsidiary, A.R Yarok Pharm Ltd, in due course when applicable and as deemed appropriate; and (c) a personal guarantee by Mr. Oren Shuster, the Company's Chief Executive Officer.

Prior to the completion of the Proposed Transaction, the Company will call a meeting of its shareholders for the purpose of approving, among other matters:

- approve the Proposed Transaction;
- approve the Spin-Out;
- a change of name of the Company as directed by Kadimastem and acceptable to the applicable regulatory authorities effective upon Closing; and
- reconstitution of the Board.

Upon closing of the Proposed Transaction, all of IMC's current directors and executive officers will resign and the board of directors of the Resulting Issuer will, subject to the approval of governing regulatory bodies, consist of nominees of Kadimastem. All of the executive officers shall be replaced by nominees of Kadimastem, all in a manner that complies with the requirements of governing regulatory bodies and applicable securities and corporate laws.

Details of insiders and proposed directors and officers of the Resulting Issuer will be disclosed in a further news release.

The completion of the Proposed Transaction is subject to a number of conditions, including but not limited to the following:

- the execution of a definitive agreement;
- completion of mutually satisfactory due diligence;
- completion of the share consolidation; and
- receipt of all required regulatory, corporate and third party approvals, including approvals by governing regulatory bodies, the shareholders of IMC and Kadimastem, applicable Israeli governmental authorities, and the fulfilment of all applicable regulatory requirements and conditions necessary to complete the Proposed Transaction.

The parties are committed to seeking a successful completion of the Proposed Transaction as soon as practicable, but there can be no absolute certainty that the Proposed Transaction will take place.

ADI Loan Update

On February 26, 2024, IMC Holdings and ADI signed an additional amendment to the ADI Agreement, extending the loan period until April 15, 2024, with the same terms as the first amendment, as specified above.

Option to re-acquire the sold interest in Focus

On November 30, 2023, IMC Holdings exercised its option to purchase the 74% interest in Focus, held by Oren Shuster and Rafael Gabay by submitting a request to the IMCA, which approved the transaction on February 25, 2024.

B. Business Overview

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. Previously, the Company was also actively servicing adult-use recreational consumers in Canada, however these operations were 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, 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, the Israeli Pharmacies, 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.

As Part of the Panaxia Transaction, the Company 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 entrance into the new segments in Israel position the Company 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 the Company's products, obtaining and leveraging market data and gaining a deeper understanding of consumer preferences. The acquisition of the Israeli Pharmacies allowed 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.

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. Leveraging our global supply chain, the Company 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 dried cannabis from its supply partners, which we believe will satisfy the rapid growth in demand for high-THC 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, favorable 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 EU-GMP 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.

In Canada, 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 were wound-down under the CCAA under the supervision of the Court. The CCAA Proceedings afford Trichome the stability and flexibility required to orderly wind-down its business and operations.

The Group does not currently have and is not in the process of developing marijuana-related activities in the U.S., even in U.S. states where such activity has been authorized within a state regulatory framework. As such, the Company is not and would not be considered in the future a “U.S. Marijuana Issuer” within the meaning set forth in CSA Staff Notice 51-352.

Principal Products and Brands

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.

Israeli Medical Cannabis Business

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. During the year ended December 31, 2023, the Company was selling products under the Craft Collection, however, in Q4 2023, the Craft Collection was temporarily unavailable for sale by the Company and as a result, the Company did not generate any sales under the Craft Collection brand during that time. The Company has since relaunched sales under the Craft Collection.



The Top-Shelf Collection – IMC’s premium product line, which offers indoor-grown, high-THC cannabis flowers with strains such as Lemon Rocket, Diesel Drift, Tropicana Gold, Lucy Dreamz, Santa Cruz, Or’noz, and Banjo. 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®, Chemchew, Karmalada, Rockabye, Silver haze, all an indoor-grown flowers.



The Full Spectrum Extracts – The IMC brand’s full spectrum, strain-specific cannabis extracts, including high-THC Roma®T20 oil. As part of the recent rebranding the Company expanded its Roma® product portfolio also oils. IMC’s Roma® strain is 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 Cherry Jam re-launched in Q3 2023, Pink Bubba, Golden Ghost, Tiki Rain, Forest Crunch and Silverback #4.



BLKMKT™, the Company's second Canadian brand, super premium product line with indoor grown, hand-dried and hand-trimmed high-THC cannabis flowers. The BLKMKT™ includes JEALOUSY, BACIO GLTO, PNPL P, PARK FIRE OG, UPSIDE DOWN C. In Q4 2023, the Company relaunched JEALOUSY and BACIO GLTO.

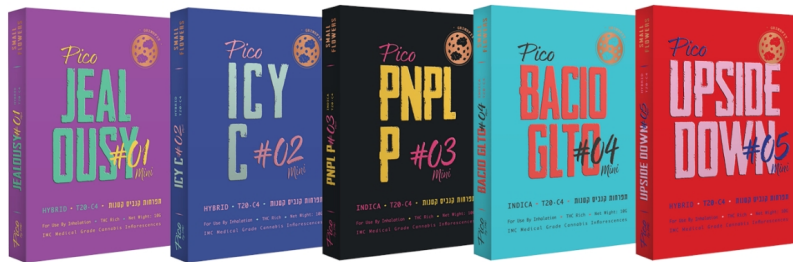


LOT420 brand launched in Israel in Q2 2023, with super-premium indoor-grown cannabis imported from Canada with high-THC. The LOT420 includes ICY C, GLTO 33, Atomic APP and as of Q3 2023 also Glto 33 and Xeno. The Company ceased selling Atomic APP.





The PICO collection (minis) – Under the BLKMT and LOT420 brands, the Company launched in 2023 a new type of products (small flowers), a super-premium indoor-grown cannabis imported from Canada with high-THC. In Q4 2023, the Company re-launched PICO JEALOUSY #1 and PICO BACIO GLTO #4 T20i. In addition, the Company launched in Q4 2023, a new cannabis strain called Pico Upside Down #05 T20H.



German Medical Cannabis Business

In Germany, the company sells IMC-branded dried flower products and full spectrum extracts. The medical cannabis products are branded generically as IMC to increase the brand awareness and build brand heritage among the German healthcare professionals.

After launching the first high THC strain in 2020, the portfolio has been carefully curated to include 5 high THC flowers, 1 high CBD flower and 3 full spectrum extracts with the goal of providing German physicians and patients with a more complete portfolio.

In Q2 2022 the Company's IMC Hindu Kush strain was the top selling T20 in the market. Since 2023, the Company has been number one in sales per SKU within the entire German flower market. In July 2021, the Company was recognized by the German Brand Institute with the "German Brand Award 2021," recognizing its excellence in brand strategy, creation, communication and integrated. The Company is the sixth largest cannabis company in Germany. The Group's competitive advantage in Germany lies in its track record, experience and brand reputation in Israel, as well as the 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



Brand Updates

In Q4 2023, the Company relaunched strains in Israel, namely the “BLKMKT JEALOUSY”, “BACIO GLTO BLKMKT”, “PICO JEALOUSY #1” and “PICO BACIO GLTO#4”. Additionally, a new cannabis strain called “Pico Upside Down #05 was introduced.

Revenue

The following table shows the sales figures in thousands of dollars for each category of products that accounted for 15% or more of the total consolidated revenue of the Company for the financial years ended December 31, 2023, 2022 and 2021, derived from (a) sales to entities in which the Company maintains an investment accounted for by the equity method; (b) sales to customers, other than those referred to in (a); and (c) sales or transfers to controlling shareholders.

Revenues from Continuing operations - By Product Type				
Financial Year	Medical Cannabis Products	Adult-Use Recreational Cannabis Products	Other Products	Total
2023	\$44,246	-	\$4,559	\$48,804
2022	\$48,384	-	\$5,951	\$54,335
2021	\$26,449	-	\$7,604	\$34,053

Production, Distribution and Sales in Principal Markets

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 is also operating in the retail segment. The Company, through IMC Holdings, holds three licensed pharmacies, 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.

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. On June 30, 2023, IMC Pharma, the entity responsible for operating the trading house that was acquired within the Panaxia Transaction, ceased its operations at the aforementioned licensed center located in Lod, Israel. Consequently, the Company transitioned the operation that was conducted through IMC Pharma to third-party entities and to its own trading house currently being operated by Rosen High Way and there are no material obligations remained open following closure of the trading house.

The operation in the retail segment in Israel positions 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 operation 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.

Europe

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. 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, favorable 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 EU-GMP Logistic 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 in which medical cannabis is legal.

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.

Competitive Conditions

The medical cannabis industry in which the Group operates is, and is expected to remain, very competitive. Cannabis companies compete primarily on a regional basis, and competition may vary significantly from region to region at any particular time. The cannabis sector is in a high growth phase, with market participants engaged in significant expansion across global legal jurisdictions. The Company is working to achieve a leadership position in the cannabis industry by taking advantage of IMC brand recognition, earning superior margins and leveraging its proprietary data and patient insights.

The Group faces competition in Israel from similar established medical cannabis brands and manufacturers in the domestic market. The Company expects that its experience and track record, attained via the combination of its operations over the past decade and IMC brand recognition, will distinguish its offerings from competitors in the Israeli market. In addition, the Company believes that with its integrated supply chain and indoor cultivation in Canada vis third parties suppliers, permitting the export of premium and super-premium cannabis products to Israel, it is uniquely positioned to address the needs of medical cannabis patients and customers.

The Company's European operations will face competition from other entities licensed to cultivate, produce and distribute medical cannabis products in each respective jurisdiction. In Germany, Adjupharm will compete with a number of licensed manufacturers and distributors including currently established entities, expected new market entrants, and domestic producers of cannabis. Competitors vary from well-capitalized businesses with substantial operations and revenues to smaller or newer market entrants.

Intangible Properties

The Company relies on the licensing of its brand in Israel to widen its reach and offer branding, marketing and other related services to participants in the Israeli medical cannabis industry. The Group also plans to rely on the IMC brand to facilitate the distribution of cannabis products in international markets. The Group owns trademarks and trade secrets that allow it to serve a range of cannabis industry participants.

"IMC" is a registered trade name and trademark valid in Israel through May 2027, in Germany and in Portugal through the World Intellectual Property Organization through November 2027. In Canada, the Company applied for registration of the IMC name for use in connection with various food supplements, vitamins, minerals and proteins and is awaiting a response to its submissions. As of the date of this Annual Report, the pending trademark application has been examined by Canada Patent and Trademark Office. The opposition period ended on March 19, 2022 and the trademark was registered on September 26, 2022.

In February 2022, the Company successfully completed the registration of its well-known medical cannabis brand strain "ROMA" as a trade name in Israel and is valid through July 2031. In addition, the Company commenced trademark applications for its new branding and the name "I AM Cannabis" in Israel.

Government Regulations

To operate its business, the Company must abide by applicable medical cannabis laws in those countries in which it operates, namely Israel and Germany. Each jurisdiction has unique laws and regulations on the propagation, cultivation, production, distribution, use, import and export of medical cannabis products and the current regulatory frameworks continue to evolve. The Company cooperates with the regulatory authorities in those jurisdictions in which it operates to ensure that it is at all times in full compliance with applicable laws, rules and regulations.

Israel

In Israel, cannabis is currently defined as a “dangerous drug” according to the Dangerous Drugs Ordinance (“**DDO**”) and the 1961 Single Convention on Narcotic Drugs (“**Narcotics Convention**”), to which Israel is a signatory. However, both the DDO and 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. The production, distribution and consumption of adult-use recreational cannabis products is currently illegal in Israel.

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**”). 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, and in December 2020, the IMCA published guidelines for the medical cannabis export permit application process.

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**"). On June 13, 2023, the health committee of the Knesset approved The Dangerous Drugs Regulations (Amendment), 2023 (hereinafter referred to as the "**Regulations Amendment**"), which entail a model change from issuing licenses to prescriptions permits following the publication of the Proposed Outline. The Regulations Amendment allows accessibility and significant bureaucratic relief for patients. The purpose of the new prescription model is to enable qualified specialist doctors (excluding general practitioner, family physician, internal physician and pediatrician) to write prescriptions for medical cannabis for patients under the supervision of health care providers (widely known as Kupat Holim), without requiring a usage license from the Ministry of Health.

The main changes in the Regulations Amendment 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 Regulations Amendment will come into effect within 180 days from the date of their publication. To the best of the Company's knowledge, the indications approved as part of the Regulations Amendment encompass various conditions, such as oncological diseases, active inflammatory bowel disease, AIDS, Multiple Sclerosis, Parkinson's disease, Tourette syndrome, epilepsy, autism, and dementia.

On December 8, 2023, the Company announced a 3-month delay of the anticipated medical cannabis reform announced by the Israeli ministry of health on August 7, 2023. Due to the Israel-Hamas war, the anticipated implementation of the medical cannabis regulatory reform, originally scheduled for December 29, 2023, has been postponed by three months. The new regulations were designed to alleviate many of the stringent restrictions in the sector, thereby enhancing access to medical cannabis for patients.

"Anti-Dumping" investigation into cannabis imports from Canada

A notice on the Israeli Government's website dated January 18, 2024, was addressed to 10 different Canadian cannabis producers: Village Farms International, Organigram Holdings, Tilray Canada, Hexo Corp (owned by Tilray), The Green Organic Dutchman, Canopy Growth Corporation, SNDL Inc., Cronos Group, Auxly Cannabis Group, Decibel Cannabis, and all the medical cannabis manufacturers in Canada who export their goods to Israel.

The Commissioner for Trade Levies at the Ministry of Economy and Industry, announced by virtue of his authority according to Section 24(d) of the Law on Trade Levies and Defence Measures, 5591 – 1991, of his decision to open an investigation on his own initiative into the export import of cannabis from Canada, after he found that special circumstances of actual damage exist or the probability of actual damage to the local manufacturing industry and a causal link between the imported imports and said damage. The notice also included a letter sent to Michael Mancini, the Chief Commercial Counselor with the Embassy of Canada, informing them of the investigation, dated January 15, 2024. The Ministry of Economy and Industry issued a formal notice to the public to respond to questionnaires regarding the "Anti-Dumping" investigation.

Further to several requests received from the parties and in accordance with section 27(b) of the Law on Trade Levies and Defense Measures, 1991 which states that "The Commissioner may, for special reasons that shall be recorded, extend the period specified in subsection (a) by an additional period that shall not exceed 30 days." (the emphasis is not in the original), the Commissioner decided that special conditions exist for extending the deadline for the submission of the required materials as part of the investigation into the export of medical cannabis to Israel from Canada for 10 days until March 10, 2024, Due to constraints presented by the parties following the "Iron Swords" war, mainly significant delays in the preparation of the materials due to the absence of many workers as part of the extensive recruitment in Israel for the reserve service at this time and due to the unique complexity of the Israeli cannabis market where many players are required to submit data both as producers and importer. The Company has submitted the relevant questionnaires regarding its subsidiaries Focus and IMC Pharma, which are included in the investigation and for its subsidiary Rosen High Way.

Germany

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 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 paper 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. After a long political debate, the German Bundestag approved the federal government's draft law "on the controlled use of cannabis" (BT Drs. 20/8704, BT Drs. 20/8763, BT-Drs. 20/10426) on Friday, 23 February 2024. The draft passed the German Bundesrat on Friday, 22 March 2024, and will then essentially come into force on 1 April 2024 in accordance with Art. 15 of the draft. Some components of Article 1 of the draft, which deals with so-called consumer cannabis, will not come into force until later (according to Art. 15 para. 2 of the draft, for example, not until 1 July 2024). This also has direct consequences for medicinal cannabis, which is the subject matter of Art. 2 (Medical Cannabis Act - MedCanG) and 3 (BtMG) of the draft. With the entry into force of the draft law, cannabis is no longer a narcotic by definition and is therefore no longer subject to the BtMG. The definition in Annex 3 of the BtMG will be replaced by that in Section 2 MedCanG: "*Cannabis for medical purposes: plants, flowers and other parts of plants belonging to the genus Cannabis that are grown for medical purposes under state control in accordance with Articles 23 and 28(1) of the Single Convention on Narcotic Drugs of 1961 of 30 March 1961 (Federal Law Gazette 1973 II p. 1354), as well as delta-9-tetrahydrocannabinol including dronabinol and preparations of all the aforementioned substances*". However, the narcotics regulations will be replaced by comparable regulations and authorisations. The Federal Institute for Drugs and Medical Devices (BfArM) will remain responsible for the latter as a higher federal authority. From a regulatory perspective, medicinal cannabis will remain a medicinal product or an active pharmaceutical ingredient even after the amendment of the law, meaning that the requirements under medicinal product law will remain in place. As a result, the marketing of irradiated products will continue to require a marketing authorisation in accordance with the Ordinance on Medicinal Products Treated with Radioactive or Ionising Radiation (AMRadV). Only the narcotics license pursuant to Section 3 BtMG will be replaced by a new licence pursuant to the Medicinal Cannabis Act (MedCanG) (see Section 1), which, however, largely corresponds to the previous provisions of the BTMG with regard to the application process and general regulations. However, there are the following differences that are new due to the entry into force: Medicinal cannabis no longer has to be stored and transported like a narcotic.

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), further European Pharmacopoeia (Ph. Eur.) Cannabis monographs are in preparation.

The European Pharmacopoeia (Ph. Eur.) Suppl. 11.5 is currently available and contains the new Ph. Eur. Monograph on cannabis flowers and the new Ph. Eur. Monograph on Cannabidiol (CBD). According to the current status, the Ph. Eur. Monograph on Cannabis Flowers will replace the currently existing national monographs (NL, DK, D and CH) from the official implementation date (1 July 2024). However, there are various authorities that only want to refer to this monograph from the official translation into German in Germany. The new monograph on cannabis flowers includes Starting materials for the production of extracts, medicinal products that can be prescribed as such (= herbal medicinal products) that are taken by patients by inhalation or oral administration. There are not entirely irrelevant changes compared to the German monograph.

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. The same applies with regard to Sections 7, 8 MedCanG in relation to the future authorisation to trade in medicinal cannabis, although it is now apparent that no expected annual quantities are to be specified. However, it can be assumed that the BfArM will nevertheless enquire about these due to the (albeit somewhat reduced compared to the BtMG) reporting obligations in Sections 16 and 17 MedCanG and the Foreign Narcotics Trade Regulation, which remains applicable (see Section 14 MedCanG).

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.

Cultivation in Germany and Distribution of Medical Cannabis Cultivated in Germany

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 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 5.80 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. The previously time-consuming tendering and awarding of contracts for the domestic cultivation of cannabis for medical purposes by the Cannabis Agency and the subsequent purchase and distribution of the domestic harvest yields by the Cannabis Agency from the economic operators determined in the course of the tendering procedure will no longer be necessary in future, due to the entry into force of the MedCanG.

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 future MedCanG) and AMG/BtMG (and future MedCanG) permits are sold exclusively to wholesalers and pharmacies. Only the pharmacies are authorised 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 to 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®).

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*.

Economic Dependence

In Israel, the Company is substantially dependent on several categories of commercial agreements to ensure the continuity of its operations and maintain its revenues, including:

- The intellectual property agreement dated April 2, 2019 and as amended on January 1, 2021, between IMC Holdings and Focus (the “**IP Agreement**”) and the Services Agreement dated April 2, 2019 and as amended on January 1, 2021, between IMC Holdings and Focus (the “**Services Agreement**”) and together with the IP Agreement, the “**Commercial Agreements**”), whereby IMC Holdings derives economic benefit from Focus and whereby Focus (i) uses the IMC brand on an exclusive basis for the sale of cannabis products; and (ii) engages IMC Holdings to provide certain management and consulting services. As a result of the Company’s commercial relationship with Focus, it is dependent on Focus maintaining its licenses, as well as any ancillary licenses required to carry on its operations in the Israeli medical cannabis industry.

On January 1, 2021, the Company amended the terms of each of the Commercial Agreements to align the consideration with implementation of the Company’s transfer pricing framework.

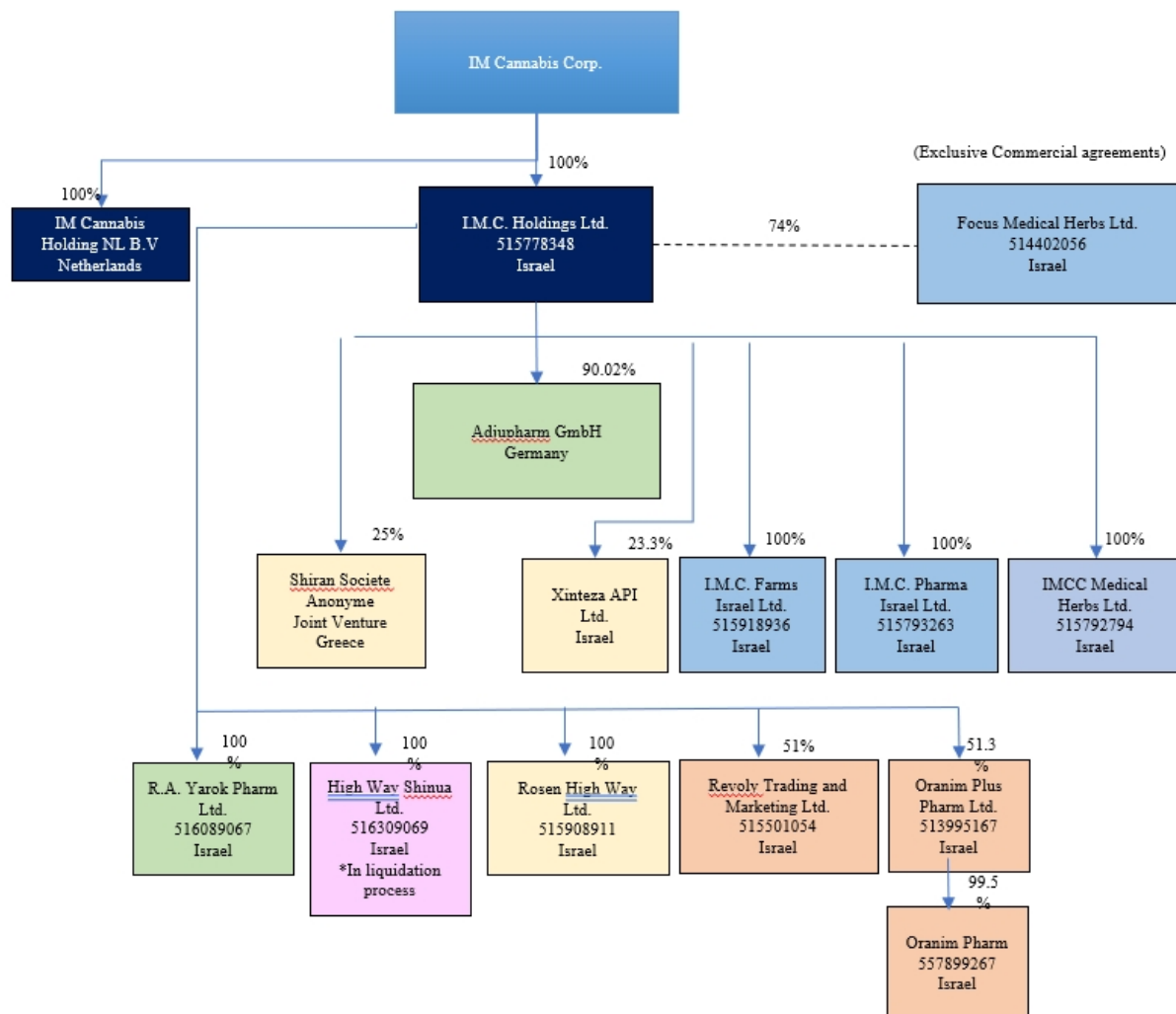
- Supply agreements with third party cannabis cultivators and suppliers to meet the Israeli market’s demand for the Company’s products.
- Purchase orders received from time to time for the sale of the Company’s products to pharmacies or distributors, either in association with Focus or through the Company’s direct trading house operations.
- Ongoing retail purchases of the Company’s products sold at the Israeli Pharmacies by Israeli medical cannabis patients.

For additional information on potential risks arising from the Company’s economic dependence on Focus, its commercial and supply agreements with third parties and its pharmacy operations, see “*Risk Factors*” above.

In Germany, Adjupharm is substantially dependent on the supply, sales and distribution agreements with suppliers, German distributors, and pharmacies. Any failure to maintain the Adjupharm License in good standing could have a material adverse effect on the Group. For additional information on potential risks arising from the Company’s dependence on Adjupharm’s operations, see “*Risk Factors*” above.

C. Organizational Structure

The following chart illustrates our subsidiaries:



For more information on the Company’s discontinued operations. Please see note 25 in the 2023 Annual Financial Statements. For more information, please see the section entitled “Developments During the Financial Year Ended December 31, 2023”.

D. Property, Plants and Equipment

Total depreciated cost of property, plants and equipment as at December 31, 2023 was \$5,058, compared to \$5,221 as at December 31, 2022, representing a decrease of \$163 or 3%.

Additional information set forth under Note 10 of the 2023 Annual Financial Statements.

IMC Holdings leases a 368 square-meter facility in Kibutz Glil Yam for administrative activities. The lease agreement will expire on September 1, 2026 and will be renewed upon agreement between the parties.

IMC Holdings leased an 86.5 square-meter facility in Lod for storage activities. The lease agreement was terminated on June 30, 2023 and the lease term ended on that date.

Oranim Pharm leases a 140 square-meter facility in Jerusalem for pharmacy’s selling activities. The lease will expire on August 1, 2027 and will be renewed upon agreement between the parties.

Pharm Yarok leases a 178 square-meter facility in Netanya for pharmacy’s selling activities. The lease was renewed on February 9, 2023 and will expire on December 31, 2024.

Adjupharm owns approximately 8,000 square feet of EU-GMP logistics center, which allows Adjupharm to manage all aspects of its supply chain, including the production, repackaging and distribution of bulk medical cannabis.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 5. Operating and Financial Review and Prospects.**A. Operating 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 137,467 as of February 2024. 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 over the past few years to develop mainly due to the difficulty in medical patients accessing prescriptions and insurance reimbursements. Starting Year 2024 after the legalization was officially approved by the Bundestag (Germany Parliament) on March 1st 2024, The Company which has already seen an increase in the number of patients paying out-of-pocket for medical cannabis products in Germany during the past few years, is expecting a change which will lead to increase in the market.

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	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues	\$ 43,316	\$ 50,500	\$ 5,488	\$ 3,835	\$ -	\$ -	\$ 48,804	\$ 54,335
Segment income (loss)	\$ (6,627)	\$ (23,606)	\$ (1,615)	\$ (3,225)	\$ -	\$ -	\$ (8,242)	\$ (26,831)
Unallocated corporate expenses	\$ -	\$ -	\$ -	\$ -	\$ (4,550)	\$ (3,960)	\$ (4,550)	\$ (3,960)
Total operating (loss) income	\$ (6,627)	\$ (23,606)	\$ (1,615)	\$ (3,225)	\$ (4,550)	\$ (3,960)	\$ (12,792)	\$ (30,791)
Depreciation, amortization & impairment	\$ 2,823	\$ 6,747	\$ 173	\$ 200	\$ -	\$ -	\$ 2,996	\$ 6,947

For the three months ended December 31:

	Israel		Germany		Adjustments		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues	\$ 9,375	\$ 13,136	\$ 1,323	\$ 1,325	\$ -	\$ -	\$ 10,698	\$ 14,461
Segment income (loss)	\$ (3,653)	\$ (10,280)	\$ (580)	\$ (517)	\$ -	\$ -	\$ (4,233)	\$ (10,797)
Unallocated corporate income (expenses)	\$ -	\$ -	\$ -	\$ -	\$ (932)	\$ 90	\$ (932)	\$ 90
Total operating (loss) income	\$ (3,653)	\$ (10,280)	\$ (580)	\$ (517)	\$ (932)	\$ 90	\$ (5,165)	\$ (10,707)
Depreciation, amortization & impairment	\$ 684	\$ 4,957	\$ 47	\$ 48	\$ -	\$ -	\$ 731	\$ 5,005

The consolidated revenues of the Group from continuing operations for the year ended December 31, 2023, were attributed to the sale of medical cannabis products in Israel and Germany.

- Revenues from continuing operations for the year ended December 31, 2023 and 2022 were \$48,804 and \$54,335, respectively, representing a decrease of \$5,531 or 10%. Revenues for the three months ended December 31, 2023, and 2022 were \$10,698 and \$14,461, respectively, representing a decrease of \$3,763 or 26%. The decrease in revenues is primarily attributed to the effects of the Israel – Hamas war and the different challenges it caused from a business perspective effecting the Company sells and also its operation activities such as longer importing cycles (transportation of goods, approvals from relevant authorities etc.)
- 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, 2023, was 8,609 kg at an average selling price of \$5.14 per gram compared to 6,794kg for the same period in 2022 at an average selling price of \$7.12 per gram, mainly attributed to the inventory life cycle, discounts given and increased competition in the segment. Total dried flower sold for the three months ended December 31, 2023, was 2,082kg at an average selling price of \$4.52 per gram compared to 2,334kg for the three months ended December 31, 2022, at an average selling price of \$5.19 per gram. The decreased is mainly attributed to the Israel – Hamas war effect.

COST OF REVENUES

Cost of revenues is comprised of purchase of raw materials and finished goods, import costs, production costs, product laboratory testing, shipping and salary expenses. Inventory is later expensed to the cost of sales when sold. Direct production costs are expensed through the cost of sales.

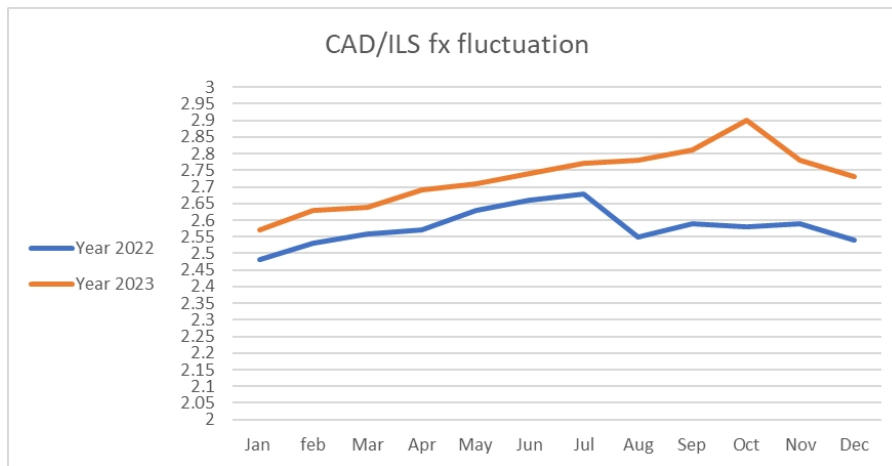
The cost of revenues from continuing operations for the year ended December 31, 2023 and 2022 were \$37,974 and \$43,044, respectively, representing a decrease of \$5,070 or 12% which is in line with the 10% revenue decreased during the period. The cost of revenues for the three months ended December 31, 2023 and 2022 were \$9,583 and \$11,670, respectively, representing a decrease of \$2,087 or 18% which is in line with the Revenue decreased of 26% during the 3 months period.

GROSS PROFIT

Gross profit from continuing operations for the year ended December 31, 2023, and 2022 was \$9,846 and \$9,162, respectively, representing an increase of \$684 or 7% this is mainly contributed to the changes in the business activities from own cannabis grow in the farm owned by the Company in Y2022 to importing a premium high quality Cannabis from Canada. For the three months ended December 31, 2023, and 2022 gross profit was \$841 and \$2,603, respectively, representing a decrease of \$1,762 or 68%.

Gross profit included losses from unrealized changes in fair value of biological assets and realized fair value adjustments on inventory sold of \$(984) and \$(2,129) for the year ended December 31, 2023, and 2022, 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, 2023, and 2022 were \$(274) and \$(188), respectively.

There are a few other external circumstances that affected the profitability during year 2023 including of fluctuation in the exchange rate of the CAD vs.NIS, as can be seen in the following graph:



YE 2023 results were affected by the CAD/ILS exchange rate (Revenue are mainly in ILS while the COST of Revenue as well as operational expenses are mainly in CAD, therefore any increased strength of the CAD will hit the Gross Profit while any increased strength of the ILS will have the opposite effect.

Q4 2023 gross profit is highly affected by the Israel – Hamas war. The main effect was due to sells decrease from one side (equivalent to the effect of the war also in other Israeli markets), and slow inventory transportation processes and regulatory approvals processes which caused delays in Inventory ready for sells during the quarter.

EXPENSES

GENERAL AND ADMINISTRATIVE

General and administrative expenses from continuing operations for the year ended December 31, 2023, and 2022 were \$11,008 and \$21,460, respectively, representing a decrease of \$10,452 or 49%. For the three months ended December 31, 2023, and 2022, general and administrative expenses from continuing operations were \$3,300 and \$9,790, respectively, representing a decrease of \$6,490 or 66%.

The decrease in the general and administrative expense is attributable mainly to the two restructuring plans published April 6, 2022 (closing of Focus facility in Israel) and March 8, 2023, which aimed for reorganization of the company's management and operations to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company reduced its workforce in Israel across all functions. The general and administrative expenses are comprised mainly from salaries to employees in the amount of \$2,314 on year 2023 vs \$4,027 on year 2022, professional fees in the amount of \$4,095 vs \$4,689 for the same years, depreciation and amortization in the amount of \$669 vs. 819 and insurance costs in the amount of \$1,847 and 1,566 respectively. The decrease in the other General and administrative costs from \$10,359 in Year 2022 to \$2,083 on year 2023 is mainly attributed to the fair value adjustment occur in Year 2022 of the Company's purchase option to acquire a pharmacy. See "Subsequent Events – Panaxia Transaction Update" of the 2022 MD&A in a total amount of \$7,336.

SELLING AND MARKETING

Selling and marketing expenses from continuing operations for the year ended December 31, 2023, and 2022 were \$10,788 and \$11,473, respectively, representing a decrease of \$685 or 6%. For the three months ended December 31, 2023, selling and marketing expenses from continuing operations were \$2,797, compared to \$3,094 for the three months ended December 31, 2022, representing a decrease of \$297 or 10%. The decrease in the selling and marketing expenses was due mainly to decrease salaries to employees in the amount of \$5,677 on year 2023 vs \$6,398 on year 2022, Selling and marketing in the amount of \$1,568 and 2,075 for the same years, increase of depreciation and amortization to \$2,320 from \$1,941 respectively.

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.

On March 8, 2023, the Company announced its strategy plan in Israel of reorganization of the company's management and operations in order to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company reduced its workforce in Israel by 36% across all functions (including executives). Therefore, the Company recorded restructuring expenses for the year ended December 31, 2023 related mainly to salaries to employees in the amount of \$617.

SHARE-BASD COMPENSATION

Share-based compensation expense from continuing operations for the year ended December 31, 2023, and 2022 was \$225 and \$2,637, respectively, representing a decrease \$2,412 or 91%. For the three months ended December 31, 2023, and 2022, share-based compensation expense was \$(91) and \$428, respectively, representing a decrease of \$519 or 121%. The decrease for the year ended December 31, 2023, in expenses was mainly attributed to the cancellation of incentive stock options (“**Options**”) held by employees who no longer worked for the Company.

FINANCING

Financing income (expense) net from continuing operations for the year ended December 31, 2023, and 2022 was \$3,335 and \$4,731, respectively, representing a decrease of \$1,396 or 30% in the financing income. For the three months ended December 31, 2023, and 2022, financing income (expense), net was \$2,466 and \$949, respectively, representing an increase of \$1,517 or 160%.

NET INCOME/LOSS

Net loss for the year ended December 31, 2023, and 2022 was \$10,228 and \$191,301, respectively, representing a net loss decrease of \$181,073 or 95%. For the three months ended December 31, 2023, and 2022, net loss was \$3,520 and \$33,449, respectively, representing a net loss increase of \$29,929 or 89%. The net loss decrease related to factors impacting net income described above, and loss from discontinued operations in the amount of \$166,379 recorded in the year ended December 31, 2022 related to the discontinued operations in Canada.

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, 2023, and 2022 were \$(0.74) and \$(3.13) per Common Share, respectively. For the three months ended December 31, 2023, and 2022 were \$(0.25) and \$(2.94), respectively.

Diluted Income (Loss) per Common Share from continuing operations for the year ended December 31, 2023 and 2022 were \$(0.74) and \$(3.81) per Common Share, respectively. Diluted Income (Loss) per Common Share for the three months ended December 31, 2023, and 2022 were \$(0.25) and \$(3.55), respectively.

TOTAL ASSETS

Total assets as of December 31, 2023 were \$48,813, compared to \$60,675 as at December 31, 2022, representing a decrease of \$11,862 or 20%. This decrease was primarily due to the reduction of cash and cash equivalents in the amount of \$636 and inventory reduction of \$6,609. Additional decrease is attributed to currency fluctuation effected the translation of items denominated in NIS in the Company's balance sheet.

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, (see also the financial statements note 17c).

TOTAL LIABILITIES

Total liabilities as of December 31, 2023, were \$35,113, compared to \$36,879 at December 31, 2022, representing a decrease of \$1,766 or 5%. The decrease was mainly due to the reduction in trade payables in the amount of \$6,089, off set by increase in bank loans and credit facilities in the amount of \$2,873, and a decrease in other payables in the amount of \$629. Additional decrease is attributed to the effect of translation of items denominated in NIS in the Company's balance sheet.

B. Liquidity and Capital Resources

For the twelve months ended December 31, 2023, the Company recorded revenues of \$48,804.

The Company can face liquidity fluctuations from time to time, resulting from delays in sales and slow inventory movements.

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 is 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%. During the first quarter of 2023 the Company reduced total commitment to NIS 10,000 (approx. \$3,600) and as of September 30, 2023 Focus has drawn down \$nil in respect of the Mizrahi Facility.

On May 17, 2023, the Company and Bank Mizrahi entered to new credit facility with total commitment of up to NIS 10,000 (approximately \$3,600) (the "**New Mizrahi Facility**"). The New Mizrahi Facility consists of NIS 5,000 credit line and NIS 5,000 loan to be settled with 24 monthly installments from May 17, 2023. This loan bears interest at the Israeli Prime interest rate plus 2.9%. As of December 31, 2023 Focus has drawn down \$3,227 in respect of the new Mizrahi facility (comprised of approx. \$1,827 credit line and \$1,400 loan). The New Credit facility is also subject to several covenants to be measured on a quarterly basis which are not met as of December 31, 2023, therefore the loan is classified as short-term loan.

The Company's CEO and director, provided to the bank a personal guarantee in the amount of the outstanding borrowed amount, allowing the New Mizrahi Facility to remain effective.

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, 2023, the Group's cash and cash equivalents totaled \$1,813 and the Group's working capital deficit from continuing operations (current assets less current liabilities) amounted to (\$8,543). In the year ended December 31, 2023, the Group had an operating loss from continuing operation of (\$12,792) and negative cash flows from continuing operating activities of (\$5,075).

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. The Company is managing its cash flow daily and will look for external funding for its operations. Cost saving plans and restructuring actions taken in 2022 and in 2023. 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, 2023, 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, 2023, management considers liquidity risk to be high.

As of December 31, 2023, 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	\$ 12,618	\$ 1,293	-	-

The maturity profile of the Company's other financial liabilities (trade payables, other account payable and accrued expenses, and warrants) as of December 31, 2023, are less than one year.

	Payments Due by Period				
	Total	Less than one year	1 to 3 years	4 to 5 years	After 5 years
Contractual Obligations					
Debt	\$ 12,513	\$ 12,119	\$ 394	\$ -	\$ -
Finance Lease Obligations	\$ 1,398	\$ 499	\$ 814	\$ 85	\$ -
Total Contractual Obligations	\$ 13,911	\$ 12,618	\$ 1,208	\$ 85	\$ -

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.

C. Research and Development, Patents and Licenses, etc.

For a discussion of our licenses, see “Item 4.B. Business Overview.”

Canada

The Company is concentrating on leveraging its skilled sourcing team and strategic alliances with Canadian suppliers and imports medical cannabis from third-party licensed facilities in Canada. The Company continues to import cannabis products and supply medical cannabis to patients through licensed pharmacies. To supplement growing demand, the Company 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, the Company is operating through its subsidiaries who obtained a license from the IMCA to, among others, import cannabis products and supply medical cannabis to patients.

Israel

Pursuant to the applicable Israeli cannabis regulations, following the 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 has a certification for primary repackaging, 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.

D. Trend Information

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 137,467 as of February 2024. 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 over the past few years to develop mainly due to the difficulty in medical patients accessing prescriptions and insurance reimbursements. Starting Year 2024 after the legalization was officially approved by the Bundestag (Germany Parliament) on March 1st 2024, the Company which has already seen an increase in the number of patients paying out-of-pocket for medical cannabis products in Germany during the past few years, is expecting a change which will lead to increase in the market.

Other than as disclosed here and elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2023 to December 31, 2023 that are reasonably likely to have a material adverse effect on our net revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause our reported financial information not necessarily to be indicative of future operating results or financial condition. For a discussion of trends, see “Item 4.B. - Business Overview.”

E. Critical Accounting Estimates

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.

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:

Functional currency, presentation currency and foreign 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.

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.

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.

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).

ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that influence 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. Restructuring Plans and actions taken in 2022 and in 2023. The Company's board of directors approved on year 2023 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, reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures. On year 2024, the company will work for fund and/or debt raising and will continue with cost savings effort as well as increased efficiency.

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

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 and 2023, the Company does not hold biological assets.

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. 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.

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.

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.

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

The Group 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 in 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.

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.

PUT OPTION GRANTED TO NON-CONTROLLING INTERESTS

When the Group grants non-controlling interests a put option, the non-controlling interests are classified as a financial liability and are not accorded their share in the subsidiary's earnings. At each reporting date, the financial liability is measured on the basis of the estimated present value of the consideration to be transferred upon the exercise of the put option / based on the fair value of the consideration. Changes in the amount of the liability are recorded in profit or loss.

DEFERRED TAX

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 carry forward 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 in respect of investment property that is held with the objective of recovering substantially all of the economic benefits embedded in the investment property through sale and not through use are measured in accordance with the expected manner of recovery of the base asset, on the basis of sale rather than use.

When the Company owns an investment in a single property company and the manner in which the Company expects to dispose of the investment is by selling the shares of the property company rather than by selling the property itself, the Company recognizes deferred taxes for both inside temporary differences arising from the difference between the carrying amount of the property and its tax basis, and for outside temporary differences arising from the difference between the tax basis of the investment and the Company's carrying amount of the net assets of the investment in the consolidated financial statements. Taxes that would apply in the event of the disposal of investments in investees have not been considered in computing deferred taxes, if the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been considered in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability. Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12. 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.

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

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.

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

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.

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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

a. Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates":

In August 2023, the IASB issued "Amendments to IAS 21: Lack of Exchangeability (Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates")" ("the Amendments") to clarify how an entity should assess whether a currency is exchangeable and how it should measure and determine a spot exchange rate when exchangeability is lacking.

The Amendments set out the requirements for determining the spot exchange rate when a currency lacks exchangeability. The Amendments require disclosure of information that will enable users of financial statements to understand how a currency not being exchangeable affects or is expected to affect the entity's financial performance, financial position and cash flows.

The Amendments apply for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted, in which case, an entity is required to disclose that fact. When applying the Amendments, an entity should not restate comparative information. Instead, if the foreign currency is not exchangeable at the beginning of the annual reporting period in which the Amendments are first applied (the initial application date), the entity should translate affected assets, liabilities and equity as required by the Amendments and recognize the differences as of the initial application date as an adjustment to the opening balance of retained earnings and/or to the foreign currency translation reserve, as required by the Amendments .

The Company believes that the Amendments are not expected to have a material impact on its consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth certain information with respect to our executive officers and directors as of March 28, 2024:

Name	Position(s) with the Company	Other Directorships	Date of Initial Appointment
Oren Shuster	Chief Executive Officer and Director	IMC Holdings; Focus; Pharm Yarok; Rosen High Way; IMC Pharma; IMC Farms; Ewave Group Ltd (“Ewave”) and its subsidiaries	October 11, 2019
Marc Lustig	Executive Chairman and Director	PharmaCielo Ltd. Cresco Labs Inc. Aequus Pharmaceuticals Inc. 22 Capital Corp. BriaCell Therapeutics Corp.	October 11, 2019
Moti Marcus ⁽²⁾⁽³⁾⁽⁴⁾	Director	Nil	September 12, 2022
Einat Zakariya ⁽²⁾⁽³⁾⁽⁴⁾	Director	HYGEAR Inc.	September 12, 2022
Brian Schinderle ⁽²⁾⁽³⁾	Director	Nil	February 22, 2021
Uri Birenberg	Chief Financial Officer	Nil	October 10, 2023
Eyal Fisher	Chief Executive Officer of IMC Holdings and each of the Israeli Subsidiaries	Nil	March 8, 2023
Michal Lebovitz Nissimov	General Counsel	Nil	April 14, 2023
Richard Balla	Chief Executive Officer of Adjupharm	Nil	October 11, 2019

Notes

- (1) Information furnished by the respective individual.
- (2) Member of the Audit Committee.
- (3) Member of Compensation Committee.
- (4) Member of the Governance and Nomination Committee.

The following are brief biographies of our directors and executive officers:

Oren Shuster

Mr. Shuster has served as the Chief Executive Officer of the Company since October 2019, founder and director of IMC Holdings since 2018, founder and director of Focus since 2010 and founder of Ewave and its subsidiaries.

Marc Lustig

Mr. Lustig has served as Executive Chairman of the Company since December 2020. Mr. Lustig is also a Director of Pharmaciolo Ltd. since November 2020, a Director of Cresco Labs Inc. since June 2020. Mr. Lustig is the Founder, Chairman and Chief Executive Officer of CannaRoyalty Corp. (dba Origin House) from 2016 to 2020 and a Director of Briacell Therapeutics Corp. since September 2021.

Moti Marcus

Mr. Marcus has served as the Chief Executive Officer of Packer Quality Metals Ltd., one of Israel’s largest metal processing companies, since 2020. Mr. Marcus served as the Chief Financial Officer and deputy Chief Executive Officer of S. Cohen Metal Works Ltd. and Chief Executive Officer of Aviv Shigur. Mr. Marcus is an experienced executive and manager, having worked on outlining business strategies, executive strategies, financial management, mergers and acquisitions, and restructuring. Mr. Marcus completed his bachelor’s degree in economics and accounting at Bar Ilan University and Tel Aviv University and his master’s degree in business management and finance at Bar Ilan University.

Einat Zakariya

Ms. Zakariya has served as the Chief Executive Officer and Partner of Liv collection, a subsidiary of Ewave Holdings Ltd., since 2018. Ms. Zakariya previously served as the Chief Executive Officer and Partner in The Promised Land, a subsidiary of Ewave Nadlan International Investments Ltd., from 2014 to 2018. Ms. Zakariya is experienced in the hotel industry and real and estate business, including negotiations with capital investors and institutional partner entities, as well as development, marketing and sales. Ms. Zakariya also currently serves on the board of directors of HYGEAR Inc., a sport technology company.

Brian Schinderle

Mr. Schinderle is the Co-founder and Principal of SSC Advisors, a boutique Mergers & Acquisitions and Strategic Advisory business focused primarily on the cannabis market. He is also the Founder and Managing Partner of Solidum Capital Advisors LLC (“**Solidum**”). Solidum invests its own capital and works in a merchant banking and advisory capacity with a select group of companies in the cannabis sector. In addition, from 2018 to 2020, Mr. Schinderle served as Executive Vice President of Finance of GR Companies Inc. (dba Grassroots Cannabis) (“**Grassroots**”), focusing on finance, strategy, capital markets, investor relations, mergers and acquisitions. In July 2020, Grassroots merged with Curaleaf Holdings, Inc. (CSE: CURA) in a transaction valued at approximately US\$850,000. Prior to forming Solidum in 2017, Mr. Schinderle spent over 20 years in investment management, primarily investing in fixed income and equity assets via hedge funds, private equity and discretely managed funds. Mr. Schinderle currently serves on the advisory boards of GLP Partners (dba Greenlight Cannabis), Altitude Investments Inc. and AIM PLC.

Uri Birenberg

Uri Birenberg joined the Company as the CFO on October 10, 2023. He is a senior financial executive, who brings over two decades of experience of financial planning and analysis. Prior to joining IMC, from 2021 to 2023, Mr. Birenberg served as CFO of Hygear Ltd., a start up in the healthcare fitness tech industry. In addition to managing the financial and legal activities of the company along with the strategic financial planning, he played an essential role in the fundraising in preparation for its initial public offering. Prior to Hygear Ltd. Mr. Birenberg served as the CFO of Hinoman group, a startup in the food-tech industry, from 2020 to 2022. Prior to Hinoman group, Mr. Birenberg served as the CFO of SEEDO Corp Group, a U.S. publicly traded startup in the Cannabis industry, from 2018 to 2020.

Michal Lebovitz Nissimov

Michal is an experienced lawyer with expertise in corporate, commercial, business and consumer law, mergers and acquisitions advisory services and cannabis regulation and compliance.

As a member of the senior management team, Michal oversees all corporate legal and regulatory aspects in a highly regulated sector. IMC’s reporting obligations as a publicly traded company, annual operational planning, execution of key, strategic projects, and translating strategy into actionable goals are all part of her remit. Prior to joining the Company, from 2019 to 2023, Michal was a Senior Associate at Salomon, Lipschütz & Co in the Mergers and Acquisitions, Corporate and Commercial Team.

Michal thrives in a fast-paced and high growth environment. Her extensive knowledge and experience in legal affairs, related to medical cannabis, are key assets that inform IMC’s growth strategy and execution. Before joining IMC, she worked in the legal services industry as a senior lawyer at several leading Israeli law firms.

Richard Balla

Prior to leading Adjupharm, Richard acted as a founder, early-stage shareholder, advisor, and director of multiple international companies in the pharmaceutical and medical cannabis sectors. Before his entrepreneurial career, Mr. Balla served as Head of Market and Product Development at ACA Müller Pharma AG, one of the first and leading parallel import companies in Germany. Mr. Balla holds a Bachelor of Business Administration degree from Gewerbe-Akademie Konstan.

Family Relationships

There are no family relationships among any of our executive officers or directors.

Special Arrangements

Not applicable.

B. Compensation

Compensation Discussion and Analysis

Introduction

The purpose of this Compensation Discussion and Analysis is to provide information about the Company's philosophy, objectives and processes regarding executive compensation. This disclosure is intended to communicate compensation provided to: (i) the chief executive officer ("CEO") of the Company; (ii) the chief financial officer ("CFO" of the Company); (iii) each of the three most highly compensated executive officers of the Company, including any of its subsidiaries, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO of the Company, as at the end of the most recently completed financial year whose total compensation was, individually, more than C\$150,000; and (iv) each individual who would be a Named Executive Officer (as defined herein) under paragraph (iii) but for the fact that the individual was neither an executive officer of the Company or its subsidiaries, nor acting in a similar capacity, as at December 31, 2023, (collectively, the "Named Executive Officers") and (v) the directors of the Company. During the year ended December 31, 2023, the Named Executive Officers of the Company were as follows:

- (1) Oren Shuster, CEO and a director of the Company;
- (2) Uri Birenberg, CFO of the Company;
- (3) Itay Vago, former CFO of the Company;
- (4) Shai Shemesh, former CFO of the Company;
- (5) Marc Lustig, Executive Chairman and a director of the Company;
- (6) Eyal Fisher, CEO of the IMC Holdings and each of the Israeli Subsidiaries; and
- (7) Richard Balla, CEO of Adjupharm.

Compensation Philosophy and Objectives

The executive compensation program adopted by the Company and applied to its executive officers is designed to attract and retain qualified and experienced executives who will contribute to the success of the Company. The executive compensation program attempts to ensure that the compensation of the senior executive officers provides a competitive base compensation package and a strong link between corporate performance and compensation. Senior executive officers are motivated through the program to enhance long-term shareholder value and rewarded for their yearly individual contribution in the context of overall annual corporate performance.

The compensation paid to executive officers in any year consists of three 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.

For the year ended December 31, 2023, all executive compensation was determined and administered by Board based on recommendations by the compensation committee of the Company (the "**Compensation Committee**").

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 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 stock options ("**Options**") and restricted share units ("**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 Option plan (the "**Stock Option Plan**") and RSU 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 awards 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.

Stock Option Plan

The Stock Option Plan was approved by the shareholders of the Company at the annual general 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 is administered by the Compensation Committee. The Compensation Committee has 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 is 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, cannot 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, cannot 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, cannot 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.

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 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 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 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 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 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 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.

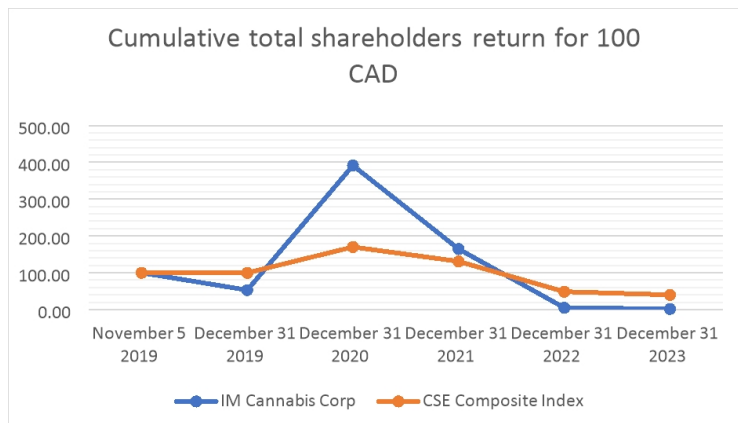
Risk Analysis

The Board and Compensation Committee considered risks associated with executive compensation and do not believe that the Company's executive compensation policies and practices encourage its executive officers to take inappropriate or excessive risks. Aside from a fixed base salary, Named Executive Officers are compensated through the granting of Security Based Compensation Arrangements, which are compensation that is both "at risk" and associated with long-term value creation. The value of such compensation is dependent upon shareholder return over Security Based Compensation Arrangement vesting periods which reduces the incentive for executives to take inappropriate or excessive risks as their long-term compensation is at risk.

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.

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, assuming the reinvestment of cash distributions and/or dividends:



	November 5, 2019	December 2019	December 2020	December 2021	December 2022	December 2023
IM Cannabis Corp.	\$100.00	\$53.97	\$398.41	\$167.46	\$5.16	\$1.83
CSE Composite Index	\$100.00	\$99.81	\$170.10	\$130.97	\$48.67	\$40.95

The trend in the above performance graph does not correlate to the trend of the compensation paid to the Named Executive Officers. As described under "Elements of Compensation", based salaries reflect each Named Executive Officer's primary duties and responsibilities and are set at levels based on responsibility, experience and expertise as well as subjective factors such as leadership. We believe that management must be compensated a minimum base salary for the value of the services provided, irrespective of our Common Share price performance. Pursuant to our Security Based Compensation Arrangements, we have granted Options and RSUs to our Named Executive Officers, each form a significant portion of compensation, and therefore the total compensation for the Named Executive Officers is directly affected by decreases or increases in the price of our Common Shares as the value of such Options and RSUs changes as our Common Share price changes.

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.

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 Compensation.

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 of the Company, and makes a comprehensive set of recommendations to the Board during each calendar year.

The Compensation Committee is currently comprised of:

1. Brian Schinderle (Chair);
2. Moti Marcus; and
3. Einat Zakariya,

each of whom is considered independent (as determined under Rule 5605(a)(2) of the Nasdaq Stock Market Rules and as defined in National Instrument 52-110 - Audit Committees ("NI 52-110")).

In determining the members of the Compensation Committee, the Board looks to each directors' past experience and strives to include a range of skills and experiences to ensure that the members act independently and think analytically about the Company's compensation practices.

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.

In the past, the Company used the benchmark method in order to determine the compensation for its directors and executive officers. Under the benchmark method, more than ten similar companies were reviewed in order to ensure that compensation to directors and executive officers is within the market range. In the past financial year, the Company has not formally conducted benchmarking against a peer group.

Summary Compensation Table

The following table 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	Salary (\$) ⁽¹⁾	Share-Based Awards (\$)	Option-Based Awards (\$) ⁽⁸⁾	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plans	Long-Term Incentive Plans			
Oren Shuster CEO and Director	2023	476,266 ⁽²⁾	Nil	331,802	Nil	Nil	Nil	Nil	818,068
	2022	506,244 ⁽²⁾	Nil	1,110,057	Nil	Nil	Nil	Nil	1,616,301
	2021	515,731 ⁽²⁾	Nil	1,388,455	121,000	Nil	Nil	Nil	2,025,186
Uri Birenberg ⁽³⁾ CFO	2023	73,558	Nil	Nil	Nil	Nil	Nil	Nil	73,558
	2022	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2021	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Itay Vago ⁽⁴⁾ Former CFO	2023	180,968	Nil	Nil	Nil	Nil	Nil	Nil	180,968
	2022	53,219	Nil	508	Nil	Nil	Nil	Nil	53,727
	2021	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Shai Shemesh ⁽⁵⁾ Former CFO	2023	135,934	Nil	Nil	Nil	Nil	Nil	Nil	135,934
	2022	321,950	Nil	307,636	Nil	Nil	Nil	Nil	629,586
	2021	300,607	Nil	408,653	82,500	Nil	Nil	Nil	791,760
Marc Lustig Executive Chairman and Director ⁽⁶⁾	2023	129,920	79,959	Nil	Nil	Nil	Nil	Nil	209,879
	2022	282,480	558,538	50,089	Nil	Nil	Nil	Nil	891,107
	2021	264,000	1,286,498	329,846	Nil	Nil	Nil	Nil	1,880,344
Eyal Fisher ⁽⁷⁾ CEO of the IMC Holdings and each of the Israeli Subsidiaries	2023	216,998	Nil	1,693	Nil	Nil	Nil	Nil	216,998
	2022	215,586	Nil	4,381	Nil	Nil	Nil	Nil	217,279
	2021	144,506	Nil	Nil	Nil	Nil	Nil	Nil	144,506
Richard Balla CEO of Adjupharm	2023	175,385	Nil	Nil	87,692	Nil	Nil	30,895	293,972
	2022	164,186	Nil	37	Nil	Nil	Nil	29,066	193,289
	2021	176,674	Nil	7,799	121,087	Nil	Nil	38,083	343,643

Notes

- (1) Each of Messrs. Shuster, Birenberg, Vago, Shemesh and Fisher received their compensation in NIS and Mr. Balla received his compensation in Euros. All salaries were converted to CDN pursuant to the average Bank of Canada rate for the applicable fiscal year.
- (2) Oren Shuster, through Ewave, entered into a consulting agreement with the Company pursuant to which he is paid NIS 108,350 plus VAT per month (approximately \$39,544 plus tax per month) in consideration of his CEO services provided to Company. Mr. Shuster did not earn consideration for his role as a director of the Company during the fiscal years ended December 31, 2023, 2022 and 2021.
- (3) Mr. Birenberg was appointed as CFO of the Company effective October 10, 2023.
- (4) Mr. Vago was appointed as CFO of the Company effective March 8, 2023 and resigned effective October 10, 2023, but stayed on to assist the transition until November 15, 2023.
- (5) Mr. Shemesh resigned as the CFO of the Company effective March 8, 2023.
- (6) Mr. Lustig does not earn consideration for his role as a director of the Company; however, Mr. Lustig, through L5 Capital, entered into a consulting agreement with the Company pursuant to which he is paid \$5,250 per month in consideration of his Executive Chairman services provided to the Company.
- (7) Mr. Fisher was appointed as CEO of the IMC Holdings and each of the Israeli Subsidiaries effective March 15, 2023.
- (8) 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, 2023:

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised Options (#)(1)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money Options (\$)	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	6,250	40.00	June 9, 2025	Nil	Nil	Nil	Nil
	75,000	58.70	May 19, 2026	Nil			
	50,000	16.00	January 4, 2029	Nil			
Marc Lustig	67,500	16.00	September 11, 2029	Nil	Nil	Nil	Nil
Eyal Fisher	1,000	27.30	April 4, 2027	Nil	Nil	Nil	Nil
Richard Balla	9,000	16.00	July 30, 2029	Nil	Nil	Nil	Nil

Note

(1) Each Option entitles the holder to purchase one Common Share.

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, 2023, and the value of non-equity incentive plan compensation earned during the year ended December 31, 2023:

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	932,254	Nil	Nil
Marc Lustig	Nil	481,494	Nil
Richard Balla	Nil	Nil	87,692
Eyal Fisher	2,171	Nil	Nil

PENSION PLAN BENEFITS

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

TERMINATION AND CHANGE OF CONTROL BENEFITS

Other than described below, no Named Executive Officer has entered into 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

Effective January 15, 2018, the Company and Ewave entered into a management services agreement (the "Shuster Agreement") pursuant to which Oren Shuster was engaged to provide CEO services to the Company. Mr. Shuster is employed and compensated by Ewave. Pursuant to the terms and conditions of the Shuster Agreement, Ewave is paid a monthly fee of NIS 108,350 plus VAT (approximately \$39,544 plus tax per month). Either party 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.

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, 2023:

Name ⁽¹⁾	Fees earned (\$) ⁽²⁾	Share-based awards (\$)	Option-based awards (\$) ⁽³⁾	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Brian Schinderle	73,700 ⁽⁴⁾	Nil	61,616	Nil	Nil	Nil	135,316
Moti Marcus	76,700 ⁽⁴⁵⁾	Nil	19,963	Nil	Nil	Nil	96,663
Einat Zakariya	73,200	Nil	19,963	Nil	Nil	Nil	93,163

Notes

- (1) Each of Mr. Marcus and Ms. Zakariya received their compensation in NIS and Mr. Schinderle received his compensation in USD. All salaries were converted to CDN pursuant to the average Bank of Canada rate for the applicable fiscal year.
- (2) Each director is entitled to a \$13,750 payment per quarter for their role as a director of the Company. For each Audit Committee meeting, the Chair receives a \$1,500 payment and each other member receives a \$1,000 payment and for each of the Compensation Committee and Governance and Nomination Committee meetings, the Chair receives a \$1,200 payment and each other member receives a \$700 payment.
- (3) The Company used the Black-Scholes pricing model as the methodology to calculate the grant date fair value, and relied on the following 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.
- (4) Mr. Schinderle receives compensation through Solidum Capital Advisors LLC.
- (5) Mr. Marcus receives compensation through Marcus Management Services Ltd.

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, 2023:

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised Options ⁽¹⁾ (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money Options (\$)	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 (\$)
Brian Schinderle	9,000	100.00	February 28, 2026	Nil	Nil	Nil	Nil
Moti Marcus	9,000	6.00	September 19, 2027	Nil	Nil	Nil	Nil
Einat Zakariya	9,000	6.00	September 19, 2027	Nil	Nil	Nil	Nil

Note

- (1) Each Option entitles the holder to purchase one Common Share.

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, 2023, and the value of non-equity incentive plan compensation earned during the year ended December 31, 2023:

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 (\$)
Brian Schinderle	207,000	Nil	Nil
Moti Marcus	14,601	Nil	Nil
Einat Zakariya	14,601	Nil	Nil

C. Board Practices

By ordinary resolution of the shareholders of the Company held on December 6, 2023, the number of directors was set at five and the Board currently consists of five directors. Each of our directors was elected and appointed to hold office until the next annual general meeting of our shareholders or until his or her office is earlier vacated, in accordance with the articles of the Company (the "Articles") and BCBCA. The directors may, from time to time, appoint such officers as the directors determine and the directors may, at any time, terminate any such appointment. Please also refer to "Directors and Senior Management" above for further details regarding the periods of service of each of our current directors and officers.

Other than as disclosed under "Item 6.B. Compensation" above, the Company did not have any service contracts with any of our independent directors.

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"):

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 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 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
Oren Shuster	100% (17/17)	-	-	-
Marc Lustig	94.12% (16/17)	-	-	-
Moti Marcus	100% (17/17)	100% (6/6)	100% (1/1)	-
Einat Zakariya	100% (17/17)	83.33% (5/6)	100% (1/1)	-
Brian Schinderle	100% (17/17)	100% (6/6)	100% (1/1)	-

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 Shareholders in Special Transactions* (“MI 61-101”), 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 – IM Cannabis Corp.								
Country of Principal Executive Offices					Israel			
Foreign Private Issuer					Yes			
Disclosure Prohibited under Home Country Law					No			
	As of March 29, 2023				As of March 28, 2024			
Total Number of Directors	5				5			
Gender Identity	Female	Male	Non-Binary	Did Not Disclose Gender	Female	Male	Non-Binary	Did Not Disclose Gender
Directors	1	4	-	-	1	4	0	0
Demographic Background								
Underrepresented Individual in Home Country Jurisdiction	0				0			
LGBTQ+	0				0			
Did Not Disclose Demographic Background	-				0			

Other Reporting Issuer Experience

Other than as disclosed under "Item 6.A. *Directors and Senior Management*" above, none of the Company's directors are currently directors of other reporting issuers (or equivalent) in a jurisdiction of Canada or a foreign jurisdiction.

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 Governance and Nomination Committee considers the number of directors to recommend for election at the annual general meeting of shareholders. The Governance and Nomination Committee 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

For more information of the Company's compensation practices, please see the section entitled "Item 6.B. Compensation" above.

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 hereof, the Company's standing committees are the Audit Committee, Compensation Committee and Governance and Nomination Committee.

Audit Committee

Pursuant to NI 52-110, the Company is required to have an audit committee comprised of not less than three directors, a majority of whom are not officers, control persons or employees of the Company or an affiliate of the Company. NI 52-110 requires the Company, to disclose annually certain information concerning the constitution of its audit committee and its relationship with its independent auditor.

Audit Committee's Charter

The Board is responsible for reviewing and approving the unaudited interim financial statements, and annual audited financial statements, together with other financial information of the Company and for ensuring that Management fulfills its financial reporting responsibilities. The Audit Committee assists the Board in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process, unaudited interim financial statements, and annual audited financial statements, together with other financial information of the Company. The Audit Committee reports its findings to the Board for its consideration in approving the unaudited interim financial statements, and annual audited financial statements, together with other financial information of the Company for issuance to the Shareholders.

The Audit Committee meets regularly on at least a quarterly basis. The members of the Audit Committee do not have fixed terms and are appointed and replaced from time to time by resolution of the Board.

Pursuant to NI 52-110, the Audit Committee is required to have a charter. 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>.

Composition of the Audit Committee

The following are the members of the Audit Committee:

Name	Independence⁽¹⁾	Financial Literacy⁽²⁾
Moti Marcus (Chair)	Independent	Financially literate
Brian Schinderle	Independent	Financially literate
Einat Zakariya	Independent	Financially literate

Notes:

1. Within the meaning of subsection 1.4 of NI 52-110 and as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of the Nasdaq Stock Market Rules.
2. Within the meaning of subsection 1.6 of NI 52-110.

Relevant Education and Experience

The Board has determined that Moti Marcus qualifies as a financial expert (as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act) and Rule 5605(c)(2)(A) of the Nasdaq Stock Market Rules; and (ii) is independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of the Nasdaq Stock Market Rules and as defined in NI 52-110).

For information on the relevant education and experience of each Audit Committee, please see the section entitled “Item 6.A. Directors and Senior Management”.

Audit Committee Oversight

At no time since the commencement of the Company’s most recently completed fiscal year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Reliance on Certain Exemptions

At no time since the commencement of the Company’s most recently completed fiscal year has the Company relied on an exemption from the provisions of NI 52-110.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit services to be provided to the Company by its independent auditors. Non-audit services that are prohibited to be provided to the Company by its independent auditors may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committee must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

The Audit Committee pre-approves all audit services to be provided to the Company by its independent auditors. Non-audit services that are prohibited to be provided to the Company by its independent auditors may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committee must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors. All non-audit services performed by the Company’s auditor for the fiscal year ended December 31, 2023 were pre-approved by the Audit Committee. No non-audit services were approved pursuant to the de minimis exemption to the pre-approval requirement set forth in Rule 2-01(c)(7)(i)(C) of Regulation S-X.

External Auditor Service Fees

Aggregate fees paid or payable to the Company’s auditor, Kost Forer, for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022 ⁽⁵⁾
Audit Fees	\$297	\$427
Audit-related Fees ⁽¹⁾	\$28	\$61
Tax Fees ⁽²⁾⁽³⁾	\$68	\$81
All Other Fees ⁽⁴⁾	\$13	-
Total	\$406	\$569

Notes:

1. Consist of fees for professional services and expenses relating to the audit of the annual financial statements and review of our quarterly financial information. Fees charged for assurance and related services reasonably related to the performance of an audit, and not included under “Audit Fees”.
2. Consist of fees for professional services and expenses reasonably relating to the audit of the annual financial statements or review of our quarterly financial information and are not reported as “Audit Fees”. Fees charged for tax compliance, tax advice and tax planning services.
3. Consist of fees for tax-related services related primarily to tax consulting and tax planning.
4. Fees for services other than disclosed in any other row, including fees related to the review of management’s discussion and analysis and Sarbanes-Oxley Act procedures.
5. Amounts stated do not include 2022 audit fees of \$331 related to deconsolidated Trichome.

Compensation Committee

For information of the Company's compensation practices, please see the sections entitled "Compensation of Directors and Officers" and "Item 6.B. Compensation".

Governance and Nomination Committee

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 current members of the Governance and Nomination Committee are:

1. Einat Zakariya (Chair);
2. Oren Shuster; and
3. Moti Marcus.

The Governance and Nomination Committee is not comprised of entirely independent directors as determined under Rule 5605(a)(2) of the Nasdaq Stock Market Rules and as defined in NI 52-110; 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 posted on the Company's website at <https://investors.imcannabis.com/corporate-governance/governance-documents>.

D. Employees

The following table sets forth the number of employees we had at the end of each fiscal period:

<u>Year</u>	<u>Full Time</u>	<u>Part Time</u>	<u>Total</u>
Fiscal 2021	283	-	363
Fiscal 2022	153	-	153
Fiscal 2023	95	-	95

None of our employees are members in a labor union.

The following table sets forth the number of employees we had at the end of each fiscal period per geographic location:

Year	Israel	Germany	Canada	Total
Fiscal 2021	112	15	236	363
Fiscal 2022	126	27	-	153
Fiscal 2023	77	18	-	95

E. Share Ownership

As of March 28, 2024, our directors and executive officers, as a group, beneficially owned a total of 2,869,955 Common Shares, on an undiluted basis and 4,653,269 Common Shares on a partially diluted basis, representing beneficial ownership of 21.43% and 30.66% of the Common Shares, respectively.

For information regarding the share ownership of our directors and executive officers, see “*Item 6.B. – Compensation*” and “*Item 7.A. – Major Shareholders*.”

Refer to “*Item 6.B. - Compensation*,” for the details of the options held by our directors and executive officers as at December 31, 2023.

We do not have any other equity arrangements for involving employees in our capital, except for the grant of Options and RSUs pursuant to our Securities Based Compensation Arrangements at the discretion of the Board.

F. Disclosure of a registrant’s action to recover erroneously awarded compensation

Not applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table provides information with respect to the beneficial ownership of our Common Shares as of March 28, 2024:

- each person, or group of affiliated persons, known by us to beneficially own five percent (5%) or more of any class of our shares;
- each of our Named Executive Officers;
- each of our directors; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities Exchange Commission. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include shares that can be acquired within 60 days of March 28, 2024. The percentage ownership information shown in the table is based upon 13,394,136 Common Shares outstanding as of March 28, 2024. Each Common Shares has one vote per share. For further information regarding the voting rights of Common Shares, see Exhibit 2, “*Description of Securities*”.

Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares subject to Options and Warrants held by that person that are immediately exercisable or exercisable within 60 days of March 28, 2024. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. The information in the table below is based on information known to us or ascertained by us from public filings made by the shareholders. Except as otherwise indicated, addresses of the directors, executive officers and named beneficial owners are in the care of the Company at 3606 – 833 Seymour Street, Vancouver, British Columbia V6B 0G4.

For additional information regarding the options reported in the following table, see “Item 6.B. Compensation-Executive Compensation-Outstanding Equity Awards at Fiscal Year End

Name of Beneficial Holder	Number of Common Shares Beneficially Held	Number of Common Shares Underlying Options	Option Exercise Price (\$)	Option Expiration Date	Restricted Share Units	Warrants	Total Convertible Securities	Percentage of Common Shares Beneficially Held Undiluted	Percentage of Common Shares Beneficially Held Partially Diluted
Oren Shuster ⁽¹⁾	1,872,870	6,250 75,000 50,000	40.00 58.70 16.00	June 9, 2025 May 19, 2026 January 4, 2029	Nil	856,704	987,954	13.98%	19.89%
Marc Lustig ⁽²⁾	930,635	67,500	16.00	November 9, 2029	55,000	633,860	756,360	6.95%	11.92%
Moti Marcus	Nil	9,000	6.00	September 19, 2027	Nil	Nil	9,000	N/A	0.07%
Einat Zakariya	61,200	9,000	6.00	September 19, 2027	Nil	Nil	9,000	0.46%	0.52%
Brian Schinderle	Nil	9,000	N/A	N/A	Nil	Nil	9,000	N/A	0.07%
Uri Birenberg	Nil	Nil	N/A	N/A	Nil	Nil	N/A	N/A	N/A
Michal Lebovitz Nissimov	Nil	3,000	1.10	May 16, 2028	Nil	Nil	3,000	N/A	0.02%
Richard Balla	5,250	9,000	16.00	July 30, 2029	Nil	Nil	9,000	0.04%	0.11%
Rafael Gabay ⁽³⁾	1,173,716	Nil	N/A	N/A	Nil	303,295	303,295	8.76%	10.78%
Luminera Derm Ltd. ⁽⁴⁾	757,172	Nil	Nil	Nil	Nil	Nil	757,172	5.65%	10.70%

Notes:

- (5) 1,872,564 Common Shares and 856,704 Warrants are held by Oren Shuster directly and 153 Common Shares are held indirectly through Ewave, a privately-held entity of which Mr. Shuster owns and controls 50% of the outstanding voting.
- (6) 300,393 Common Shares and 138,118 Warrants are held by Marc Lustig directly and 630,242 Common Shares and 495,742 Warrants are held indirectly through L5 Capital, a privately held entity of which Mr. Lustig owns and controls 100% of the outstanding voting.
- (7) 1,173,563 Common Shares and 303,295 Warrants are held by Rafael Gabay directly and 153 Common Shares are held indirectly by Ewave, a privately-held entity of which Mr. Gabay owns and controls 50% of the outstanding voting shares.
- (8) Luminera Derm Ltd., has beneficially own 5% of the outstanding voting rights attached to the outstanding Common Shares of the Company starting from January 20, 2023.

The major changes in the last three years in the percentage ownership of persons who beneficially own 5% of the outstanding voting rights attached to our Common Shares were:

In the last three years both Oren Shuster and Rafael Gabay exercised control or direction over 5% or more of the voting rights attached to the outstanding Common Shares of the Company, but they did so in greater percentage.

The Company's securityholders who beneficially own five percent (5%) or more of any class of our shares do not have different voting rights.

As of March 28, 2024, our directors and executive officers, as a group, beneficially owned a total of 2,869,955 Common Shares on an undiluted basis and 4,653,269 Common Shares on a partially diluted basis, representing beneficial ownership of 21.43% and 30.66% of the Common Shares, respectively.

As of March 28, 2024, we estimate that approximately 7.99% of our outstanding Common Shares, which equates to 2,395,824 Common Shares, were held in the United States by 23 holders of record. The number of holders of record does not include beneficial owners whose Common Shares are held in street name by brokers and other nominees. The number of holders of record also does not include holders whose shares may be held in trust by other entities.

We do not have any other equity arrangements for involving employees in our capital, except for the grant of Options and RSUs pursuant to our Securities Based Compensation Arrangements at the discretion of the Board.

We are a publicly owned company, and our Common Shares are owned by Canadian residents, United States residents, and residents of other countries. To our knowledge, we are not directly owned or controlled by another corporation, any foreign government or any other natural or legal person(s), whether severally or jointly. We are not aware of any arrangement, the operation of which may result in a change of control of us.

B. Related Party Transactions

Since January 1, 2023, we have engaged in the following transactions with our related parties. For this purpose, our related parties include (a) enterprises that directly or indirectly control or are controlled by, or are under common control with, us; (b) our associates; (c) shareholders beneficially owning 10% or more of our voting power and other individuals with significant influence over us, and close members of any such individual's family; (d) our directors and executive officers, and close members of their families; and (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. Our related parties include enterprises owned by directors or major shareholders and enterprises that have a member of key management in common with us. All of the transactions have been reviewed and approved by the Board or another independent committee of the board.

- On April 2, 2019, IMC Holdings and Focus entered into an option agreement (the "Focus Agreement") pursuant to which IMC Holdings acquired an option to purchase, at its sole discretion and in compliance with Israeli cannabis regulation, all of the ordinary shares held by Messrs. Shuster and Gabay held in Focus at a price equal to NIS 765.67 per ordinary share until April 2029. On November 30, 2023, IMC Holdings sent a request letter to IMCA to approve IMC Holding's exercise of the option and on February 25, 2024, IMCA's approval was obtained. Effective February 27, 2024, IMC Holdings acquired 74% of the ordinary shares of Focus.
- The Company is a party to indemnification agreements with certain directors and officers of the Company and Trichome to cover certain tax liabilities, interest and penalties arising from the Company's acquisition of all of issued and outstanding securities of Trichome and certain of its subsidiaries.

- The Stalking Horse Purchase Agreement constituted a related party transaction as L5 Capital is an entity controlled by Marc Lustig, who was a director of Trichome and the Executive Chairman of the Board. On March 8, 2023, the Company announced that the SISP approved by the Court did not result in any bids for the going-concern business of Trichome; however, L5 Capital advised that it would not complete the proposed transaction contemplated by the Stalking Horse Share Purchase Agreement.
- On January 16, 2023, the Company closed 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 Concurrent Offering was led by insiders of the Company. The units offered under the Concurrent Offering were sold under similar terms as the Life Offering.
- On January 20, 2023, the Company closed the second tranche of the LIFE Offering comprised of 102,152 Life Units for an aggregate subscription price of approximately US\$128. The second tranche of the LIFE Offering was comprised of a single subscription by the Executive Chairman of the Company whose subscription price was satisfied by the settlement of approximately US\$128 in debt owed by the Company to him 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. Marc Lustig, the Executive Chairman of the Company subscribed for 29,548 Life Units in the fifth tranche at an aggregate subscription price of US\$37. Marc Lustig'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 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 LIFE Offering, as applicable, was below 25% of the Company's market capitalization for the purposes of MI 61-101.

- Pursuant to the consulting agreement between the Company and L5 Capital, the Company issued 50,414 Common Shares as a result of the vested RSUs according to the agreed vesting schedule. The Common Shares were issued on May 5, 2023. In July 24, 2023, an additional 4,585 Common Shares were issued as a result of the vested RSUs according to the agreed vesting schedule.
- On October 12, 2023, Oren Shuster, the CEO loaned an amount of NIS 500 (approximately \$170) to IMC Holdings. The participation of the CEO constituted a "related party transaction", as such term is defined in MI 61-101 and would require the Company to receive minority shareholder approval for and obtain a formal valuation for the subject matter of, the transaction in accordance with MI 61-101, prior to the completion of such transaction. However, in completing the loan, the Company has relied on exemptions from the formal valuation and minority shareholder approval requirements of MI 61-101, in each case on the basis that the fair market value of the CEO's loan did not exceed 25% of the market capitalization of the Company, as determined in accordance with 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.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

This Annual Report contains the 2023 Annual Financial Statements. The audit reports of Kost Forer, the Company's auditor, are included therein.

Dividend Distribution Policy

We have not paid any dividends on our outstanding Common Shares, and we have no current intention to declare dividends on our Common Shares in the foreseeable future. Any decision to pay dividends on our Common Shares in the future will be at the discretion of the Board and will depend on, among other things, our results of operations, current and anticipated cash requirements and surplus, financial condition, any future contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant.

Legal Proceedings

The Company is engaged in certain legal proceedings, as further described below. Litigation has been, and is expected to be, costly and time-consuming and could divert the attention of management and key personnel from our business operations. Although we intend to vigorously defend ourselves against any pending claims, and future claims that may occur, we cannot assure that we will succeed in defending any of these claims and that the judgments will not be upheld against us. If we are unsuccessful in our defense of these claims or unable to settle the claims in a manner satisfactory to us, we may be faced with outcomes that could have a material adverse effect on the Company and its financial condition. Except for as otherwise disclosed below, there are no material outstanding legal proceedings or regulatory actions to which the Company is party, nor, to Company's knowledge, are there any such proceedings or actions contemplated.

Class Action T.Z. 35676-08-19 Tel Aviv - Jaffa District Court

On August 19, 2019, a cannabis consumer (the "**Class Action Applicant**") filed a motion for approval of a class action to Tel Aviv - Jaffa District Court (the "**Class Action Motion**") against 17 companies (the "**Class Action Parties**") operating in the field of medical cannabis in Israel, including Focus. The Class Action Applicant's argument is that the Class Action Parties did not accurately mark the concentration of active ingredients in their products. The personal suit sum for each class member stands at NIS 16 and the total amount of the class action suit is estimated at NIS 686,740. On June 2, 2020, the Class Action Parties submitted their response to the Class Action Motion. The Class Action 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 Class Action Motion will be decided in favor of the class group. On July 3, 2020, the Class Action Applicant submitted his response to the Class Action Parties' response. On July 5, 2020, the Class Action Applicant was absent from the hearing. As a result, on July 23, 2020, the Class Action Parties filed an application for a ruling of expenses which received a response from the Class Action Applicant on August 12, 2020, asking to decline this request. On September 29, 2020, the court ruled that the Class Action Applicant would pay the Class Action 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 Class Action Parties agreed to follow the court's recommendations. On November 3, 2021, the court ruled the Class Action Parties will file an update regarding the mediation procedure in 30 days. The Class Action Parties conducted unsuccessful negotiations. On March 14, 2022, the Class Action Applicant filed a request to amend the Class Action Motion (the "**Class Action 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 Class Action Parties filed a response to the Class Action Applicant's Request for Amendment. On September 12, 2022, the court ruled on the Class Action Applicant's Request for Amendment and accepted the Class Action Applicant's request to clarify its claims regarding product labeling, while rejecting the Class Action Applicant's other requests. On November 27, 2023, the Class Action Applicant submitted an amended application for approval of the motion (the "**Class Action Amended Motion**"), and the Class Action Parties' response was submitted on February 8, 2023. The date of the preliminary hearing was set for April 27, 2023. On July 4, 2023, the Class Action Parties submitted an agreed request to release from the class action and validity of a judgment. The request was conditioned upon and subject to approval of the court. According to the release request, the Class Action Parties will pay the Applicant a total amount of NIS 70 plus VAT and a total amount of NIS 40 NIS plus VAT to the Class Action Applicant's counsel. On July 24, 2023, the Class Action Amended Motion was approved by the court and the Class Action has been closed.

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.

A hearing was initially set to December 1, 2021, but postponed several times to allow the parties to negotiate towards a resolution. The hearing was set for June 22, 2023. A draft agreement between the parties sent by the defendant to the municipal committee 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.

On June 22, 2023, a hearing took place before the esteemed Honorable Judge Orit Kertz. During the hearing it was decided that the defendants and the municipal committee's attorney would engage in negotiations and make diligent efforts to reach a settlement before August 15, 2023. The responsibility of informing the court about any progress concerning a potential settlement was assigned to the attorney representing the municipal committee. On September 9, 2023, the municipal committee's attorney was summoned to appear at a hearing before the Honorable Judge Orit Kertz. The hearing was postponed to December 28, 2023, due to the 2023 Israel–Hamas war as will be further specified under "Risk Factors" section of this Annual Report.

On January 2, 2024, the Company announced that the construction proceedings against Focus, were concluded on December 28, 2023. The company maintains "de facto" control of Focus. Focus was indicted and a fine of \$129 has been imposed. The cultivation facility, which was the focus of the proceedings, was closed in June 2022 in alignment with the Company's strategic shift towards import and sales.

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**"), its shareholders and managing directors regarding a debt owed by Stroakmont to Adjupharm in an amount of approximately EUR 948 for COVID-19 test kits purchased by Stroakmont from Adjupharm at the end of March 2021. In January 2022, Stroakmont filed its statement of defence to the Stuttgart Court in which they mainly stated two arguments for their defense:

1. The contractual party of the company was not Stroakmont. The contract with Stroakmont was only concluded as a sham transaction to cover up a contract with a company named Uniclaro GmbH ("**Uniclaro**"). Therefore, Stroakmont is not the real purchaser rather than Uniclaro.
2. The company allegedly placed an order with Uniclaro for a total of 4.3 million Clongene COVID-19 tests, of which Uniclaro 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 942. Uniclaro has assigned this alleged claim against the company to Stroakmont Trading GmbH, and Stroakmont Trading GmbH has precautionary declared a set-off against the company's claim.

On March 22, 2022, Adjupharm filed a response to Stroakmont'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 the allegation that the contract with Stroakmont was only concluded as a sham transaction lies with the opponents, and they offered evidences to the court in the form of testimony from certain witnesses.

A court hearing with witnesses was held on January 11, 2023 and on February 22, 2023, where witnesses testified. According to the court the witnesses were not able to provide required evidence for the allegation regarding the sham transaction with Stroakmont. On April 5, 2023, Stuttgart Court announced its decision (the "**Test Kits Judgment**") and sentenced Stroakmont to pay to Adjupharm EUR 948 plus interest in the amount of 5 percentage points above the German basis rate since May 8, 2021. In addition, Stroakmont was sentenced to pay Adjupharm EUR 7 plus interest at 5 percentage points above the German basis rate since December 14, 2021.

The directors of Stroakmont, Mr. Simic and Mr. Lapeschi, were not sentenced and in this respect, the claim was dismissed against them with regard to their personal liability. Adjupharm shall pay 2/3 of the Stuttgart Court expenses and the out-of-court expenses of Mr. Simic and Mr. Lapeschi. Stroakmont shall bear 1/3 of the Stuttgart Court expenses and 1/3 of the out-of-court expenses of Adjupharm. The remaining out-of-court expenses shall be borne by each party.

Furthermore, the court did not decide on the counterclaims from an alleged order by Adjupharm for 4.3 million Clongene tests due to a set-off prohibition. This set-off prohibition follows from a jurisdiction agreement concluded between Adjupharm and Uniclaro, which determined the courts in Hamburg to be the competent court to decide about such allegations.

The Judgment is not yet final and, therefore, cannot be enforced. On May 5, 2023, Adjupharm and Stroakmont, each submitted an appeal with the Stuttgart Court against the Test Kits Judgment (the "**Test Kits Appeal**").

On June 23, 2023, Adjupharm filed its statement of grounds for appeal with the Higher Regional Court of Stuttgart. Adjupharm appeals against the fact that the directors of Stroakmont were not sentenced to pay jointly and severally together with Stroakmont as a result of fraud. Since they concluded the purchase agreement with Adjupharm in the name of Stroakmont and there is indication that they did not intend to pay the purchase price from the very beginning, this could be considered to be fraudulent inducement, for which they would be personally liable.

Stroakmont appeals against the judgement and request to reject the payment claim. Furthermore, they appeal against the prohibition of the set-off. They are of the opinion that there is no such prohibition, and they want to include their alleged counterclaims in the proceedings and to receive a decision for their counterclaim by the court in Stuttgart.

So far, there have not been any instructions from the Court of Appeal and no oral hearing was held yet. It is not yet possible to estimate the outcome of the appeal proceedings at this early stage in the process.

At this stage, the Company management cannot assess its ability to collect the payment awarded in the Test Kits Judgment and the chances of the claim advancing or the potential outcome of the Test Kits Appeal.

Uniclaro vs. adjupharm

On December 22, 2022, Uniclaro filed a statement of claim against Adjupharm with the district court in Hamburg. According to the statement of claim, Uniclaro claimed the payment of the amount of EUR 1,047 (including VAT) in exchange for 300,000 Covid-19 rapid.

Uniclaro alleges in this lawsuit that Adjupharm purchased 4.3 million Covid-19 rapid tests of the brand "Clongene" from Uniclaro. Furthermore, Uniclaro claims that the order was placed verbally on March 23, 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 a further 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 Claim mentioned above. On February 23, 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. Adjupharm rejected the claim stating that it did not purchase such an amount of Covid-19 rapid tests, but only small portions on a case-by-case-basis and according to the available cash flow.

On February 14, 2024, a court hearing took place before the district court of Hamburg, at which the court also took evidence. The court first heard the managing directors of Uniclaro and Adjupharm. They commented on the events of March 23, 2021 and the alleged purchase. The statements of all managing directors differed from each other. Afterwards, the witness Francesco Bisceglia, who holds the position of Sales Director at Adjupharm, was also heard. His statement also partially deviated from the statements of all managing directors, but overall, the witness basically testified that the company did not purchase 4.3 million Clungene Tests in the meeting of March 23, 2021. The transcript of the hearing is still pending.

The court provided the parties a deadline until March 27, 2024, to evaluate the statements of the managing directors and the testimony of the witness and to deliver to the court a summary of the factual and legal situation after the court hearing. The court will announce its decision for further proceedings or its judgment on April 24, 2024.

The burden of proof for the question whether or not the Company has purchased 4.3 million Clungene Tests is borne by Uniclaro. After reviewing the written statements of the parties, the court will evaluate the testimony and all the statements of the managing directors. The court will then decide about the further proceedings. If, due to the fact that the statements of the managing directors and the witness are controversial, the court will not be able to determine whether a purchase agreement was concluded or not, it is more likely than not that the claim will be dismissed. However, it cannot be excluded that the court will conduct further investigations of further witnesses.

At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

CCAA Proceedings

For more information of the Company's CCAA proceedings, please see the section entitled "*Canadian Restructuring*".

The Regional Labor Court - Tel Aviv (Bat Yam) 17419-04-23

On May 10, 2023, IMC Holdings received a notice that a former employee has recently filed a claim with The Regional Labor Court - Tel Aviv against 3 companies, including IMC Holdings. The nature and details of the claim are still in the preliminary stages, and IMC Holdings is actively working to comprehend the full scope of the allegations.

A preliminary hearing is set for May 6, 2024, before the esteemed Honorable Judge Karin Liber-Levin at the Regional Labor Court - Tel Aviv (Bat Yam).

At this stage, the Company management cannot accurately assess the potential outcome of the claims or the likelihood of the claims progressing further.

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 was supposed to mature on December 9, 2023.

Based on the Biome Term Sheet, the Obligors were required to make a payment to MYM on December 31, 2022. The value of the payment on December 31, 2022 was dependent on the volume weighted average price (the “**VWAP**”) of the Common Shares during the final ten trading days of November 2022. The repayment was to 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 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.

Ontario Superior Court of Justice in Canada – Statement of claim

On November 17, 2023, the Company received a copy of a Statement of Claim that was filed in the Ontario Superior Court of Justice in Canada by 35 Oak Holdings Ltd., MW Investments Ltd., 35 Oak Street Developments Ltd., Michael Wiener, Kevin Weiner, William Weiner, Lily Ann Goldstein-Weiner, in their capacity as trustees of the Weiner Family Foundation (collectively the “**MYM Shareholder Plaintiffs**”) against the Company, Board and officers, (collectively, the “**MYM Defendants**”).

MYM Shareholder Plaintiffs claims that the MYM Defendants made misrepresentations in its disclosures prior to the Company’s transaction with MYM in 2021. The MYM Shareholder Plaintiffs are claiming damages that amount to approximately \$15,000 and aggravated, exemplary and punitive damages in the amount of \$1,000.

The Company has reviewed the complaint and believes that the allegations are without merit.

The Company, together with some of the Defendants brought, on February 22, 2024, a preliminary motion to strike out several significant parts of the claim (the “**Motion**”) The Motion has not been scheduled by the court.

At this time, the Company’s management is of the view that the Motion has merit and is likely to succeed in at least narrowing the scope of the claim against the Company, and that it may also result in certain of the claims against individuals being dismissed altogether, and if not dismissed narrowed in scope and complexity.

The Company plans to vigorously defend itself against the allegations. At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of these proceedings.

B. Significant Changes

Except as otherwise disclosed in this Annual Report, there have been no significant changes in our financial condition since the most recent audited consolidated financial statements for the year ended December 31, 2023.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our Common Shares are listed and posted for trading on Nasdaq under the symbol “IMCC” and CSE under the trading stock symbol “IMCC”.

Our Warrants are listed and posted for trading on the CSE under the symbol “IMCC.WT”.

B. Plan of Distribution

Not applicable.

C. Markets

See *Item 9.A. - Offer and Listing Details*.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Incorporation

See *Item 4.A. – Name, Address and Incorporation*.

Objects and Purposes

Neither the Notice of Articles nor the Articles of the Company contain a limitation on objects and purposes.

Directors

Article 16 of the Articles deals with a directors' disclosable interest (as defined in the BCBCA) in contracts or transactions into which the Company has entered or proposes to enter. Article 16.2 provides that a director who holds such a disclosable interest is not entitled to vote on any directors' resolution to approve such contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

Pursuant to the BCBCA, a director holds a disclosable interest in a contract or transaction if (a) the contract or transaction is material to the Company, (b) the Company has entered, or proposes to enter, into the contract or transaction, (c) either the director has a material interest in the contract or transaction or the director is a director or senior officer of, or has a material interest in, a person who has a material interest in the contract or transaction and (d) the interest is known by the director or reasonably ought to have been known. Pursuant to the BCBCA, a director does not have a disclosable interest in a number of prescribed situations, including without limitation in respect of a contract or transaction merely because the contract or transaction relates to the remuneration of the director in that person's capacity as a director of the Company.

The directors may act notwithstanding any vacancy in the Board, but if the Company has fewer directors in office than the number set pursuant to the Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of summoning a meeting of shareholders for the purpose of filling any vacancies on the Board or, subject to the BCBCA, for any other purpose. The quorum necessary for the transaction of the business of the directors is deemed to be set at a majority of the directors or, if the number of directors is set at one, is deemed to be set at one director, and that director may constitute a meeting.

Article 8 of the Articles deals with borrowing powers. The Company, if authorized by the directors, may: (1) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate; (2) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate; (3) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and (4) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

Qualifications of Directors

The Articles do not specify a retirement age for directors.

Directors are not required to own any Common Shares of the Company.

Section 124 of the BCBCA provides that an individual is not qualified to become or act as a director of a company if that individual is:

1. under the age of 18 years;
2. found by a court, in Canada or elsewhere, to be incapable of managing the individual's own affairs, unless a court, in Canada or elsewhere, subsequently finds otherwise;
3. an undischarged bankrupt; or
4. convicted in or out of the Province of British Columbia of an offence in connection with the promotion, formation or management of a corporation or unincorporated business, or of an offence involving fraud, unless:
 - a. the court orders otherwise;
 - b. 5 years have elapsed since the last to occur of:
 - i. the expiration of the period set for suspension of the passing of sentence without a sentence having been passed;
 - ii. the imposition of a fine;
 - iii. the conclusion of the term of any imprisonment; and
 - iv. the conclusion of the term of any probation imposed; or
 - c. a pardon was granted or issued, or a record suspension ordered, under the Criminal Records Act (Canada) and the pardon or record suspension, as the case may be, has not been revoked or ceased to have effect.

A director who ceases to be qualified to act as a director of the Company must promptly resign.

Section 120 of the BCBCA provides that every company must have at least one director, and a public company must have at least three directors.

Rights, Preference and Restrictions attaching to the Common Shares

Authorized Share Structure

The Corporation is authorized to issue an unlimited number of Common Shares.

Dividend Rights

Subject to the BCBCA, the directors may from time to time declare and authorize payment of such dividends as they may deem advisable. No notice is required for the payment of dividends, the directors may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5:00 p.m. (Vancouver time) on the date on which the directors pass the resolution declaring the dividend. Dividends are to be paid on a pro rata basis, paid according to the number of Common Shares held.

Voting Rights

Holders of Common Shares are entitled to receive notice of any meeting of shareholders of the Company, to attend such meeting and on a vote by show of hands, are entitled to one vote on a matter at such meeting and, on a poll, are entitled to one vote in respect of each Common Share held by that shareholder, and may exercise that vote either in person or by proxy.

Rights to Share in the Company's Profits

The directors may from time to time capitalize any retained earnings or surplus of the Company and may from time-to-time issue, as fully paid, shares or any bonds, debentures or other securities of the Company as a dividend representing the retained earnings or surplus or any part of the retained earnings or surplus so capitalized or any part thereof.

Rights to Share in any Surplus in the Event of Liquidation

The Common Shares do not carry any right to share in a surplus in the event of liquidation.

Redemption Provisions

There are no rights of redemptions in the articles. Although, if the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell, gift or otherwise dispose of the share, but, while such share is held by the Company, it:

- (1) is not entitled to vote the share at a meeting of its shareholders;
- (2) must not pay a dividend in respect of the share; and
- (3) must not make any other distribution in respect of the share.

Sinking Fund Provisions

There are no sinking fund provisions attaching to Common Shares.

Liability to Further Capital Calls

The Common Shares do not carry any liability to further capital calls by the Company.

Discriminatory Provisions

The Common Shares do not carry any provisions discriminating against any existing or prospective holder of Common Shares as a result of such shareholder owning a substantial number of Common Shares.

The rights of shareholders of the Company may be altered only with the approval of the holders of a majority of the Common Shares voted at a meeting of the Company's shareholders called and held in accordance with the Articles and applicable law.

Shareholder Meetings

The BCBCA provides that: (i) a general meeting of shareholders must, unless the meeting is fully electronic, be held in the Province of British Columbia, unless otherwise provided in the Articles (Article 10.4 of the Articles provides that a meeting of shareholders may be held in or outside of British Columbia as determined by a resolution of the directors); (ii) the Company must hold an annual general meeting of shareholders not later than 15 months after the last preceding annual general meeting and once in every calendar year; (iii) for the purpose of determining shareholders entitled to receive notice of or vote at a meeting of shareholders, the directors may set a date as the record date for that determination, provided that such date shall not precede by more than 2 months (or, in the case of a general meeting requisitioned by shareholders under the BCBCA, by more than 4 months) (or, pursuant to Article 10.5 and 10.6 of the Articles, be less than 21 days before the date on which the meeting is to be held for so long as the Company is a public company); (iv) a quorum for the transaction of business at a meeting of shareholders of the Company is the quorum established by the Articles (Article 11.3 of the Articles provide that 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 Common Shares entitled to vote at the meeting,); (v) the holders of not less than 5% of the issued shares entitled to vote at a meeting may requisition the directors to call a meeting of shareholders for the purpose of transacting any business that may be transacted at a general meeting; and (vi) the court may, on its own motion or on the application of the Company, upon the application of a director or the application of a shareholder entitled to vote at the meeting: (a) order that a meeting of shareholders be called, held and conducted in a manner that the court considers appropriate; and (b) give directions it considers necessary as to the call, holding and conduct of the meeting.

Limitations on Ownership of Securities

Except as provided in the Investment Canada Act, there are no limitations specific to the rights of non-Canadians to hold or vote the Common Shares under the laws of Canada or the Province of British Columbia or in the Company's constating documents.

Change in Control

There are no provisions in the Company's constating documents or under applicable corporate law that would have the effect of delaying, deferring or preventing a change in the control of the Company, or that would operate with respect to any proposed merger, acquisition or corporate restructuring involving the Company or any of its subsidiaries.

Ownership Threshold

For as long as the Company remains a reporting issuer (as defined under the Securities Act (British Columbia)), there are no provisions in the Company's constating documents or under applicable corporate law requiring share ownership to be disclosed. Securities legislation in Canada requires that shareholder ownership (as well as ownership of an interest in, or right or obligation associated with, a related financial instrument of a security of the Company) must be disclosed once a person becomes a reporting insider as such term is defined in National Instrument 55-104 – Insider Reporting Requirements and Exemptions, which includes any person who beneficially owns or has control or direction over, directly or indirectly, securities of a reporting issuer carrying more than 10% of the voting rights attached to all the reporting issuer's outstanding voting securities on a partially diluted basis. This threshold is higher than the 5% threshold under U.S. securities legislation at which stockholders must report their share ownership.

Changes to Capital

There are no conditions imposed by the Articles governing changes in the capital where such conditions are more significant than is required by the corporate laws of the Province of British Columbia for as long as the Company is a public company. Otherwise, Section 25.3 of the Articles provides that if the Company ceases to be a public company and statutory reporting company provisions do not apply, no share or designated security may be sold, transferred or otherwise disposed of without the consent of the directors and the directors are not required to give any reason for refusing to consent to any such sale, transfer or other disposition.

Description of Capital Structure

Our authorized share structure consists of an unlimited number of Common Shares without par value, of which 13,394,136 Common Shares were issued and outstanding as of March 28, 2024. All of the issued Common Shares are fully paid and non-assessable common shares in the authorized share structure of the Company. The Company does not own any of its Common Shares.

C. Material Contracts

Except as set forth below, the material terms of our material contracts are described elsewhere in this Annual Report. Below is a list of our material contracts, together with references to the relevant sections of this Annual Report where the material terms of such contracts are described.

The summaries provided below and elsewhere in this Annual Report are not meant to be exhaustive and are qualified in their entirety by the full text of the relevant agreements, copies of which are filed as exhibits to this Annual Report.

- a. Focus Agreement. For more information, please see the section entitled “B. Related Party Transactions”.
- b. Services Agreement. For more information, please see the section entitled “Economic Dependence”.
- c. IP Agreement. For more information, please see the section entitled “Economic Dependence”.
- d. First LIFE Warrant Indenture; For more information, please see the section entitled “Life Offering”.
- e. Second LIFE Warrant Indenture; For more information, please see the section entitled “Life Offering”.
- f. Third LIFE Warrant Indenture; For more information, please see the section entitled “Life Offering”.
- g. The Loan Agreement. For more information, please see the section entitled “Potential Reverse Merger with Kadimastem”.

D. Exchange Controls

Canada has no system of exchange controls. There are no Canadian governmental laws, decrees, or regulations relating to restrictions on the repatriation of capital or earnings of the Company to non-resident investors. There are no laws in Canada or exchange control restrictions affecting the remittance of dividends or other payments made by the Company in the ordinary course to non-resident holders of the Common Shares by virtue of their ownership of such Common Shares, except as discussed below in under “*Item 10.E. - Taxation*”.

There are no limitations under the laws of Canada or in the organizing documents of the Company on the right of foreigners to hold or vote securities of the Company, except that the *Investment Canada Act* may require that a "non-Canadian" not acquire "control" of the Company without prior review and approval by the Minister of Innovation, Science and Economic Development, where applicable thresholds are exceeded. The acquisition of one-third or more of the voting shares of the Company would give rise a rebuttable presumption of an acquisition of control, and the acquisition of more than fifty percent of the voting shares of the Company would be deemed to be an acquisition of control. In addition, the *Investment Canada Act* provides the Canadian government with broad discretionary powers in relation to national security to review and potentially prohibit, condition or require the divestiture of, any investment in the Company by a non-Canadian, including non-control level investments. "Non-Canadian" generally means an individual who is neither a Canadian citizen nor a permanent resident of Canada within the meaning of the *Immigration and Refugee Protection Act* (Canada) who has been ordinarily resident in Canada for not more than one year after the time at which he or she first became eligible to apply for Canadian citizenship, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

E. Taxation

Certain United States Federal Income Tax Considerations

The following is a general summary of certain material U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of Common Shares. This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from and relating to the acquisition, ownership, and disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including without limitation specific tax consequences to a U.S. Holder under an applicable income tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. This summary does not address the U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. In addition, except as specifically set forth below, this summary does not discuss applicable tax reporting requirements. Each prospective U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences relating to the acquisition, ownership, and disposition of Common Shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the **IRS**) has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the conclusions described in this summary.

Scope of this Summary

Authorities

This summary is based on the United States Internal Revenue Code of 1986, as amended (the **Code**), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention between the United States and Canada with respect to taxes on income and on capital of 1980, as amended (the **"Canada-U.S. Tax Convention"**), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive, current or prospective basis.

U.S. Holders

For purposes of this summary, the term **"U.S. Holder"** means a beneficial owner of Common Shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the U.S., any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

Non-U.S. Holders

For purposes of this summary, a **"non-U.S. Holder"** is a beneficial owner of Common Shares that is not a U.S. Holder or is a partnership. This summary does not address the U.S. federal income tax considerations to non-U.S. Holders arising from and relating to the acquisition, ownership and disposition of Common Shares. Accordingly, a non-U.S. Holder should consult its own tax advisors regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local and non-U.S. tax consequences (including the potential application of, and operation of, any income tax treaties) relating to the acquisition, ownership and disposition of Common Shares.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders that: (a) are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) have a "functional currency" other than the U.S. dollar; (e) own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other integrated transaction; (f) acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); (h) are partnerships and other pass-through entities (and investors in such partnerships and entities); (i) are S corporations (and shareholders or investors in such S corporations); (j) own, have owned or will own (directly, indirectly, or by attribution) 10% or more of the total combined voting power or value of the outstanding shares of the Company; (k) U.S. expatriates or former long-term residents of the U.S., (l) hold Common Shares in connection with a trade or business, permanent establishment, or fixed base outside the United States, (m) are subject to special tax accounting rules with respect to Common Shares, or (n) are subject to the alternative minimum tax. U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders described immediately above, should consult their own tax advisor regarding the U.S. federal, U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences relating to the acquisition, ownership and disposition of Common Shares.

If an entity or arrangement that is classified as a partnership (or other "pass-through" entity) for U.S. federal income tax purposes holds Common Shares, the U.S. federal income tax consequences to such entity and the partners (or other owners) of such entity generally will depend on the activities of the entity and the status of such partners (or owners). This summary does not address the tax consequences to any such owner. Partners (or other owners) of entities or arrangements that are classified as partnerships or as "pass-through" entities for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal, U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences arising from and relating to the acquisition, ownership, and disposition of Common Shares.

Ownership and Disposition of Common Shares

The following discussion is subject to the rules described below under the heading "Passive Foreign Investment Company Rules".

Taxation of Distributions

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to a Common Share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any foreign income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates if the Company is a PFIC for the tax year of such distribution or the preceding tax year. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and thereafter as gain from the sale or exchange of such Common Shares (see "Sale or Other Taxable Disposition of Common Shares" below). However, the Company may not maintain the calculations of its earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to the Common Shares will constitute ordinary dividend income. Dividends received on Common Shares by corporate U.S. Holders generally will not be eligible for the "dividends received deduction". Subject to applicable limitations and provided the Company is eligible for the benefits of the Canada-U.S. Tax Convention or the Common Shares are readily tradable on a United States securities market, dividends paid by the Company to non-corporate U.S. Holders, including individuals, generally will be eligible for the preferential tax rates applicable to long-term capital gains for dividends, provided certain holding period and other conditions are satisfied, including that the Company not be classified as a PFIC (as defined below) in the tax year of distribution or in the preceding tax year. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Sale or Other Taxable Disposition of Common Shares

A U.S. Holder will generally recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in such Common Shares sold or otherwise disposed of. Any such gain or loss recognized on such sale or other disposition generally will be capital gain or loss, which will be long-term capital gain or loss if, at the time of the sale or other disposition, such Common Shares are held for more than one year.

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Passive Foreign Investment Company ("PFIC") Rules

If the Company were to constitute a PFIC for any year during a U.S. Holder's holding period for its Common Shares, then certain potentially adverse rules would affect the U.S. federal income tax consequences to a U.S. Holder resulting from the acquisition, ownership and disposition of Common Shares. The Company believes that it was not a PFIC for its most recently completed tax year and based on current business plans and financial expectations, the Company does not anticipate that it will be a PFIC for its current tax year. No opinion of legal counsel or ruling from the IRS concerning the status of the Company as a PFIC has been obtained or is currently planned to be requested. However, PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question and is determined annually. Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. Consequently, there can be no assurance that the Company has never been and will not become a PFIC for any tax year during which U.S. Holders hold Common Shares.

In addition, in any year in which the Company is classified as a PFIC, a U.S. Holder will be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidance may require. A failure to satisfy such reporting requirements may result in an extension of the time period during which the IRS can assess a tax. U.S. Holders should consult their own tax advisors regarding the requirements of filing such information returns under these rules, including the requirement to file an IRS Form 8621 annually.

The Company generally will be a PFIC under Section 1297 of the Code if, after the application of certain "look-through" rules with respect to subsidiaries in which the Company holds at least 25% of the value of such subsidiary, for a tax year, (a) 75% or more of the gross income of the Company for such tax year is passive income (the "**income test**") or (b) 50% or more of the value of the Company's assets either produce passive income or are held for the production of passive income (the "**asset test**"), based on the quarterly average of the fair market value of such assets. "Gross income" generally includes all sales revenues less the cost of goods sold, plus income from investments and incidental or outside operations or sources, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

If the Company were a PFIC in any tax year during which a U.S. Holder held Common Shares, such holder generally would be subject to special rules with respect to "excess distributions" made by the Company on the Common Shares and with respect to gain from the disposition of Common Shares. An "excess distribution" generally is defined as the excess of distributions with respect to the Common Shares received by a U.S. Holder in any tax year over 125% of the average annual distributions such U.S. Holder has received from the Company during the shorter of the three preceding tax years, or such U.S. Holder's holding period for the Common Shares. Generally, a U.S. Holder would be required to allocate any excess distribution or gain from the disposition of the Common Shares ratably over its holding period for the Common Shares. Such amounts allocated to the year of the disposition or excess distribution would be taxed as ordinary income, and amounts allocated to prior tax years would be taxed as ordinary income at the highest tax rate in effect for each such year and an interest charge at a rate applicable to underpayments of tax would apply.

While there are U.S. federal income tax elections that sometimes can be made to mitigate these adverse tax consequences (including the **QEF Election** under Section 1295 of the Code and the "**Mark-to-Market Election**" under Section 1296 of the Code), such elections are available in limited circumstances and must be made in a timely manner.

U.S. Holders should be aware that, for each tax year, if any, that the Company is a PFIC, the Company can provide no assurances that it will satisfy the record-keeping requirements of a PFIC, or that it will make available to U.S. Holders the information such U.S. Holders require to make a QEF Election with respect to the Company or any subsidiary that also is classified as a PFIC.

Certain additional adverse rules may apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether the U.S. Holder makes a QEF Election. These rules include special rules that apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to these special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. U.S. Holders should consult their own tax advisors regarding the potential application of the PFIC rules to the ownership and disposition of Common Shares, and the availability of certain U.S. tax elections under the PFIC rules.

Additional Tax Considerations

Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or payment received on the sale, exchange or other taxable disposition of Common Shares, generally will be equal to the USD value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into USD at that time). A U.S. Holder will have a basis in the foreign currency equal to its USD value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Different rules apply to U.S. Holders who use the accrual method with respect to foreign currency received upon the sale, exchange or other taxable disposition of the Common Shares. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Foreign Tax Credit

Dividends paid on the Common Shares will be treated as foreign-source income, and generally will be treated as "passive category income" or "general category income" for U.S. foreign tax credit purposes. Any gain or loss recognized on a sale or other disposition of Common Shares generally will be United States source gain or loss. Certain U.S. Holders that are eligible for the benefits of Canada-U.S. Tax Convention may elect to treat such gain or loss as Canadian source gain or loss for U.S. foreign tax credit purposes. The Code applies various complex limitations on the amount of foreign taxes that may be claimed as a credit by U.S. taxpayers. In addition, Treasury Regulations that apply to taxes paid or accrued in taxable years beginning on or after December 28, 2021 (the "**Foreign Tax Credit Regulations**") impose additional requirements for Canadian withholding taxes to be eligible for a foreign tax credit, and there can be no assurance that those requirements will be satisfied. The Treasury Department has recently released guidance temporarily pausing the application of certain of the Foreign Tax Credit Regulations.

Subject to the PFIC rules and the Foreign Tax Credit Regulations, each as discussed above, a U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the Common Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income that is subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a year. The foreign tax credit rules are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, each U.S. Holder should consult its own U.S. tax advisor regarding the foreign tax credit rules.

Backup Withholding and Information Reporting

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, U.S. return disclosure obligations (and related penalties) are imposed on individuals who are U.S. Holders that hold certain specified foreign financial assets in excess of certain threshold amounts. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Common Shares are held in an account at certain financial institutions. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult their own tax advisors regarding the requirements of filing information returns, including the requirement to file an IRS Form 8938.

Payments made within the U.S. or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, Common Shares will generally be subject to information reporting and backup withholding tax, currently at the rate of 24%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on IRS Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner.

The discussion of reporting requirements set forth above is not intended to constitute a complete description of all reporting requirements that may apply to a U.S. Holder. A failure to satisfy certain reporting requirements may result in an extension of the time period during which the IRS can assess a tax, and under certain circumstances, such an extension may apply to assessments of amounts unrelated to any unsatisfied reporting requirement. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO U.S. HOLDERS WITH RESPECT TO THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF COMMON SHARES. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM IN LIGHT OF THEIR OWN PARTICULAR CIRCUMSTANCES.

Certain Canadian Federal Income Tax Consequences

The following summarizes certain Canadian federal income tax consequences generally applicable under the ITA and the Canada-U.S. Tax Convention to the holding and disposition of Common Shares.

This summary is restricted to holders of Common Shares each of whom, at all material times for the purposes of the ITA and the Canada-U.S. Tax Convention:

- (i) are resident solely in the United States for the purposes of the Canada-U.S. Tax Convention;
- (ii) are entitled to the benefits of the Canada-U.S. Tax Convention and is a "qualifying person" within the meaning of the Canada-U.S. Tax Convention;
- (iii) hold all Common Shares as capital property and as beneficial owner;
- (iv) hold no Common Shares that are "taxable Canadian property" (as defined in the ITA) of the holder;
- (v) deal at arm's length with and are not affiliated with the Company;
- (vi) do not use or hold and are not deemed to use or hold any Common Shares in the course of a business or part of a business carried on in Canada;
- (vii) did not, do not and will not have a permanent establishment in Canada within the meaning of the Canada-U.S. Tax Convention;
- (viii) did not acquire Common Shares by virtue of employment;
- (ix) are not financial institutions, authorized foreign banks, partnerships or trusts for the purposes of the ITA; and
- (x) are not insurers that carry on business in Canada and elsewhere;

(each such holder, a "U.S. Resident Holder").

Certain U.S.-resident entities that are fiscally transparent for United States federal income tax purposes (including limited liability companies) may not in all circumstances be entitled to the benefits of the Canada-U.S. Tax Convention. However, members of or holders of an interest in such entities that hold Common Shares may be entitled to the benefits of the Canada-U.S. Tax Convention for income derived through such entities. Such members or holders should consult their own tax advisors in this regard.

Generally, a holder's Common Shares will be considered to be capital property of the holder provided that the holder is not a trader or dealer in securities, did not acquire, hold or dispose of the Common Shares in one or more transactions considered to be an adventure or concern in the nature of trade and does not hold the Common Shares as inventory in the course of carrying on a business.

Generally, a holder's Common Shares will not be "taxable Canadian property" of the holder at a particular time at which the Common Shares are listed on a "designated stock exchange" (which does include the CSE) unless both of the following conditions are met at any time during the 60-month period ending at the particular time:

- (i) the holder, persons with whom the holder does not deal at arm's length, or any partnership in which the holder or persons with whom the holder did not deal at arm's length holds a membership interest directly or indirectly through one or more partnerships, alone or in any combination, owned 25% or more of the issued shares of any class of the capital stock of the Company; and
- (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from, or from any combination of, real or immovable property situated in Canada, "Canadian resource properties" (as defined in the ITA), "timber resource properties" (as defined in the ITA), or options in respect of or interests in, or for civil law a right, in such properties.

In certain other circumstances, a Common Share may be deemed to be "taxable Canadian property" for purposes of the ITA.

This summary is based on the current provisions of the ITA and the Canada-U.S. Tax Convention in effect on the date hereof, all specific proposals to amend the ITA and Canada-U.S. Tax Convention publicly announced by or on behalf of the Minister of Finance (Canada) on or before the date hereof, and the current published administrative and assessing policies of the CRA. It is assumed that all such amendments will be enacted as currently proposed, and that there will be no other material change to any applicable law or administrative or assessing practice, although no assurance can be given in these respects. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign tax considerations, which may differ materially from those set out herein.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations, and is not intended to be and should not be construed as legal or tax advice to any particular U.S. Resident Holder. U.S. Resident Holders are urged to consult their own tax advisers for advice with respect to their particular circumstances. The discussion below is qualified accordingly.

A U.S. Resident Holder who disposes or is deemed to dispose of one or more Common Shares generally should not thereby incur any liability for Canadian federal income tax in respect of any capital gain arising as a consequence of the disposition.

A U.S. Resident Holder to whom the Company pays or is deemed to pay a dividend on the holder's Common Shares will be subject to Canadian withholding tax, and the Company will be required to withhold the tax from the dividend and remit it to the CRA for the holder's account. The rate of withholding tax under the ITA is 25% of the gross amount of the dividend (subject to reduction under the provisions of an applicable tax treaty). Under the Canada-U.S. Tax Convention, a U.S. Resident Holder who beneficially owns the dividend will generally be subject to Canadian withholding tax at the rate of 15% (or 5%, if the U.S. Resident Holder who beneficially owns the dividend is a company that is not fiscally transparent and which owns at least 10% of the voting stock of the Company) of the gross amount of the dividend.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

Any statement in this Annual Report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this Annual Report, the contract or document is deemed to modify the description contained in this Annual Report. Readers must review the exhibits themselves for a complete description of the contract or document.

We are subject to the informational requirements of the Exchange Act and file reports and other information with the SEC. The SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at <http://www.sec.gov.edgar>.

We are required to file reports and other information with the securities commissions in Canada. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we file with the provincial securities commissions. These filings are also electronically available from SEDAR+, the Canadian equivalent of EDGAR.

Copies of our material contracts are kept at our registered office.

I. Subsidiary Information

Not applicable.

J. Annual Report to Security Holders

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a number of financial risks arising through the normal course of business, including interest rate risk, foreign currency risk, credit risk, and liquidity risk. Refer to Note 15 of the 2023 Annual Financial Statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. to D.

None.

E. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, the Company carried out an evaluation, under the supervision of the Company's CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this Annual Report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

While the Company's principal executive officer and principal financial officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

B. Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company's management has employed a framework consistent with Exchange Act Rule 13a-15(c), to evaluate the Company's internal control over financial reporting described below. A company's 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 generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide 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 statements. It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, and has used the 2013 framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "**2013 COSO Framework**") to evaluate the effectiveness of the Company's controls. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2023, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of financial statements.

C. Attestation Report of Registered Public Accounting Firm

This Annual Report does not include an attestation report of the Company's registered public accounting firm because emerging growth companies are exempt from this requirement for so long as they remain emerging growth companies.

D. Changes in Internal Controls Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of 17 CFR 240.13a-15 or 240.15d-15 that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Moti Marcus qualifies as the Audit Committee's financial expert (as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act) and as a financially sophisticated audit committee member under Rule 5605(c)(2)(A) of the Nasdaq Stock Market Rules; and (ii) is independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of the Nasdaq Stock Market Rules).

The SEC has indicated that the designation or identification of a person as an audit committee financial expert does not make such person an "expert" for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or board of directors.

ITEM 16B. CODE OF ETHICS

The Company has adopted a Code of Business Conduct and Ethics that applies to directors, officers and employees of, and consultants to, the Company (the “Code”). The Code is posted on the Company’s website at www.imcannabis.com. The Code meets the requirements for a “code of ethics” within the meaning of that term in General Instruction 16B(b) of Form 20-F.

All waivers of the Code with respect to any of the employees, officers or directors covered by it will be promptly disclosed as required by applicable securities rules and regulations. During the fiscal year ended December 31, 2023, the Company did not waive or implicitly waive any provision of the Code with respect to any of the Company’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For more information of the principal accountant fees and services, please see the sections entitled “*External Auditor Service Fees*” and “*Pre-Approval Policies and Procedures*”.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN COMPANY’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The Company is a “foreign private issuer” as defined in Rule 3b-4 under Exchange Act and its Common Shares are listed on the Nasdaq and CSE. Rule 5615(a) (3) of Nasdaq Stock Market Rules permits foreign private issuers to follow home country practices in lieu of certain provisions of Nasdaq Stock Market Rules. A foreign private issuer that follows home country practices in lieu of certain provisions of Nasdaq Stock Market Rules must disclose ways in which its corporate governance practices differ from those followed by domestic companies either on its website or in the annual report that it distributes to shareholders in the United States. A description of the ways in which the Company’s governance practices differ from those followed by domestic companies pursuant to Nasdaq standards are as follows:

Independent Nominating Committee. Nasdaq Stock Market Rule 5605(e)(1) (“**Rule 5605(e)(1)**”) requires having a Nominations Committee comprised solely of independent directors. In lieu of following Rule 5605(e)(1), the Company has elected to follow Canadian practices consistent with the requirements of the CSE.

Shareholder Meeting Quorum Requirement. Nasdaq Stock Market Rule 5620(c) (“**Rule 5620(c)**”) requires that the minimum quorum requirement for a meeting of shareholders be 33 1/3 % of the outstanding common shares. In addition, Rule 5620(c) requires that an issuer listed on Nasdaq state its quorum requirement in its by-laws. In lieu of following Rule 5620(c), the Company has elected to follow Canadian practices consistent with the requirements of the CSE.

Shareholder Approval Requirements. Nasdaq Stock Market Rule 5635(d) (“**Rule 5635(d)**”) requires shareholder approval prior to a transaction involving the sale or issuance of a company’s common stock (or securities convertible into or exercisable for its common stock): (i) at a price below the greater of book value or market value; and (ii) which together with sales by officers, directors, or substantial stockholders, is equal to 20% or more of the company’s outstanding shares of common stock or 20% or more of the voting power prior to issuance. In lieu of following Rule 5635(d), the Company has elected to follow Canadian practices consistent with the requirements of the CSE.

For more information, please see the section entitled “*C. Board Practices*”.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

ITEM 16J. INSIDER TRADING POLICIES

The Company has adopted a written insider trading policy, IM Cannabis Corp. Stock Trading Policy (“**Insider Trading Policy**”), that is reasonably designed to promote compliance with applicable insider trading laws, rules, and regulations, and any listing standards applicable to the registrant. The Insider Trading Policy provides guidance to the directors, officers, and employees of the Company and its subsidiaries with respect to stock trading and assists the directors, officers, and employees of the Company and its subsidiaries in understanding their obligations and responsibilities under Canadian securities laws and the rules of the CSE.

A copy of the Insider Trading Policy, as currently in effect, is filed as an exhibit to this Annual Report.

ITEM 16K. CYBERSECURITY

Risk Management and Strategy

We have developed and implemented a cybersecurity risk management program designed to protect the confidentiality, integrity, and availability of our critical systems and information. To protect our systems and information from cybersecurity threats, we use a variety of security tools and techniques, in order to prevent, detect, investigate, contain, escalate, and recover from identified vulnerabilities and security incidents.

Our cybersecurity risk management program is integrated into our overall Company's risk management program, and shares common methodologies and reporting channels that apply across the Company's risk management program to other risk areas. Our management team is principally responsible for facilitating our Company's risk management program, in consultation with multiple functions and reporting to the Board.

Our cybersecurity risk management program includes:

- an Information Security Policy that articulates our information security practices and procedures to maintain confidence in our business and to protect the confidentiality, integrity, and availability of the information we handle;
- a dedicated Cyber Security company responsible for executing on relevant internal and external requirements and identifying appropriate technical and organizational measures to deliver information security in compliance with those requirements;
- a Cyber Security company, principally responsible for driving our cybersecurity risk assessment processes, including a formal information security risk assessment on an at least annual basis; our security controls framework and risk remediation and prioritizations; and risk awareness or education programs for employees relating to cybersecurity;
- the use of external resources, such as assessors, consultants, and auditors, where appropriate, to assess, test, or otherwise assist with aspects of our security controls;
- an external audit of our systems and environments, including an external penetration test, on an annual basis;
- cybersecurity training of our incident response personnel and senior management;
- a cybersecurity incident response plan that includes procedures for assessing, responding to, remediating, resolving, and conducting post-analysis of cybersecurity incidents;
- a vendor assessment program designed to identify and mitigate cybersecurity risks associated with our use of third-party service providers; and
- contractual obligations on third-party vendors to report security incidents, risk identification, or other security-related issues promptly to designated contact personnel at Spotify.

We have not identified risks from known cybersecurity threats, including as a result of any prior cybersecurity incidents, that have materially affected or are reasonably likely to materially affect us, including our operations, business strategy, results of operations, or financial condition.

Governance

Our Board considers cybersecurity risk as part of its risk oversight function and has delegated to the management oversight of our cybersecurity and data protection program.

The Board receives annual updates from management on our cybersecurity and data protection programs, including related trends or metrics.

In addition to any reports from the management to the Board regarding cybersecurity, management informs and updates the Board about any significant cybersecurity incidents.

Our management team, together with an external company which provides professional Cyber Security Services to the Company, is responsible for assessing and managing material risks from cybersecurity threats. The team has primary responsibility for our overall cybersecurity risk management program and supervises both our internal cybersecurity personnel and our retained external cybersecurity consultants.

Our management team supervises efforts to prevent, detect, mitigate, and remediate cybersecurity risks and incidents through various means, which may include briefings from internal security personnel, threat intelligence and other information obtained from governmental, public, or private sources, including external consultants engaged by us.

PART III

ITEM 17. FINANCIAL STATEMENTS

See *Item 18 – Financial Statements*.

ITEM 18. FINANCIAL STATEMENTS

The Consolidated Financial Statements and schedules appear on pages F-1 through F-77 of this Annual Report and are incorporated herein by reference. Our audited financial statements as prepared by our management and approved by the Board include:

Consolidated Financial Statements for the Years Ended December 31, 2023 and 2022

Independent Auditors' Reports
Consolidated Statements of Financial Position
Consolidated Statements of Net Loss and Comprehensive Loss
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to the Consolidated Financial Statements

ITEM 19. EXHIBITS

Financial Statements

Description	Page
Consolidated Financial Statements and Notes	F-1 - F-77

No. Item	Description of Exhibit
1.1	Articles of IM Cannabis Corp. (incorporated by reference to Exhibit 99.1 to the Company's Form 6-K furnished to the SEC on October 25, 2022)
2.1	Description of securities registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 2.1 to the Company's Form 20-F filed with the SEC on March 29, 2023)
2.2	Warrant Indenture between IM Cannabis Corp. and Odyssey Trust Company, dated January 30, 2023 (incorporated by reference to exhibit 99.1 of the Company's Form 6-K furnished to the SEC on February 2, 2023)
2.3	Warrant Indenture between IM Cannabis Corp. and Odyssey Trust Company, dated February 7, 2023 (incorporated by reference to exhibit 99.1 of the Company's Form 6-K furnished to the SEC on February 9, 2023)
2.4	Warrant Indenture between IM Cannabis Corp. and Odyssey Trust Company, dated February 16, 2023 (incorporated by reference to exhibit 99.1 of the Company's Form 6-K furnished to the SEC on February 23, 2023)
2.5	Form of Warrant to Purchase Common Shares (incorporated by reference to Exhibit 2.5 to the Company's Form 20-F filed with the SEC on March 29, 2023)
2.6	Form of Common Share Purchase Warrant (incorporated by reference to Exhibit 2.6 to the Company's Form 20-F filed with the SEC on March 29, 2023)
2.7	Form of Common Share Purchase Warrant (incorporated by reference to Schedule "D" of Exhibit 99.2 to the Company's Form 6-K furnished to the SEC on May 6, 2021)
2.8	IM Cannabis Corp. Stock Option Plan (incorporated by reference to Schedule "A" of Exhibit 99.1 to the Company's Form 6-K furnished to the SEC on June 30, 2021)
2.9	IM Cannabis Corp. Restricted Share Unit Plan (incorporated by reference to Exhibit 2.9 to the Company's Form 20-F filed with the SEC on March 29, 2023)
4.1	IP Agreement dated April 2, 2019 and as amended on January 1, 2021, between IMC Holdings Ltd. and Focus Medical Herbs Ltd. (incorporated by reference to exhibit 99.2 of the Company's Form 6-K furnished to the SEC on April 2, 2021)
4.2	Services Agreement dated April 2, 2019 and as amended on January 1, 2021, between IMC Holdings Ltd. and Focus Medical Herbs Ltd. (incorporated by reference to exhibit 99.3 of the Company's Form 6-K furnished to the SEC on April 2, 2021)
4.3	Option Agreement dated April 2, 2019 between I.M.C. Holdings Ltd. and Focus Medical Herbs Ltd. (incorporated by reference to exhibit 99.1 of the Company's Form 6-K furnished to the SEC on April 2, 2021)
4.4	Agency agreement dated May 5, 2021 between the Company Roth Canada, ULC (incorporated by reference to exhibit 99.2 of the Company's Form 6-K furnished to the SEC on May 6, 2021)
4.5*	Loan Agreement between I.M.C Holdings Ltd. and Kadimastem Ltd.
8.1*	List of Subsidiaries of IM Cannabis Corp.
11.1*	IM Cannabis Corp. Stock Trading Policy
12.1*	Certification of the Chief Executive Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934
12.2*	Certification of the Chief Financial Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934
13.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global
15.2*	Management's discussion and analysis of the Company for the year ended December 31, 2023
101.INS*	XBRL Instant Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
104*	Cover Page Interactive Data File – (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

IM Cannabis Corp.

Date: March 28, 2024

By: /s/ Uri Birenberg

Name: Uri Birenberg

Title: Chief Financial Officer

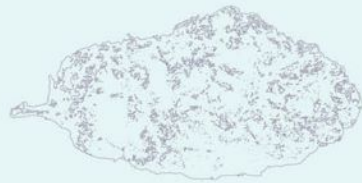


IM CANNABIS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

CANADIAN DOLLARS IN THOUSANDS



IM CANNABIS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2023
CANADIAN DOLLARS IN THOUSANDS

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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, 2023 and 2022 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, 2023, 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, 2023 and 2022 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, 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 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 28, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Canadian Dollars in thousands

	Note	December 31,	
		2023	2022
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 1,813	\$ 2,449
Trade receivables	6	7,651	8,684
Advances to suppliers		936	1,631
Other accounts receivable	7	3,889	3,323
Inventory	9	9,976	16,585
		<u>24,265</u>	<u>32,672</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net	10	5,058	5,221
Investments in affiliates	15c	2,285	2,410
Right-of-use assets, net	12	1,307	1,929
Deferred tax assets, net	17	-	763
Intangible assets, net	11	5,803	7,910
Goodwill	11	10,095	9,771
		<u>24,548</u>	<u>28,004</u>
Total assets		<u>\$ 48,813</u>	<u>\$ 60,676</u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian Dollars in thousands

	Note	December 31,	
		2023	2022
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	14	\$ 9,223	\$ 15,312
Credit from banks and others	13	12,119	9,246
Other accounts payable and accrued expenses	15	6,218	6,013
Accrued purchase consideration liabilities	5	2,097	2,434
PUT Option liability		2,697	
Current maturities of operating lease liabilities	12	454	814
		<u>32,808</u>	<u>33,819</u>
NON-CURRENT LIABILITIES:			
Warrants measured at fair value	17	38	8
Operating lease liabilities	12	815	1,075
Credit from banks and others		394	399
Employee benefit liabilities, net	16	95	246
Deferred tax liability, net	19	963	1,332
		<u>2,305</u>	<u>3,060</u>
Total liabilities		<u>35,113</u>	<u>36,879</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital and premium	20	253,882	245,776
Translation reserve		95	1,283
Reserve from share-based payment transactions		9,637	15,167
Accumulated deficit		(249,145)	(239,574)
Total equity attributable to shareholders of the Company		<u>14,469</u>	<u>22,652</u>
Non-controlling interests		(769)	1,145
Total equity		<u>13,700</u>	<u>23,797</u>
Total equity and liabilities		<u>\$ 48,813</u>	<u>\$ 60,676</u>

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

March 28, 2024	/s/ Marc Lustig	/s/ Oren Shuster	/s/ Uri Birenberg
Date of approval of the financial statements	Marc Lustig Chairman of the Board	Oren Shuster Chief Executive Officer	Uri Birenberg Chief Financial Officer

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Canadian Dollars in thousands

	Note	Year ended December 31,		
		2023	2022	*) 2021
Revenues	21	\$ 48,804	\$ 54,335	\$ 34,053
Cost of revenues	21	37,974	43,044	25,458
Gross profit before fair value adjustments		10,830	11,291	8,595
Fair value adjustments:				
Unrealized change in fair value of biological assets		-	(315)	6,308
Realized fair value adjustments on inventory sold in the year		(984)	(1,814)	(8,570)
Total fair value adjustments		(984)	(2,129)	(2,262)
Gross profit after fair value adjustments		9,846	9,162	6,333
General and administrative expenses	21	11,008	21,460	17,221
Selling and marketing expenses	21	10,788	11,473	6,725
Restructuring expenses	1	617	4,383	-
Share-based compensation	20	225	2,637	5,422
Total operating expenses		22,638	39,953	29,368
Operating loss		(12,792)	(30,791)	(23,035)
Finance income		7,006	6,703	23,544
Finance expenses		(3,671)	(1,972)	(673)
Finance income (expense), net		3,335	4,731	22,871
Loss before income taxes		(9,457)	(26,060)	(164)
Income tax expense (benefit)	18	771	(1,138)	500
Net loss from continuing operations		(10,228)	(24,922)	(664)
Net loss from discontinued operations, net of tax	25	-	(166,379)	(17,854)
Net loss		(10,228)	(191,301)	(18,518)

*) Reclassified in respect of discontinued operations - see Note 25.

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,		
		2023	2022	*) 2021
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement gain on defined benefit plans		38	59	21
Exchange differences on translation to presentation currency		(894)	(1,238)	858
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods		(856)	(1,179)	879
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:				
Adjustments arising from translating financial statements of foreign operation		231	(246)	530
Total other comprehensive income (loss)		(625)	(1,425)	1,409
Total comprehensive loss		\$ (10,853)	\$ (192,726)	\$ (17,109)
Net loss attributable to:				
Equity holders of the Company		\$ (9,498)	\$ (188,890)	\$ (17,763)
Non-controlling interests		(730)	(2,411)	(755)
		\$ (10,228)	\$ (191,301)	\$ (18,518)
Total comprehensive loss attributable to:				
Equity holders of the Company		\$ (10,648)	\$ (190,162)	\$ (16,357)
Non-controlling interests		\$ (205)	(2,564)	(752)
		\$ (10,853)	\$ (192,726)	\$ (17,109)
Earnings (loss) per share attributable to equity holders of the Company from continuing operations:				
	22			
Basic earnings (loss) per share (in CAD)		\$ (0.74)	\$ (3.13)	\$ 0.02
Diluted loss per share (in CAD)		\$ (0.74)	\$ (3.81)	\$ (3.62)
Loss per share attributable to equity holders of the Company from discontinued operations:				
Basic and diluted loss per share (in CAD)		-	\$ (23.17)	\$ (3.08)
Loss per share attributable to equity holders of the Company from net loss:				
Basic earnings (loss) per share (in CAD)		\$ (0.74)	\$ (26.3)	\$ (3.06)
Diluted loss per share (in CAD)		\$ (0.74)	\$ (26.98)	\$ (6.7)

*) Reclassified in respect of discontinued operations - see Note 25.

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, 2021	\$ 37,040	\$ -	\$ 5,829	\$ 1,229	\$ (33,001)	\$ 11,097	\$ 1,513	\$ 12,610
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	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	245,776	-	15,167	1,283	(239,574)	22,652	1,145	23,797

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*)	Reserve from share-based payment transactions	Translation reserve	Accumulated deficit	Total	Non- controlling interests	Total equity
Balance as of December 31, 2022	245,776	15,167	1,283	(239,574)	22,652	1,145	23,797
Net loss	-	-	-	(9,498)	(9,498)	(730)	(10,228)
Total other comprehensive income (loss)	-	-	(1,188)	38	(1,150)	525	(625)
Total comprehensive loss	-	-	(1,188)	(9,460)	(10,648)	(205)	(10,853)
Issuance of treasury common shares	2,351	-	-	-	2,351	-	2,351
Issuance of shares, net of issuance costs of \$178							
Exercise of options							
Other comprehensive income Classification	-	-	-	(111)	(111)	(1,709)	(1,820)
Share-based compensation	-	225	-	-	225	-	225
Expired options	5,755	(5,755)	-	-	-	-	-
Balance as of December 31, 2023	<u>253,882</u>	<u>9,637</u>	<u>95</u>	<u>(249,145)</u>	<u>14,469</u>	<u>(769)</u>	<u>13,700</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,		
	2023	2022	2021
Cash provided from operating activities:			
Net loss	\$ (10,228)	\$ (191,301)	\$ (18,518)
Adjustments for non-cash items:			
Unrealized gain on changes in fair value of biological assets	-	(84)	(7,210)
Fair value adjustment on sale of inventory	984	4,342	8,796
Fair value adjustment on warrants, investments, and accounts receivable	(6,955)	(6,000)	(21,638)
Depreciation of property, plant and equipment	644	3,044	3,021
Amortization of intangible assets	1,758	2,343	1,158
Depreciation of right-of-use assets	594	1,944	1,550
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	3,019	6,532	1,262
Deferred tax payments (benefit), net	394	(3,004)	278
Share-based payments	225	3,767	7,471
Share based acquisition costs related to business combination	-	-	807
Revaluation of other accounts receivable	-	3,982	-
Restructuring expenses	-	8,757	-
Loss from revaluation of investments	601	-	-
	<u>1,264</u>	<u>144,867</u>	<u>(4,230)</u>
Changes in non-cash working capital:			
Increase (decrease) in trade receivables, net	2,320	6,058	(6,602)
Increase (decrease) in other accounts receivable and advances to suppliers	1,299	3,622	845
Decrease in biological assets, net of fair value adjustments	-	565	6,412
Increase (decrease) in inventory, net of fair value adjustments	4,771	883	(19,707)
Increase (decrease) in trade payables	(6,098)	11,284	5,573
Changes in employee benefit liabilities, net	(139)	(63)	28
Increase in other accounts payable and accrued expenses	(750)	12,126	2,661
	<u>1,403</u>	<u>34,475</u>	<u>(10,790)</u>
Taxes paid	(514)	(681)	(834)
Net cash used in operating activities	<u>(8,075)</u>	<u>(12,640)</u>	<u>(34,372)</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,		
	2023	2022	2021
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(581)	(1,562)	(4,578)
Proceeds from sales of property, plant and equipment	-	210	-
Proceeds from loans receivable	-	350	7,796
Purchase of intangible assets	-	-	(17)
Acquisition of businesses, net of cash acquired	-	-	(12,536)
Deconsolidation of subsidiary (see Note 25)	-	(406)	-
Investments in financial assets	-	-	(13)
Proceeds from sale of investment	-	-	319
Proceeds from (investment in) restricted deposits	-	-	17
Investments in associates	(601)	(125)	-
Net cash used in investing activities	<u>(1,182)</u>	<u>(1,533)</u>	<u>(9,012)</u>
<u>Cash provided by financing activities:</u>			
Proceeds from issuance of share capital, net of issuance costs	1,688	3,756	28,131
Proceeds from issuance of warrants measured at fair value	6,585	-	11,222
Proceeds from exercise of warrants	-	-	3,682
Proceeds from exercise of options	-	333	133
Repayment of lease liability	(586)	(1,656)	(633)
Payment of lease liability interest	(63)	(1,429)	(1,347)
Proceeds from loans	5,482	9,636	7,804
Repayment of loans	(4,827)	(4,976)	-
Interest paid	(1,664)	(902)	(261)
Proceeds from discounted checks	2,802	-	-
Net cash provided by financing activities	<u>9,417</u>	<u>4,762</u>	<u>48,731</u>
Effect of foreign exchange on cash and cash equivalents	<u>(796)</u>	<u>(2,043)</u>	<u>(329)</u>
Increase (decrease) in cash and cash equivalents	(636)	(11,454)	5,018
Cash and cash equivalents at beginning of year	<u>2,449</u>	<u>13,903</u>	<u>8,885</u>
Cash and cash equivalents at end of year	<u>\$ 1,813</u>	<u>\$ 2,449</u>	<u>\$ 13,903</u>
<u>Supplemental disclosure of non-cash activities:</u>			
Right-of-use asset recognized with corresponding lease liability	<u>\$ 309</u>	<u>\$ 613</u>	<u>\$ 1,678</u>
Conversion of warrant and compensation options into common shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611</u>
Issuance of shares in payment of purchase consideration liability	<u>\$ -</u>	<u>\$ 3,061</u>	<u>\$ -</u>
Issuance of shares in payment of debt settlement to a non-independent director of the company	<u>\$ 1,061</u>	<u>\$ -</u>	<u>\$ -</u>

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. 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 actively operated until recently through Trichome Financial Corp. and its wholly-owned subsidiaries Trichome JWC Acquisition Corp. ("TJAC") 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. IMCC has exited its operations in Canada, and deconsolidated Trichome on November 7, 2022, pursuant to IFRS. (see note 25)

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.)

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.

Liquidity and capital resources - going concern:

As of December 31, 2023, the Group's cash and cash equivalents totaled \$1,813, the Group's working capital (current assets less current liabilities) amounted to \$(8,543) and the Group's accumulated loss deficit amounted to \$249,145. In the twelve months ended December 31, 2023, the Group had an operating loss from continuing operation of (\$12,792) and negative cash flows from continuing operating activities of (\$8,075).

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 and in 2023. 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 25 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 – see also Restructuring below.

Despite the cost savings plan and restructuring as described above, the projected cash flows for 2024 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

Debt Settlement with L5 Capital

On May 8th, 2023, the Company announced that on May 5th, 2023, it has closed the securities for debt settlement transaction with L5 Capital (the "Debt Settlement"). Pursuant to the Debt Settlement, the Company settled outstanding indebtedness of \$838,776 (approximately US\$615,615) through issuing 492,492 Units at a price of US\$1.25 per Unit. Each Unit consists of one Common Share of the Company and one Common Share purchase Warrant. Each 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. All securities issued are subject to a statutory hold period of four months and one day from the date of issuance in accordance with applicable Canadian securities legislation.

Discontinue operations and Canadian entities CCAA:

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.

The Canadian operations are held through the Canadian entities 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 Canadian entities and its assets. Pursuant to the Initial Order, KSV Restructuring Inc. was appointed as monitor (the "Monitor") in the CCAA Proceedings.

On January 9, 2023, the Court issued an order in the CCAA Proceedings in respect of a motion brought by the Canadian entities to approve, among other things: a sale and investment solicitation process (the "SISP") in respect of the business and assets of the Canadian entities; and a stalking horse share purchase agreement (the "Stalking Horse Purchase Agreement") between the Canadian entities and L5 Capital Inc. ("L5"), a company wholly-owned and controlled by the executive chairman and a director of the Company, dated December 12, 2022. The SISP established a process to solicit interest for investments in, or the sale of any or all of the Canadian entities' 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 Canadian entities that it would not be completing the transaction contemplated by the Stalking Horse Purchase Agreement and, as a result, the Canadian entities terminated the Stalking Horse Purchase Agreement, and (iii) the Monitor continues to market for sale the Canadian entities' business and assets, including the brands and other intellectual property owned by the Canadian entities.

Pursuant to an order of the Court made on April 6, 2023 in the CCAA Proceedings (the "Reverse Vesting Order"), the Court approved a share purchase agreement (the "Share Purchase Agreement") dated March 28, 2023 among Trichome Financial Corp. ("Trichome" or the "Vendor"), 1000370759 Ontario Inc. (the "Purchaser"), Trichome JWC Acquisition Corp. ("TJAC"), Trichome Retail Corp. ("TRC"), MYM Nutraceuticals Inc. ("MYM"), MYM International Brands Inc. ("MYMB") and Highland Grow Inc. ("Highland", and collectively with TJAC, TRC, MYM and MYMB, the "Purchased Entities"). The Purchased Entities and its business and operations were sold to a party that is not related to the Company, for a purchase price of \$3,375 along with certain deferred consideration. Thus, the Company has exited operations in Canada which operations have been classified as discontinued in these financial statements. The Company has neither received nor is entitled to any portion of the proceeds from the Share Purchase Agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

On September 14, 2023 a CCAA Termination Order was granted by the Honourable Justice Osborne (upon service on the Service List of an executed certificate and the above CCAA Proceedings under the Companies Creditors' Arrangement Act and the Stay Period were terminated without any further act or formality. On September 29th, 2023, Trichome Financial Corp. filed (or was deemed to have filed) an assignment (or a bankruptcy order was made against Trichome Financial Corp.), and Goldhar & Associates Ltd., was appointed as trustee of the estate of the bankrupt by the official receiver (or the Court). The first meeting of creditors of the bankrupt was held on October 17th, 2023.

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, 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 reduced its workforce in Israel across all functions (including executives). All actions associated with the workforce reduction were completed by mid-2023, subject to applicable Israeli law. Therefore, the Company recorded restructuring expenses for the twelve months ended December 31, 2023 related mainly to salaries to employees in the amount of \$617

On June 30, 2023, the entity responsible for operating the Israeli medical cannabis distribution licensed center that was acquired within the Panaxia Transaction, ceased its operations at the licensed trading house located in Lod, Israel. Consequently, the Company transitioned the operation that was conducted through IMC Pharma to third-party entities and to its own trading house currently being operated by Rosen High Way.

NASDAQ Compliance Notice

On August 1, 2023, 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 has until January 16, 2024, being 180 calendar days following receipt of such notice to regain compliance with the Minimum Share Price Listing Requirement for a minimum of 10 consecutive business days (See also see note 26).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

Tax on Premiums in Respect of Insurance Effected Outside Canada

By Notice of Assessment for Excise Tax dated October 23, 2023 and covering the period January 1, 2020 to December 31, 2020, IM Cannabis Corp. was assessed tax on insurance of \$198,687.57, arrears interest of \$36,248.62 and a failure to file penalty of \$7,947.49 (collectively, the “2020 Assessment”).

By Notice of Assessment for Excise Tax dated October 23, 2023 and covering the period January 1, 2021 to December 31, 2021, IM Cannabis Corp. was assessed excise tax on insurance of \$72,944.92, arrears interest of \$1,533.75 and a failure to file penalty of \$499.48 (collectively, the “2021 Assessment”).

On November 29, 2023, the Company filed Notices of Objection (Excise Tax Act) to the 2020 Assessment and the 2021 Assessment. The Company assess the filed Notices of Objection (Excise Tax Act) to be low to medium complexity.

The Company assess that it is reasonably possible the Notices of Objection (Excise Tax Act) filed by it will lead to the 2020 Assessment and 2021 Assessment being vacated.

35 Oak Holdings Ltd – Statement of Complaint

On November 27, 2023, the Company announced that a complaint was filed in the Ontario Superior Court of Justice in Canada by Michael Wiener, 35 Oak Holdings Ltd. and MW Investments Ltd. (collectively the “MYM Shareholder Plaintiffs”) against certain current and former Directors and Officers of the Company and its subsidiaries arising out of the Plan of Arrangement that closed in July 2021 through which the Company acquired MYM Nutraceuticals Inc. A copy of this complaint was delivered to the Company on November 17, 2023.

The Plaintiffs, who became shareholders in the Company as a result of the Plan of Arrangement, allege that the Defendants made a series of misrepresentations in oral discussions and public disclosure regarding cannabis cultivation capacity, cultivation space, and projected revenues. The Plaintiffs further allege that the misrepresentations were later corrected and that the misrepresentations caused the value of the Company shares to be artificially inflated and induced the Plaintiffs to support the Plan of Arrangement. The Plaintiffs assert common law misrepresentation claims and have also advanced statutory claims under the Ontario *Securities Act*, and seek damages of \$15 million. The Company and the other former Director and Officer Defendants dispute the allegations in the Claim and deny any liability. The claim was commenced in July 2023 but not served until November 2023 (see also note 26).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

Israel Hamas war

On October 7, 2023, a war between the terror organization Hamas and Israel began. This war has an impact on the company's business operations. The company has suffered a negative impact in Q4 2023 and there will be a potential positive effect in the medium to long term. The company has experienced damages to its ability to function, affecting various aspects, including employees, supplies, imports, sales, and more.

b. Approval of consolidated financial statements:

These consolidated financial statements of the Company were authorized for issue by the board of directors on March 27, 2024

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

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, 2023 and 2022, major subsidiaries over which the Company has control, directly or indirectly, include:

<u>Subsidiaries</u>	<u>Percentage ownership</u>	
	<u>2023</u>	<u>2022</u>
I.M.C. Holdings Ltd. ("IMC")	100%	100%
Focus Medical Herbs Ltd. ("Focus") *	74%	74%
I.M.C. Pharma Ltd.	100%	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 (***)	-	-
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")	**)	**)
Trichome Financial Cannabis GP Inc.	**)	**)
Trichome Financial Cannabis Manager Inc.	**)	**)
Trichome Asset Funding Corp.	**)	**)
Trichome JWC Acquisition Corp. ("TJAC")	**)	**)
Trichome Retail Corp.	**)	**)
MYM Nutraceuticals Inc. ("MYM")	**)	**)
SublimeCulture Inc.	**)	**)
CannaCanada Inc.	**)	**)
MYM International Brands Inc.	**)	**)
Highland Grow Inc.	**)	**)

*) 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 (see also note 26).

***) 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, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their 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 Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - at cost of purchase using the "first-in, first-out" method.

Work in progress and finished goods - on the basis of average costs including materials, labor and other direct and indirect manufacturing costs based on normal capacity.

Purchased merchandise and products - using the weighted average cost method or using the "first-in, first-out" method.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, 2023 and 2022, the Company does not hold biological assets (see Note 8).

h. 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

i. 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.

1. 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.

2. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred taxes in respect of investment property that is held with the objective of recovering substantially all of the economic benefits embedded in the investment property through sale and not through use are measured in accordance with the expected manner of recovery of the base asset, on the basis of sale rather than use.

When the Company owns an investment in a single property company and the manner in which the Company expects to dispose of the investment is by selling the shares of the property company rather than by selling the property itself, the Company recognizes deferred taxes for both inside temporary differences arising from the difference between the carrying amount of the property and its tax basis, and for outside temporary differences arising from the difference between the tax basis of the investment and the Company's carrying amount of the net assets of the investment in the consolidated financial statements.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

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.

j. Non-current assets or disposal group held for sale and discontinued operations:

Non-current assets or a disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to a sale plan, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification.

Before these assets are classified as available for sale, they are measured in accordance with the Group's accounting policy. After classification as held for sale, these assets are measured at the lower of their carrying amount and fair value less costs to sell and presented separately in the statement of financial position. From the date of their initial classification, these assets are not depreciated.

The Company recognizes an impairment loss in respect of an asset or group of assets in accordance with IAS 36. An impairment loss and subsequent remeasurement gains or losses are recorded in profit or loss. Gains are recognized up to the cumulative amount of the previously recognized impairment loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Other comprehensive income (loss) in respect of an assets or a group of non-current assets that are classified as held for sale is presented separately in equity.

When the Company no longer plans to sell an asset in a sale transaction, it ceases the classification of the asset as held for sale and measures it at the lower of its carrying amount had it not been classified as held for sale or the recoverable amount of the asset on the date of the decision not to sell the asset.

When the Company is committed to a sale plan that results in loss of control over a subsidiary, the subsidiary's entire assets and liabilities are classified as held for sale, regardless of whether the Company will retain any non-controlling interests in the subsidiary.

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

k. 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

1. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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.

m. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. 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.

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

Goodwill in respect of subsidiaries:

The Group 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 \$07,854, with respect to the cash generating unit in Canada following the CCAA filing in Canada (see Note 1).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. 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.)

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.

4. Put option granted to non-controlling interests:

When the Group grants non-controlling interests a put option, the non-controlling interests are classified as a financial liability and are not accorded their share in the subsidiary's earnings. At each reporting date, the financial liability is measured on the basis of the estimated present value of the consideration to be transferred upon the exercise of the put option / based on the fair value of the consideration. Changes in the amount of the liability are recorded 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.)

p. 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).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that the Company would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the provision.

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

Warranty:

The Group recognizes a provision for warranty when the product is sold or when the service is provided to the customer. The provision for warranty is initially recognized based on past experience. The estimate underlying the provision for warranty is reviewed on an annual basis.

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.

Costs of dismantling, removing and restoring sites:

A provision is recognized in respect of those lease agreements for which the Group is obligated to restore the leased asset to its original condition at the end of the lease period, after dismantling and rehabilitation of the site, as necessary.

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.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: necessarily entailed by the restructuring, and not associated with the ongoing activities of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Onerous contracts:

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group from the contract. The provision is measured at the lower of the present value of the anticipated cost of exiting from the contract and the present value of the net anticipated cost of fulfilling it.

Levies:

Levies imposed on the Company by government entities through legislation, are accounted for pursuant to IFRIC 21 according to which the liability for the levy is recognized only when the activity that triggers payment occurs.

r. 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.

s. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary 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. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. 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 January 1, 2023.

The application of the above Amendment did not have a material impact on the Company's consolidated financial statements.

2. 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 January 1, 2023. In relation to leases and decommissioning obligations, the Amendment is 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 is recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The application of the Amendment did not have a material impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, 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.

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.

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.)

- 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.

- 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 25).

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. Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates":

In August 2023, the IASB issued "Amendments to IAS 21: Lack of Exchangeability (Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates")" ("the Amendments") to clarify how an entity should assess whether a currency is exchangeable and how it should measure and determine a spot exchange rate when exchangeability is lacking.

The Amendments set out the requirements for determining the spot exchange rate when a currency lacks exchangeability. The Amendments require disclosure of information that will enable users of financial statements to understand how a currency not being exchangeable affects or is expected to affect the entity's financial performance, financial position and cash flows.

The Amendments apply for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted, in which case, an entity is required to disclose that fact. When applying the Amendments, an entity should not restate comparative information. Instead, if the foreign currency is not exchangeable at the beginning of the annual reporting period in which the Amendments are first applied (the initial application date), the entity should translate affected assets, liabilities and equity as required by the Amendments and recognize the differences as of the initial application date as an adjustment to the opening balance of retained earnings and/or to the foreign currency translation reserve, as required by the Amendments .

The Company believes that the Amendments are not expected to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATIONS*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.

A "Put" option and a "Call" option were agreed between parties accordingly the seller has a sole "Put" option to sell the remaining shares any time, and the Company has a sole "Call" option to purchase the remaining shares of the seller any time, for a period of 36 months. The value of Oranim will be determined within 30 days from exercise notice by one of the parties. The "Put" option exercise price in the first 12 months will have a 15% discount and the "Call" option exercise price will have an extra 15% to the agreed value. Over the next 12 months the discount/extra payment for the "Put" option and for the "Call" option will be 10% each and for the last 12 months 2.5% each.

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.

NOTE 6:- TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. As of December 31, 2023 and 2022, there were no material past-due receivables.

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2023	2022
Prepaid expenses	\$ 210	\$ 1,488
Government authorities	1,899	1,557
Related parties (see Note 24)	-	83
Non-independent director – L5 Capital (See note 1)	839	-
Other receivables	941	195
	<u>\$ 3,889</u>	<u>\$ 3,323</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

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, 2022	\$ 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 25)	(444)
	<u>-</u>
Balance at of December 31, 2022	<u>-</u>
Balance at of December 31, 2023	<u>-</u>

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 8:- BIOLOGICAL ASSETS (Cont.)

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,	
	2023	2022	2023	2022
Average selling price per gram of dried cannabis (in CAD)	- \$	3.21	- \$	60
Average post-harvest costs per gram of dried cannabis (in CAD)	- \$	0.75	- \$	17
Attrition rate	-	51%	-	44%
Average yield per plant (in grams)	-	38	-	42
Average stage of growth	-	82%	-	39%

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, 2023			
	Capitalized costs	Fair valuation adjustment, net		Carrying value
Work in progress:				
Bulk cannabis	\$ 3,735	\$ -		\$ 3,735
Finished goods:				
Packaged dried cannabis	4,667	984		5,651
Other products	590	-		590
Balance as of December 31, 2023	8,992	984		9,976
	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	\$ 14,771	\$ 1,814		\$ 16,585

During the years ended December 31, 2023, 2022 and 2021, inventory expensed to cost of revenue of cannabis products was \$5,154, \$63,517 and \$43,720, respectively, which included \$984, \$4,342 and \$8,796 of non-cash expense (out of which, a total of \$nil, \$2,528 and \$226 attributable to the discontinued operations of the Canadian entities, see Note 25), respectively, related to the changes in fair value of inventory sold.

Cost of revenues in 2023, 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, 2022	\$ 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
Additions during the year	387	41	-	66	87	581
Foreign currency translation	(37)	(8)	-	(75)	(26)	(146)
Balance at December 31, 2023	9,899	4,739	2,111	922	511	18,182
Accumulated depreciation:						
Balance at January 1, 2022	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
Depreciation during the year	218	135	-	215	76	644
Foreign currency translation	(10)	-	-	(30)	(6)	(46)
Balance at December 31, 2023	6,301	3,792	2,111	718	202	13,124
Depreciated cost at December 31, 2023	<u>\$ 3,598</u>	<u>\$ 947</u>	<u>\$ -</u>	<u>\$ 204</u>	<u>\$ 309</u>	<u>\$ 5,058</u>
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>

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, 2022	\$ 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
PPA adjustments during measurement period	-	2,225	-	-	-	2,225
Disposals	-	(2,225)	-	-	-	(2,225)
Foreign currency translation adjustments	-	(361)	-	336	-	(25)
Balance at December 31, 2023	2,524	12,715	1,564	118,236	23	135,062
Accumulated amortization:						
Balance at January 1, 2022	774	469	8	275	64	1,590
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
Amortization recognized in the year	18	1,730	7	-	3	1,758
Balance at December 31, 2023	1,691	7,798	1,523	108,129	23	119,164
Amortized cost at December 31, 2023	\$ 833	\$ 4,917	\$ 41	\$ 10,107	\$ -	\$ 15,898
Amortized cost at December 31, 2022	\$ 851	\$ 7,008	\$ 48	\$ 9,771	\$ 3	\$ 17,681

*) 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:- GOODWILL AND 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 \$75 related to Adjupharm.

For the year ended December 31, 2022, the Company recorded a goodwill and intangible assets impairment in the amount of \$07,854 and \$3,067, respectively, related to Trichome (see Note 25).

For the year ended December 31, 2023, the Company did not record a goodwill and intangible assets impairment.

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 years ended December 31, 2023, 2022 and 2021, the Group recorded amortization expenses in the amount of \$,758, \$2,343 and \$1,158, respectively. During the year ended December 31, 2023, the Group recorded amortization expenses from continuing operations in the amount of \$1,758. The amortization expenses are included in the selling and marketing expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 12:- RIGHT-OF-USE ASSETS

	<u>buildings</u>	<u>Motor vehicles</u>	<u>Total</u>
Cost:			
Balance at January 1, 2022	\$ 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
Additions during the year:			
New leases	-	309	309
Termination of leases	-	(240)	(240)
Currency translation adjustments	(132)	(29)	(161)
Balance at December 31, 2023	4,210	615	4,825
Accumulated depreciation:			
Balance at January 1, 2022	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
Additions during the year:			
Depreciation and amortization	453	141	594
Currency translation adjustments	(48)	(16)	(64)
Balance at December 31, 2023	3,087	431	3,518
Depreciated cost at December 31, 2023	1,123	184	1,307
Depreciated cost at December 31, 2022	\$ 1,660	\$ 269	\$ 1,929

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:- CREDIT FROM BANKS AND OTHERS

	December 31,	
	2023	2022
Short-term credit from banks	\$ 3,227	\$ 5,084
Short-term credit from others	6,090	4,162
Check receivables	2,802	
	<u>\$ 12,119</u>	<u>\$ 9,246</u>

- 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 is 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%. During the first quarter of 2023 the Company reduced total commitment to NIS 10,000 (approx. \$3,600).

On May 17, 2023, the Company and Bank Mizrahi entered to new credit facility with total commitment of up to NIS10,000 (approximately \$3,600) (the "New Mizrahi Facility"). The New Mizrahi Facility consists of NIS5,000 credit line and NIS 5,000 loan to be settled with 24 monthly installments from May 2023. This loan bears interest at the Israeli Prime interest rate plus 2.9%

As of December 31, 2023 Focus has drawn down \$3,227 in respect of the new Mizrahi facility (comprised of approx. \$1,827 credit line and \$1,400 loan). The New Credit facility is also subject to several covenants to be measured on a quarterly basis which are not met as of December 31, 2023, therefore the loan is classified as short-term loan.

The Company's CEO and director, provided to the bank a personal guarantee in the amount of the outstanding borrowed amount, allowing the New Mizrahi Facility to remain effective.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 13:- CREDIT FROM BANKS AND OTHERS (Cont.)

2. 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 thousands (approximately \$4,000) 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.

On October 25, 2023, IMC Holdings and ADI signed an amendment to the ADI Agreement, extending the loan period by an additional 3 months. During this extended period, the interest rate will be 15%, with associated fees and commissions of 3% per annum for the application fee and an origination fee of 3% per annum (See also see note 26).

3. On July 3rd, 2023, the Company entered into a short-term loan agreement with a non-financial institution in the amount of NIS 1,000 thousands (approx. \$358). The Loan beard interest rate of 10% and was repaid in October 2023, according to the Loan Agreement terms.
4. During October 2023, the Company entered into a series of short-term loans for aggregate gross proceeds of NIS5,882 thousands (approximately \$2,000) from certain lenders, including a director and officer of the Company. Out of the aggregate gross proceeds, a director and officer of the Company loaned an amount of NIS 500 thousands (approximately \$170) to the Company.

NOTE 14:- TRADE PAYABLES

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Open accounts in Israel	\$ 3,686	\$ 9,113
Open accounts abroad	5,537	6,199
	<u>\$ 9,223</u>	<u>\$ 15,312</u>

NOTE 15:- OTHER PAYABLES AND ACCRUED EXPENSES

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Accrued expenses	\$ 1,615	\$ 1,848
Employees and payroll accruals	1,003	1,066
Government authorities	2,444	1,617
Related parties	239	693
Advances from customers	787	31
Liabilities for restructuring	117	116
Other payables	13	642
	<u>\$ 6,218</u>	<u>\$ 6,013</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 16:- EMPLOYEE BENEFIT LIABILITIES, NET

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 chapter 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 chapter 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. As of December 31, 2023 all employees are under chapter 14.

NOTE 17:- FINANCIAL INSTRUMENTS

- 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, 2023, 2022 and 2021, the Company recognized a revaluation gain (loss) from remeasurement of warrants in the consolidated statement of profit or loss and other comprehensive income, which unrealized gain is included in finance income (expense). (See also note 20f).
- 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, 2023 and 2022, 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, 2023 and 2022, was \$2,285 and \$2,410, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

d. 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 \$2,285.

Credit risk:

The maximum credit exposure as of December 31, 2023, 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, 2023, 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, checks receivables 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, 2023, management considers liquidity risk to be high. The table below summarizes the maturity profile of the Group's bank loans and others and lease liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2023

	Less than one year	1 to 5 years	6 to 10 years	>10 years
Lease liabilities	\$ 499	\$ 899	\$ -	\$ -
Bank loans and others	12,119	394	-	-
Total	<u>\$ 12,618</u>	<u>\$ 1,293</u>	<u>\$ -</u>	<u>\$ -</u>

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 17:- FINANCIAL INSTRUMENTS (Cont.)

- e. On November 29, 2022, the IMC signed on a convertible loan agreement with Telekana Ltd. (“Telekana”), a Pharmacy for sell of medical Cannabis accordingly IMC will loan a total of \$611. The loan will be converted to 1,040 shares representing 51% of the total common share of Telekana, at the earlier of the following events; (i) Telekana will receive the permit for sell of medical Cannabis from the Israeli Ministry of Health, (ii) IMC sole decision to convert. The permit was received on November 13, 2023.

As of December 31, 2023, IMC didn't start the regulatory process of receiving the Israeli Ministry of Health approval for the conversion.

For the years ended December 31, 2023, 2022, IMC recognized a revaluation gain (loss) from remeasurement of the loan.

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, 2023 and 2022, are less than one year.

Currency rate risk:

As of December 31, 2023, 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 278 thousand (approximately \$407), NIS 3,698 thousand (approximately \$1,350), USD 15 thousand (approximately \$20), 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.

- 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, 2022	\$ 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	9,645	1,889	8	11,542
Additions for new loans	655	-	-	655
Additions for new leases	-	309	-	309
Receivables checks	2,802	-	-	2,802
Repayments	-	(649)	-	(649)
Effective interest	-	63	-	63
Effect of exchange rate differences	(589)	(343)	6,986	6,054
Deconsolidation of Trichome	-	-	-	-
Effect of changes in fair value	-	-	(6,956)	(6,956)
Balance as of December 31, 2023	<u>12,513</u>	<u>1,269</u>	<u>38</u>	<u>13,820</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- 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 18:- 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 was set to 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.

On June 22, 2023, a hearing took place before the esteemed Honorable Judge Orit Kertz. During the hearing it was decided that the defendants and the municipal committee's attorney would engage in negotiations and make diligent efforts to reach a settlement before August 15, 2023. The responsibility of informing the court about any progress concerning a potential settlement was assigned to the attorney representing the municipal committee. On September 9, 2023, the municipal committee's attorney was summoned to appear at a hearing before the Honorable Judge Orit Kertz. The hearing was postponed to December 28, 2023 due to the 2023 Israel-Hamas war as will be further specified under "RISK FACTORS" section of the MD&A.

On January 2, 2024, the Company announced that the construction proceedings against Focus, were concluded on December 28, 2023. The company maintains "de facto" control of Focus. Focus was indicted and a fine of CAD\$129,000 has been imposed. The cultivation facility, which was the focus of the proceedings, was closed in June 2022 in alignment with the Company's strategic shift towards import and sales.

- 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. The contractual party of the Company was not the Stroakmont & Atton. The contract with Stroakmont & Atton was only concluded as a sham transaction in order to cover up a contract with a company named Uniclaro. Therefore, Stroakmont & Atton is not the real purchaser rather than Uniclaro GmbH.
 2. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)

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.

Unicolor GmbH vs. adjupharm

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 ("Uniclaro") is claiming the purchase price for 300,000 Covid-19 rapid tests in the total amount of EUR 1,046,010 (approximately \$1,540), 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 March 23, 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)

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. On February 23, 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 these proceedings. Therefore, no provision has been recorded in respect of this claim.

NOTE 19:- 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 2023 and 2022 is 26.5%.
2. The Israeli subsidiaries are subject to Israeli corporate income tax rate of 23% in 2023 and 2022.
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 \$8,000, as of December 31, 2023. These losses can be carried forward to future years and offset against taxable income in the future without any time limitation. The company did not record deferred tax assets with regards to IMC, Focus and I.M.C. Pharma Ltd. since the Companies 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, 2023, amounted to approximately \$5,599. 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 \$1,465). 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 19:- TAXES ON INCOME (Cont.)

- c. Income tax expense (benefit):

	<u>Year ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current	\$ 182	\$ 688	\$ 243
Deferred, net	394	(1,810)	278
Income tax from previous years	195	(16)	(21)
	<u>\$ 771</u>	<u>\$ (1,138)</u>	<u>\$ 500</u>

- d. Deferred taxes:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Carryforward tax losses and other	\$ -	\$ 731
Other deferred tax assets	-	32
	-	763
Deferred tax liabilities:		
Intangible assets	963	1,285
Other	-	47
	963	1,332
Deferred tax liabilities, net	<u>\$ (963)</u>	<u>\$ (569)</u>

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

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Non-current assets	<u>\$ -</u>	<u>\$ 763</u>
Non-current liabilities	<u>\$ 963</u>	<u>\$ 1,332</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 19:- TAXES ON INCOME (Cont.)

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

	<u>Year ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Loss before income tax	\$ (9,457)	\$ (26,060)	\$ (164)
Statutory tax rate in Canada 26.5%	(2,506)	(6,906)	(43)
Increase (decrease) in income tax due to:			
Non-deductible expenses (non-taxable income), net for tax purposes	(122)	1,764	(4,208)
Effect of different tax rate of subsidiaries	169	599	310
Adjustments in respect of current income tax of previous years	195	(16)	(21)
Recognition (derecognition) of tax benefit in respect of losses of previous years	1,565	-	846
Unrecognized tax benefit in respect of loss for the year	1,432	4,037	4,093
Other adjustments	38	(616)	(477)
Income tax expense (benefit)	<u>\$ 771</u>	<u>\$ (1,138)</u>	<u>\$ 500</u>

NOTE 20:- EQUITY

- a. Composition of share capital:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Authorized</u>	<u>Issued and outstanding</u>	<u>Authorized</u>	<u>Issued and outstanding</u>
	<u>Number of shares</u>			
Common Shares without par value	<u>Unlimited</u>	<u>13,394,136</u>	<u>Unlimited</u>	<u>7,569,526</u>

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- EQUITY (Cont.)

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 (\$42,000). 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 1,304 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- EQUITY (Cont.)

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.

In January and February of 2023, the Company issued an aggregate of 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 (approximately \$4,792) 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 (approximately \$224). 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 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 (approximately \$3,926) (the "Concurrent Offering"). The Concurrent Offering was led and participated by insiders of the Company of 1,159,999 Units out of the total Concurrent offering Units. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- EQUITY (Cont.)

- c. Changes in issued and outstanding share capital:

	<u>Number of shares</u>
Balance as of January 1, 2022	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	<u>599,999</u>
Balance as of December 31, 2022	7,569,526
Issuance of Common Shares pursuant to debt settlement	492,492
Issuance of Common Shares pursuant to vested RSUs	54,999
Issuance of Common shares	<u>5,277,119</u>
Balance as of December 31, 2023	<u><u>13,394,136</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- 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, 2023, 746,352 Ordinary shares are available for future grants under the 2018 Plan.

	Year ended December 31,	
	2023	2022
Exercise price (in CAD)	\$1.1	\$2.3-\$27.3
Dividend yield (%)	-	-
Expected life of share options (years)	5	4-5
Volatility (%)	104.4-109.35	77.04-107.03
Annual risk-free rate (%)	3.55-3.65	1.43-3.85
Share price (in CAD)	\$1.1	\$2.3-\$27.3

The weighted average fair value of each option on the grant date, for the years ended December 31, 2023, 2022 and 2021, amounted to \$28.2, \$31.9 and \$41.6, respectively.

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, 2023	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the year	519,170	37.6
Options granted during the year	3,000	1.1
Options exercised during the year	-	-
Options forfeited during the year	(196,718)	(51.78)
Options outstanding at the end of year	<u>325,452</u>	<u>28.72</u>
Options exercisable at the end of year	<u>299,442</u>	<u>28.39</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- EQUITY (Cont.)

	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 \$nil Options exercised under cashless mechanism to \$nil Common shares.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2023 and 2022 was 3.76 years and 4.32 years, respectively.

The share-based payment expenses for the years ended December 31, 2023, 2022 and 2021, amounted to \$25, \$2,637 and \$5,422, respectively.

The following table lists the number of restricted share units ("RSUs") as of December 31, 2023:

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

e. Other convertible securities:

As of December 31, 2023, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20:- EQUITY (Cont.)

- f. 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 (\$42,000). 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 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, 2023 and 2022, there were 6,063,960 and 304,348 warrants outstanding re-measured according to Black & Scholes model, in the amount of \$38 and \$8, respectively. As a result, for the years ended December 31, 2023, 2022 and 2021, the Company recognized a revaluation gain of \$6,955, \$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.

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

	<u>May 2023</u>	<u>Issue date February 2023</u>	<u>May 2021</u>
Expected volatility	48.43%	48.43%	48.43%
Share price (Canadian Dollar)	0.48	0.48	0.48
Expected life (in years)	2.342	2.096	2.342
Risk-free interest rate	4.12%	4.12%	4.12%
Expected dividend yield	0%	0%	0%
Fair value:			
Per Warrant (Canadian Dollar)	\$ 0.009	\$ 0.006	\$ 0
Total Warrants (Canadian Dollar in thousands)	\$ 5	\$ 33	\$ 0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 21:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

- a. Additional information on revenues:

	Year ended December 31,		
	2023	2022	2021
Israel	43,316	50,500	25,431
Foreign countries	5,488	3,835	8,622
	<u>48,804</u>	<u>54,335</u>	<u>34,053</u>

- b. Cost of sales and services:

	Year ended December 31,		
	2023	2022	2021
Salaries	457	759	1,849
Materials	36,265	36,738	18,528
Professional fees	418	202	1,303
Depreciation	7	55	850
Others Cost of sales expenses	827	5,290	2,928
	<u>37,974</u>	<u>43,044</u>	<u>25,458</u>

- c. Selling and marketing expenses:

	Year ended December 31,		
	2023	2022	2021
Salaries	5,677	6,398	2,452
Selling and Marketing	1,568	2,075	3,484
Professional fees	36	66	112
Depreciation	2,320	1,941	359
Other Selling and marketing expenses	1,187	993	318
	<u>10,788</u>	<u>11,473</u>	<u>6,725</u>

- d. General and administrative expenses:

	Year ended December 31,		
	2023	2022	2021
Salaries	2,314	4,027	4,192
Insurance	1,847	1,566	2,448
Professional fees	4,095	4,689	7,229
Depreciation	669	819	916
Impairment	-	3,905	-
Other General and Administration	2,083	6,454	2,436
	<u>11,008</u>	<u>21,460</u>	<u>17,221</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 22:- 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,			
	2023		2022	
	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	12,819	\$ (9,498)	7,181	\$ (22,511)
Effect of potential dilutive Ordinary shares - warrants	-	-	304	(6,014)
For the computation of diluted net earnings from continuing operations (*)	<u>12,819</u>	<u>\$ (9,498)</u>	<u>7,485</u>	<u>\$ (28,525)</u>
For the computation of basic and diluted net earnings from discontinued operations (*)	<u>-</u>	<u>-</u>	<u>7,181</u>	<u>\$ (166,379)</u>

*) For 2023 and 2022, 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 20a).

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, 2023				
Revenue	\$ 43,316	\$ 5,488	\$ -	\$ 48,804
Segment loss	(6,627)	(1,615)	-	(8,242)
Unallocated corporate expenses			(4,550)	(4,550)
Total operating loss				(12,792)
Depreciation, amortization and impairment	\$ 2,823	\$ 173	\$ -	\$ 2,996
Year ended December 31, 2022				
Revenue	\$ 50,500	\$ 3,835	\$ -	\$ 54,335
Segment loss	\$ (23,606)	\$ (3,225)	\$ -	\$ (26,831)
Unallocated corporate expenses			\$ (3,960)	\$ (3,960)
Total operating loss				\$ (30,791)
Depreciation, amortization and impairment	\$ 6,747	\$ 200	\$ -	\$ 6,947
Year ended December 31, 2021				
Revenue	\$ 25,431	\$ 8,622	\$ -	\$ 34,053
Segment loss	\$ (10,653)	\$ (5,142)	\$ -	\$ (15,795)
Unallocated corporate expenses			\$ (7,240)	\$ (7,240)
Total operating loss				\$ (23,035)
Depreciation, amortization and impairment	\$ 1,424	\$ 701	\$ -	\$ 2,125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 24:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

Balances and transactions:

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

	December 31,	
	2023	2022
Other accounts receivables	\$ -	\$ 83
Other accounts payables	\$ 239	\$ 693

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,		
	2023	2022	2021
General and administrative and Interest expenses	\$ 641	\$ 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.

b. 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,		
	2023	2022	2021
Payroll and related expenses	\$ 704	\$ 916	\$ 1,379
Share-based compensation	\$ 513	\$ 437	\$ 4,349
Professional fees *)	\$ 852	\$ 1,040	\$ 1,029

*) Includes payments to shareholders for the years ended 2023, 2022 and 2021 of \$475, \$503 and \$455, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 25:- 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 25:- DISCONTINUED OPERATIONS AND DECONSOLIDATION OF TRICHOME (Cont.)

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 \$7,959 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 25:- 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
	<u>11,885</u>	<u>36,713</u>
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
	<u>42,801</u>	<u>166,520</u>
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
	<u>37,126</u>	<u>28,211</u>
NON-CURRENT LIABILITIES:		
Operating lease liabilities	13,517	14,883
Deferred tax liability, net	2,872	4,065
	<u>16,389</u>	<u>18,948</u>
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 25:- 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	<u>\$ (166,379)</u>	<u>\$ (17,854)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 25:- DISCONTINUED OPERATIONS AND DECONSOLIDATION OF TRICHOME (Cont.)

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.

NOTE 26:- SUBSEQUENT EVENTS

a. *Loan from ADI*

On February 26, 2024, IMC Holdings and ADI signed an additional amendment to the ADI Agreement, extending the loan period until April 15, 2024, with the same terms as the first amendment (see note 13(2)).

b. *Potential Reverse Merger with Kadimastem*

On February 28, 2024, the Company announced that it has entered into a non-binding term sheet dated February 13, 2024, as amended (the "Term Sheet"), and a Loan Agreement with the Company, with Israel-based Kadimastem Ltd, a clinical cell therapy public company traded on the Tel Aviv Stock Exchange under the symbol (TASE:KDST) ("Kadimastem"), whereby the parties will complete a business combination that will constitute a reverse merger into the Company by Kadimastem (the "Proposed Transaction").

The Proposed Transaction will be effected by way of a plan of arrangement involving a newly created wholly-owned subsidiary of IMC and Kadimastem (the "Arrangement"). The resulting issuer that will exist upon completion of the Proposed Transaction (the "Resulting Issuer") will change its business from medical cannabis to biotechnology and, at the closing of the Proposed Transactions (the "Closing").

Kadimastem shareholders will hold 88% of the common shares of the Resulting Issuer (the "Resulting Issuer Shares") and the shareholders of the Company will hold 12% of the Resulting Issuer Share. Parties may agree, in the Definitive Agreement, on a different structure of equity in lieu of the warrants with a similar result. The Proposed Transaction is an arm's length transaction Prior to Closing, IMC's existing medical cannabis operation and other current activities in Israel and Germany (the "Legacy Business") will be restructured (the "Spin-Out") as a contingent value right (the "CVR"). The CVR will entitle the holders thereof to receive net cash, equity, or other net value upon the sale of the Legacy Business following the Closing, subject to the terms of the Loan Agreement.

The Legacy Business will be made available for potential sale to a third party for a period of up to 12 months from Closing (the "Record Date"). After the Record Date, any remaining Legacy Business in the CVR will be offered for sale through a tender process, subject to the terms of the best offer. The proceeds from the sale of the Legacy Business will be utilized to settle debts and distribute the remaining balance, if any, to CVR holders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 26:- SUBSEQUENT EVENTS (Cont.)

Pursuant to the terms of the Term Sheet, a loan agreement dated February 28, 2024 (the "Loan Agreement") was entered between IMC, a wholly-owned subsidiary of the Company and Kadimastem. Pursuant to the Loan Agreement, Kadimastem will provide a loan of up to US\$650,000 to the Holding Company, funded in two installments: US\$300,000 upon signing the Loan Agreement and US\$350,000 upon the execution of the definitive agreement regarding the Proposed Transaction (the "Loan").

The Loan accrues interest at a rate of 9.00% per annum, compounding annually and is secured by the following collaterals and guarantees: (a) 10% of the proceeds derived from any operation sale under the CVR ("Charged Rights"), limited to the outstanding Loan Amount and expenses according to the Loan Agreement, accordingly Holding Company may, at its sole discretion, to record a second-ranked fixed charge over the Charged Rights or, alternatively, in case the existing pledges over the Charged Rights at the date of signing this Loan Agreement are subsequently discharged or removed, then the Borrower shall promptly record a first-ranking fixed charge over the Charged Assets with all applicable public records; provided that Holding Company shall not impose any new lien, mortgage, charge or pledge over the Charged Rights that did not exist on the date hereof, or any other liens, subject to customary exclusions; (b) the Holding Company shall use its best efforts to record a first-ranking fixed charge over the assets of its subsidiary, R.A Yarok Pharm Ltd, in due course when applicable and as deemed appropriate; and (c) a personal guarantee by Mr. Oren Shuster, IMC's CEO.

Prior to the completion of the Proposed Transaction, IMC will call a meeting of its shareholders for the purpose of approving, among other matters.

c. *NASDAQ Compliance Notice*

On January 31, 2024, the Company announced that it has received a 180-calendar day extension, until July 29, 2024, from the Nasdaq Stock Market ("Nasdaq"), to regain compliance with Nasdaq Marketplace Rule 5550(a)(2) (the "Bid Price Rule").

d. *35 Oak Holdings Ltd – Statement of Complaint*

The Company, together with some of the Defendants brought, on February 22, 2024, a preliminary motion to strike out several significant parts of the claim (the "**Motion**") The Motion has not been scheduled by the court.

At this time, the Company's management is of the view that the Motion has merit and is likely to succeed in at least narrowing the scope of the claim against the Company, and that it may also result in certain of the claims against individuals being dismissed altogether, and if not dismissed narrowed in scope and complexity.

Given the preliminary stage of the action, and that the Company have not yet conducted a full investigation of the factual defenses, it is too early to opine on the merits of the claim or whether it is more likely than not to result in an outflow of funds to the Company and if so, how much.

e. *Acquisition of Jerusalem's Leading Medical Cannabis Pharmacy – Oranim Pharm*

On January 12, 2024, the Company announced that the final sixth payment of the Oranim Pharmacy Acquisition and the reconciliation between the parties regarding the remaining transaction payments are being rescheduled to April 15, 2024.

Through a new amendment signed January 10, 2024, the sixth (6) payment as well as the reconciliation between the parties regarding all remaining unpaid installments has been postponed to April 15, 2024. All six installments (that remain unpaid) will incur a 15% interest charge. Failure to meet the remaining payments will result in the transfer of IMC Holdings Ltd. shares (51%) back to the seller, along with the revocation of the transaction.

f. *Exercise of Focus Option*

On February 26, 2024, IMC Holdings exercised its option and as of that date, the Company holds 74% of Focus.

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "*Loan Agreement*", or the "*Agreement*") is made and entered this February 28, 2024 (the "*Effective Date*"), by and between I.M.C Holdings Ltd., an Israeli limited liability company, of Beit HaKshatot, Glil Yam, Israel 4690500 (the "*Company*" or "*Borrower*") and Kadimastem Ltd., an Israeli limited liability company, of Pinchas Sapir 7, Weizmann Science Park, Nes-Ziona, Israel ("*Lender*") (each of the Company and Lender may hereinafter be referred to as a "*Party*" and, collectively, the "*Parties*").

WITNESSETH:

WHEREAS, the Company, the Lender and IM Cannabis Corp. ("*IMCC*") have executed a certain Term-Sheet, dated February 13, 2024 (the "*Term Sheet*") contemplating, *inter-alia*, (a) the consummation of a reverse triangular merger structure resulting in Lender becoming a wholly owned subsidiary of IMCC as the surviving entity, subject to the fulfillment of conditions precedent as shall be defined in the definitive agreement (the "*Definitive Agreement*" and the "*Surviving Entity*", accordingly); and (b) the restructuring of the Company's legacy business through certificates evidencing Contingent Value Rights ("*CVR*") whereby the respective proceeds from the sale of such legacy business shall subsequently be distributed to the shareholders of IMCC, as agreed upon in the Term Sheet and to be mutual further agreed in upon the Definitive Agreement (the "*Transaction*");

WHEREAS, for the purpose of addressing the working capital needs of the Company in connection with the foregoing disposition of assets and management of the CVR process (the "*Purpose*"), the Company may require to secure adequate financing, and Lender has agreed to provide such financing to the Company under the terms set forth herein;

NOW, THEREFORE, the Parties hereby agree with each other as follows:

1. THE LOAN

- 1.1. Provision of Loan. The Lender shall provide to the Company, an aggregate amount of up to US\$650,000 (the "*Principal Amount*"), as follows:
- 1.1.1. US\$300,000 shall be wired to the Company up to five (5) days from the execution of this Agreement (the "*First Drawdown*").
 - 1.1.2. The balance of up to US\$350,000 shall be wired to the Company upon the execution of the definitive agreement(s) for the Transaction (the "*Definitive Agreements*"), provided however, that the Company shall, within three (3) business days prior to the execution of the Definitive Agreements, inform Lender in writing of the actual amount it desires to draw on account of such balance payment (the "*Second Drawdown Request*").
 - 1.1.3. It is clarified that any amount not requested by the Company under the Second Drawdown Request shall be deemed as waived by Company, unless otherwise agreed upon in writing between the Borrower and Lender.
 - 1.1.4. For the purposes of this Loan Agreement, any reasonable costs, expenses and fees incurred by Lender for the purpose of securing repayment and/or otherwise foreclosing on the assets underlying the Security Interest (the "*Expenses*"), shall be deemed an amount accrued on account of the Loan Amount, provided that, insofar as the Expenses exceed NIS5,000, Lender agrees to *solely* seek collection of the outstanding Loan Amount (including Expenses), on account of the Personal Guarantee (as defined below), unless the Personal Guaranty is insufficient in which case the Lender may pursue collection from both.
- 1.2. Interest. Any outstanding Principal Amount shall bear an interest in the rate of 9.00% (nine percent) compounded annually, calculated on a daily basis and on the basis of a 360-day year, as of the date in which such actual disbursement of fund was made to Company (the "*Interest*", and together with the Principal Amount: the "*Loan Amount*").
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- 1.3. Repayment: Maturity Date. Subject to the terms herein, each portion of the Principal Amount disbursed, plus Interest, shall become due and payable upon the date which is the first anniversary from the date in which such respective amount was disbursed to Company (the "**Maturity Date**"). The Principal Amount shall be repaid in full, together with all accrued and unpaid Interest, on the Maturity Date; *provided, however*, that the Company shall be entitled to prepay the Loan Amount or any portion thereof prior to the Maturity Date. Any repayment made hereunder shall first be deemed to be made on account of unpaid Interest accrued until the date of such repayment.
- 1.4. Taxes. Subject to applicable law, all payments due to be made to the Lender under this Agreement, whether of principal, interest or otherwise, shall be made without deduction or withholding for, any taxes.
- 1.5. Currency. Any repayment made hereunder shall be in US\$, unless otherwise agreed in writing by Lender. In such event, the US\$:NIS exchange rate shall be the USD/ILS representative exchange rate published by the bank of Israel and known on date of actual repayment by Company.
- 1.6. Collaterals. Concurrently with the execution of this Agreement, Borrower covenants to provide, and cause the relevant stakeholders to provide, the following collaterals (the "**Security Interest**"):
- 1.6.1. 10% of the proceeds derived from any operation sale under the CVR ("**Charged Rights**") limited to the outstanding Loan Amount and Expenses. Accordingly, (i) The Borrower retains the option, at its sole discretion, to record a second-ranked fixed charge over the Charged Rights or, alternatively, in case the existing pledges over the Charged Rights at the date of signing this Loan Agreement are subsequently discharged or removed, then the Borrower shall promptly record a first-ranking fixed charge over the Charged Assets with all applicable public records (ii) Borrower shall not, and shall not permit any person or entity, to impose any new lien, mortgage, charge or pledge over the Charged Rights that did not exist on the date hereof, and (iii) with respect to any future debt assumed by Borrower, Borrower shall cause that such debt shall be subordinated to Borrower's rights in the Charged Rights.
- 1.6.2. The Borrower shall use its best efforts to record a first-ranking fixed charge over the assets of its subsidiary, A.R Yarok Pharm Ltd, in due course when applicable and as deemed appropriate. A personal guarantee by IMCC's major shareholder, Mr. Oren Shuster (the "**Guarantor**"), in the form attached hereto as Exhibit [x] (the "**Personal Guarantee**") for the collection and recovery of any outstanding Loan Amount, along with any Expenses. Upon full and final payment by the Guarantor to the Lender, the Guarantor shall be subrogated to the rights of the Lender against the Borrower, and the Lender agrees to take such steps as the Guarantor may reasonably request, at the Guarantor's expense, to give effect to such subrogation.
- 1.6.3. The Parties agree that, subject to Section 1.1.4, Lender shall first be obligated to seek repayment of the Loan Amount from the Company and its assets prior to foreclosing on the Personal Guarantee.

It is hereby agreed and undertaken that upon repayment of all amounts due hereunder (including cost of collection, as specified in section 1.6.3), the Security Interest created and/or to be established hereunder shall be automatically expired and be of no further force or effect without any further actions by the Lender.

2. REPRESENTATIONS AND WARRANTIES

- 2.1 The Company hereby represents and warrants to the Lender that, the following representations are true and correct as of the date of this Agreement:
- 2.1.1. Organization: Good Standing. The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the state of Israel, and has all requisite corporate power and authority to carry on its business as presently conducted and as proposed to be conducted. The Company has all requisite corporate power and authority to own and operate its property and assets and to execute and deliver this Loan Agreement.
- 2.1.2. No Breach. The execution and delivery of this Loan Agreement and all transactions and instruments contemplated hereto and thereby (the “**Loan Documents**”), will not conflict with, or result in a breach or violation of, any of the terms, conditions and provisions of: (i) the Company’s certificate of formation or other governing instruments of the Company, including but not limited to the Company’s limited liability company agreement, (ii) any judgment, order, writ, injunction, decree, or ruling of any court or governmental authority, domestic or foreign to which the Company is subject, (iii) any note, indenture, mortgage, agreement, contract, or instrument to which the Company is a party or by which it or any of its property is bound, or (iv) applicable law, statute, ordinance or regulation.
- 2.1.3. Corporate Power and Qualification
- 2.1.3.1 All corporate action required to be taken by the Company in order to authorize the Company to enter into this Loan Documents has been taken prior to the Effective Date.
- 2.1.3.2 All actions on the part of the Company necessary for the execution and delivery of this Loan Documents and the performance of all obligations of the Company hereunder have been taken or will be taken prior to the date hereof.
- 2.1.3.3 The Loan Documents, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with its respective terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting the enforcement of creditors’ rights generally, or (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.
- 2.1.4. Governmental Consents and Filings. Save for, where applicable, the filing of all customary forms to any relevant stock exchange, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with state or local governmental authority is required on the part of the Company in connection with the consummation of the transactions contemplated by the Loan Documents.
- 2.1.5. Litigation. Except for a Statement of Claim that was filed in the Ontario Superior Court of Justice in Canada by 35 Oak Holdings Ltd., MW Investments Ltd., 35 Oak Street Developments Ltd., Michael Wiener, Kevin Weiner, William Weiner, Lily Ann Goldstein-Weiner, in their capacity as trustees of the Weiner Family Foundation against IMCC and some of its board of directors and officers, there is no action, suit, proceeding or investigation pending or, to the knowledge of the Company, currently threatened against the Company, IMCC or the Major Shareholder that would reasonably be expected to result, either individually or in the aggregate, in any material adverse change in the assets, condition, affairs or prospects of the Company, the Major Shareholder or IMCC, financially or otherwise, or any change in the current equity ownership of the Company or that questions the validity of this Agreement if the same were executed on this date or the right of the Company to enter into the Loan Agreement, nor is the Company aware that there is any basis for any of the foregoing.

- 2.1.6. Taxes. Except as described in **Schedule 2.1.6**, there are no federal, state, local or foreign taxes due and payable by the Company which has not been timely paid, other than taxes which IMCC is reasonably contesting. There are no accrued and unpaid federal, state, local or foreign taxes of the Company which are due, whether or not assessed or disputed. Except as set forth in **Schedule 2.16**, there have been no examinations or audits of any tax returns or reports by any applicable federal, state, local or foreign governmental agency. The Company has duly and timely filed all federal, state, local and foreign tax returns required to have been filed by it, except as set forth in **Schedule 2.1.6**.
- 2.1.7. Full Disclosure. The Company's representations and warranties made or contained in this Agreement do not contain any untrue statement of a material fact and do not omit to state a material fact required to be stated therein or necessary in order to make such representations, warranties, or other material not misleading in light of the circumstances in which they were made or delivered. To the best knowledge of the Company, there have been no events or transactions, or facts or information which have not been disclosed to the Lender or otherwise properly disclosed through IMCC public disclosure requirements with the Canadian Securities Exchange (CSE), which have or would reasonably be expected to have a material adverse effect on the Company or the properties, business, operations or financial condition of the Company.
- 2.1.8. Reliance. The Company acknowledges that the Lender is entering into this Agreement (and each of the transactions to take place under it) upon the basis of, and in reliance on, the declarations, representations, and undertakings given by the Company in this Agreement.
- 2.2 Lender hereby represents and warrants to the Company the following:
- 2.2.1 Organization: Good Standing. The Lender is a limited liability company duly organized, validly existing and in good standing under the laws of the state of Israel and has all requisite corporate power and authority to carry on its business as presently conducted and as proposed to be conducted. The Lender has all requisite corporate power and authority to own and operate its property and assets and to execute and deliver this Loan Agreement.
- 2.2.2 Authorization. The execution, delivery, and performance of this Loan Agreement have been duly authorized by all necessary corporate or organizational action by the Lender; do not require the consent or approval or any other person, regulatory authority, court or governmental body and do not conflict with, result in a violation of, or constitute a default under any provision of (i) its articles of incorporation or organization or operating agreement, or (ii) any agreement or other instrument binding upon the Lender.
- 2.2.3 Binding Effect. The Loan Documents constitute the legally valid and binding obligation of the Lender, enforceable against the Lender in accordance with the terms herein, subject as to enforcement of remedies to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting generally the enforcement of creditors' rights and subject to a court's discretionary authority with respect to the granting of a decree ordering specific performance or other equitable remedies.
- 2.2.4 No Breach. The execution and delivery of this Loan Documents will not conflict with, or result in a breach or violation of, any of the terms, conditions and provisions of: (i) the Lender's governing corporate documents, (ii) any judgment, order, writ, injunction, decree, or ruling of any court or governmental authority, domestic or foreign to which the Lender is subject, (iii) any note, indenture, mortgage, agreement, contract, or instrument to which the Lender is a party or by which it or any of its property is bound, or (iv) applicable law, statute, ordinance or regulation to which Lender is bound by.

2.2.5 Financial Ability. The Lender has the financial capacity and ability to meet provide the First Drawdown as specified herein, and will have the financial capacity and liability to disburse the corresponding amount of the Second Drawdown Request upon and subject to the execution of the Definitive Agreement.

3. EVENTS OF DEFAULT

- 3.1 Anything to the contrary notwithstanding, each of the following events, which remains uncured, shall constitute an event of default (*'Event of Default'*) under this Agreement:
- 3.1.1 The Company's failure to repay the Loan Amount on or before the Maturity Date, unless otherwise extended by the Borrower and Lender mutual written consent.
 - 3.1.2 If an order or judgment is rendered in any suit against the Company, which substantially impairs the ability of the Company to perform any of its obligations under the Loan Documents and was not set aside within 45 days of their respective initiation (but in any event no later than the original Maturity Date).
 - 3.1.3 If the Company or any of its subsidiaries (i) is adjudicated bankrupt or insolvent; (ii) is subject to adjustment, reorganization, freeze order, stay of proceedings (*"Ikv Halichim"*) (or other similar remedy), protection from creditors, relief of debtors, an order for commencing proceedings (*"Tzav le-Ptachat Halichim"*), an order for financial rehabilitation (*"Hafala Leshem Shikum Calcal"*) or an order for liquidation (*"Tzav Piruk"*); (iv) enters into a debt arrangement (*"Hesder Chov"*); (iii) files a voluntary petition in bankruptcy;; (v) makes a general assignment for the benefit of creditors; (vi) files a petition or answer seeking or acquiescing in any reorganization excluding for the purpose of the Transaction, management, readjustment, liquidation, dissolution, or arrangement or similar relief for itself, with creditors, administration or an arrangement (*"hesder"*) as such terms are understood under the Israeli Companies Law, 1999, or to take advantage of any law relating to bankruptcy, insolvency or other relief for debtors; (vii) files an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding; or (viii) has been appointed over of a receiver or trustee or other authorized functionary (*"baal tafkid"*), as such term is understood under the Israeli Insolvency and Economic Rehabilitation Law, 2018; (ix) takes such action for the purpose of effecting any of the foregoing; then the Company shall have a curing period of 45 days from the occurrence of any of the events set forth above to cure such event of default to the satisfaction of the Lender, unless otherwise agreed between the parties.
 - 3.1.4 Unless agreed in writing to the contrary by the Lender, the dissolution structure, merger, or consolidation or reorganization of the Company excluding for the purpose of the Transaction.
 - 3.1.5 There shall have been breach or default of any representations, warranties, undertaking and/or covenants specified in the Loan Documents, and/or the "exclusivity" provision under the Term Sheet and/or the Definitive Agreement (other than that committed by the Lender), not cured within fourteen (14) days from receipt of notice thereof (to the extent such beach can be cured, without causing substantial harm to Lender).

- 3.1.6 Any termination, limitation or challenging of the validity of the Personal Guarantee.
- 3.2 Upon the occurrence and continuing of an Event of Default, the Lender shall have the right, in addition to any other rights or remedies at law or in equity, to accelerate and demand payment of all sums in relation to the outstanding Principal Amount and Interest.
- 3.3 Failure to exercise any of the remedies herein provided shall not constitute a waiver thereof by Lender, nor shall use of any such remedies prevent the subsequent or concurrent resort to any other remedy or remedies which shall be vested in Lender by this Agreement or at law or in equity. To be effective, any waiver by the Lender must be in writing and such waiver shall be limited in its effect to the condition or default specified therein; but no such waiver shall extend to any subsequent condition or default or impair any right consequent thereon.

4. COMPANY COVENANTS AND LENDER RIGHTS

- 4.1 As long as any portion of the Loan Amount remains outstanding, without the prior written consent of the Lender, the Company shall not, and cause its subsidiaries not to, enter into, create, incur, assume or suffer to exist any new collaterals, security interest, liens and/or mortgages of any kind, on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom (the "*Liens*"), except for Liens existing on the Effective Date (as extended under substantially similar terms), Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, being contested in good faith and by appropriate proceedings for which adequate reserves were made, and/or Liens provided within the scope of leasehold agreements entered into within the ordinary course of business.

5. MISCELLANEOUS.

- 5.1 No Third Party Beneficiaries. No part of the Loan Agreement will, at any time, be subject or liable to attachment or levy at the suit of any creditor of the Company or of any other party, or at the suit of any contractor, subcontractor, sub subcontractor or materialman, or any of their creditors.
- 5.2 Amendments in Writing. This Agreement may not be changed, waived, discharged, or terminated except by an instrument in writing duly executed by the party against which enforcement of such change, waiver, discharge, or termination is sought.
- 5.3 Notices. Notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the Party to be notified; (ii) on transmission when sent by facsimile or electronic mail if sent during normal business hours of the recipient and, if not, then on the first business day following such transmission, in each case, provided the sender did not receive an automatic delivery failure message following transmission; or (iii) fourteen (5) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid. All communications shall be addressed to the parties' addresses set forth in the preamble to this Agreement or to such other address as either party may designate by written notice to the other Party.
- 5.4 No Assignment. Company shall have the right to assign any of its rights and obligations pursuant to this Agreement, without obtaining first the prior written consent of the Lender. Subject to the foregoing, this Agreement shall extend to, and bind, the Parties, their respective heirs, personal representatives, successors and assigns.

- 5.5 Delays or Omissions: Waiver. The rights of a Party may be waived by such Party only in writing and, specifically; the conduct of any one of the Parties shall not be deemed a waiver of any of its rights pursuant to this Agreement or as a waiver or consent on its part as to any breach or failure to meet any of the terms of this Agreement or as an amendment hereto. A waiver by a Party in respect of a breach by the other Party of its obligations shall not be construed as a justification or excuse for a further breach of its obligations. No delay or omission to exercise any right, power or remedy accruing to any Party upon any breach or default by the other under this Agreement shall impair any such right or remedy nor shall it be construed to be a waiver of any such breach or default, or any acquiescence therein or in any similar breach or default thereafter occurring.
- 5.6 Severability. The provisions of this Loan Agreement shall be deemed severable and the invalidity or unenforceability of any provision hereof will not affect the validity or enforceability of the other provisions hereof; provided that if any provision of this Loan Agreement, as applied to any party or to any circumstance, is adjudged by a court or other governmental body not to be enforceable in accordance with its terms, the parties agree that the court or governmental body making such determination will have the power to modify the provision in a manner consistent with its objectives such that it is enforceable, and/or to delete specific words or phrases, and in its reduced form, such provision will then be enforceable and will be enforced.
- 5.7 Applicable Law: Jurisdiction. This Agreement shall be governed by and construed in accordance with to the laws of the State of Israel, disregarding its conflict of laws rules. Any dispute arising under or in relation to this Agreement shall be resolved exclusively in the competent court located in Tel Aviv-Jaffa, Israel and each of the parties hereby irrevocably submits to the exclusive jurisdiction of such court.
- 5.8 Counterparts, Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. A signed Agreement received by a Party via facsimile or electronic mail will be deemed an original, and binding upon the Party who signed it.

[Intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

THE LENDER:

KADIMASTEM LTD.

By:

THE COMPANY:

I.M.C HOLDINGS LTD.

By: Oren Shuster and Eyal Fisher

THE GUARANTOR

Mr. Oren Shuster

[Loan Agreement - Signature Page]

Exhibit 2.1.6

1. A Notice Of Objection (Excise Tax Act) for the assessment dated October 23,2023 was submitted for the period covered January 1, 2020- December 31, 2020. The assessment amount in question under the Notice Of Objection is \$CAD 257,404.03.
2. A Notice Of Objection (Excise Tax Act) for the assessment dated October 23,2023 was submitted for the period covered January 1, 2021- December 31, 2021. The assessment amount in question under the Notice Of Objection is \$CAD 14,520.35.

List of Subsidiaries of IM Cannabis Corp.

Legal Entity	Jurisdiction	Relationship with the IM Cannabis Corp.
I.M.C Holdings Ltd. (“ IMC Holdings ”)	Israel	Wholly-owned subsidiary
Focus Medical Herbs Ltd. (“ Focus ”)	Israel	Private company over which IMC Holdings exercises “de facto control” under IFRS 10
IM Cannabis Holding NL B.V Netherlands (“ IMC Holdings NL ”)	Netherlands	Wholly-owned subsidiary of IMC Holdings
I.M.C. Pharma Israel 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
IMCC Medical Herbs Ltd. (“ IMCC Medical Herbs ”)	Israel	Wholly-owned subsidiary of IMC Holdings
Xinteza API Ltd (“ Xinteza ”)	Israel	Subsidiary of IMC Holdings
Shiran Societe Anonyme (“ Greece ”)	Greece	Subsidiary of IMC Holdings
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
Revoly Trading and Marketing Ltd. dba Vironna Pharm (“ Vironna ”)	Israel	Subsidiary of IMC Holdings
Oranim Plus Pharm Ltd. (“ Oranim Plus ”)	Israel	Subsidiary of IMC Holdings
High Way Shinua Ltd. (“ High Way Shinua ”)	Israel	Subsidiary of IMC Holdings
Oranim Pharm (“ Oranim Pharm ”)	Israel	Subsidiary of Oranim Plus
Adjupharm GmbH (“ Adjupharm ”)	Germany	Subsidiary of IMC Holdings



IM CANNABIS CORP.
STOCK TRADING POLICY

IM CANNABIS CORP.

STOCK TRADING POLICY

1. Purpose of this Policy

The board of directors (the “**Board**”) of IM Cannabis Corp. (the “**Company**”) has adopted this Stock Trading Policy (the “**Policy**”), which is designed to provide guidance to the directors, officers and employees of the Company and its subsidiaries (who are referred to collectively in this Policy as “**Company Personnel**”) with respect to stock trading. This Policy aims to assist Company Personnel in understanding their obligations and responsibilities under Canadian securities laws and the rules of the Canadian Securities Exchange. The ultimate responsibility to avoid improper trading and comply with the law rests with each individual. This Policy has been adopted in order to protect the reputation of the Company and to protect it and Company Personnel from any potential liability.

The provisions of this Policy will be supplemented by any greater prohibitions or restrictions prescribed by any applicable laws or the Canadian Securities Exchange.

2. Application of this Policy

All Company Personnel are required to review and comply with this Policy.

Company Personnel are responsible for ensuring that their Related Persons comply with this Policy, as applicable. For purposes of this Policy, “**Related Persons**” means, in relation to any individual, a member of his or her immediate family residing in the same household (including children temporarily living away from home while attending school), any entity in which the individual or his or her immediate family have an economic or personal interest and anyone acting on that individual’s behalf or on behalf of his or her immediate family or on behalf of that entity.

3. Prohibited Activities and Blackout Periods

(a) **Securities**

For purposes of this Part 3, the term “**security**” includes:

- (a) a put, call, option or other right or obligation to purchase or sell securities of the Company;
- (b) a security, the market price of which varies materially with the market price of the securities of the Company; and
- (c) a derivative that is related to a security of the Company because the derivative’s market price, value, delivery obligations, payment obligations or settlement obligations are, in a material way, derived from, referenced to or based on the market price, value, delivery obligations, payment obligations or settlement obligations of the security of the Company.

(b) **Prohibition on Insider Trading**

Securities legislation prohibits “**persons in a special relationship with the Company**” (as defined in Appendix A to this Policy) from purchasing or selling securities of the Company with knowledge of a “**material fact**” or “**material change**” about the Company that has not been “**generally disclosed**”. This prohibited activity is commonly known as “**insider trading**”. Company Personnel are prohibited from trading in securities of the Company or any third party about which they have material non-public information until that information has been fully disclosed and at least one clear and full trading days have elapsed, in order for the information to be disseminated effectively to the public markets. Company Personnel should consult the General Counsel of the Company for guidance on what constitutes “**material information**”.

(c) **Prohibition on Tipping**

Securities legislation also prohibits the Company and any persons in a special relationship with the Company from informing, other than in the “necessary course of business”, anyone of a material fact or a material change before that “material information” has been generally disclosed. This prohibited activity is commonly known as “tipping”.

The tipping provisions generally apply to persons in a special relationship with the Company. Persons in a special relationship include, but are not limited to, anyone (a “**tippee**”) who learns of material information from someone that the tippee knows or should know is a person in a special relationship with the Company.

The “special relationship” definition is broad. The tipping prohibition is not limited to communications made by senior management, investor relations professionals and others who regularly communicate with analysts, institutional investors and market professionals. The tipping prohibition applies, for example, to unauthorized disclosures by non-management Company Personnel.

There is a potentially infinite chain of tippees who are caught by the prohibitions against tipping and insider trading. Because tippees are themselves considered to be in a special relationship with the Company, material information may be third or fourth hand and still be subject to the prohibitions.

(d) **Prohibition on Speculation**

Purchases of the Company’s securities should be for investment purposes only and not for short-term speculation. All dealings in puts and calls, all short sales and all buying or selling on the market with the intention of quickly reselling or buying back at a profit are prohibited. In addition, trading in securities of other public companies with the knowledge that the Company is contemplating or engaged in acquiring that company or its securities or negotiating significant business arrangements with that company is prohibited. These prohibitions apply to all Company Personnel and their Related Persons.

Furthermore, Reporting Insiders are strongly discouraged from: (i) purchasing financial instruments that are designed to hedge or offset a decrease in market value of equity securities of the Company granted as compensation or held, directly or indirectly, by them; or (ii) forward selling securities that may be delivered in the future upon the exercise or redemption of securities granted under the Company’s security-based incentive award plans, or otherwise monetizing those securities, if the interest of the Reporting Insider in those securities has not yet vested.

(c) **Prohibition on Margin Accounts**

Securities held in a margin account can present problems if the individual does not have sufficient funds to meet a margin call and the securities are sold by the broker. Because such a sale may occur at a time when the individual is in possession of material non- public information or when otherwise not permitted to trade in the Company's securities, Company Personnel and their Related Persons are prohibited from operating margin accounts for the purpose of purchasing or holding the Company's securities, except with the prior approval of Company management.

(f) **Use of Discretionary Accounts**

Company Personnel and their Related Persons who have a discretionary account with a broker must advise their broker in writing that there are to be no purchases or sales of the Company's securities by that discretionary account without first discussing it with that person in order to ensure compliance with this Policy and insider trading laws.

(g) **Stock Option Plan**

No stock options shall be issued or granted under the Company's Stock Option Plan (the "**Plan**") during a blackout period or where the either Board or management of the Company possess material non-public information. Elections to participate or changes in participation with respect to stock options issued pursuant to the Plan cannot be made at any time when in possession of material non-public information.

(h) **Trades in Securities of Supplier Companies**

Company Personnel are prohibited from purchasing shares in supplier companies and their subsidiaries or direct affiliates if the Company's relations with those suppliers could be considered to have a material impact on the securities of those suppliers.

(i) **Quarterly Blackout Periods**

The Company's securities may not be purchased or sold by Company Personnel or their Related Persons beginning of 21 calendar days before the end of the fiscal quarter and ending after the first clear and full trading day following the quarterly financial results or the annual results being made public by news release. This period is referred to as a "**quarterly blackout period**". The period starting after the first clear and full trading day following the news release until the start of the next quarterly blackout period is referred to as a "**trading window**". For clarification, no trading is permitted even during a trading window if an individual is in possession of material non-public information.

(j) **Exercising Options**

Company Personnel are prohibited from exercising options during a blackout period or if the option holder is in possession of any material non-public information concerning the Company or its subsidiaries.

If permitted under the Company's Stock Option Plan, if the expiration date of an option would otherwise fall within a blackout period, the expiration date of an option can be extended to no later than ten (10) business days after the expiry of the blackout period.

(k) **Special Blackout Periods**

Other “**special blackout periods**” may be prescribed from time to time by the Company as a result of special circumstances relating to the Company which could give rise to material information. Everyone with knowledge of that material information will be subject to the special blackout period. In the case of a special blackout period, involved individuals will be informed by Company management. No person subject to a special blackout period may disclose to anyone that a special blackout period has been designated.

(l) **Quiet Periods**

The Company observes a quarterly quiet period, during which no earnings guidance or comments with respect to the current quarter’s operations or expected results will be provided to analysts, investors or other market professionals. The quiet period runs from the 21st day before the end of the fiscal quarter and ending after the first clear and full trading day following the quarterly financial results or the annual results being made public by news release.

The Company does not need to stop all communications with analysts or investors during the quiet period. However, communications should be limited to responding to inquiries concerning publicly available or non-material information. The purpose of this quiet period is to avoid the potential for, or perception of, selective disclosure.

4. **Insider Reporting Requirements**

(a) **Reporting Requirements for Reporting Insiders**

Under Canadian securities laws, Reporting Insiders are generally required to disclose to applicable regulatory authorities the fact of becoming a Reporting Insider. Thereafter, Canadian securities laws require a Reporting Insider to disclose any change in direct or indirect beneficial ownership of, or control or direction over, securities and any change in any interest in, or right or obligation associated with, a related financial instrument. Reporting Insiders must file an insider report electronically through the “System for Electronic Disclosure by Insiders” (“**SEDI**”), usually within 5 calendar days after the trade occurs.

A “**related financial instrument**” generally means an agreement, arrangement or understanding to which a Reporting Insider is a party, the effect of which is to alter, directly or indirectly, the Reporting Insider’s economic interest in a security of the Company or economic exposure to the Company.

It is the Company’s policy that all Reporting Insiders include in their insider reports all securities of the Company that their Related Persons have direct or indirect beneficial ownership of, or control or direction over.

(b) **Procedure for Reporting**

Filing of insider reports is the responsibility of each Reporting Insider. However, the Company will provide advice and assistance with respect to those filings.

5. Monitoring Compliance

(a) Initial Certification of Compliance with Stock Trading Policy

The Company expects compliance with this Policy and applicable laws by all Company Personnel. In order to ensure knowledge and understanding of this Policy, all Company Personnel will be required to sign a certificate concerning compliance with this Policy upon commencement of employment.

(b) Periodic Certification of Compliance with Stock Trading Policy

In order to ensure ongoing compliance with this Policy and with applicable laws, all Company Personnel may be required to sign a certificate concerning compliance with this Policy periodically.

(c) Periodic Survey of Reporting Insiders

Periodically, Company management may request confirmation from Reporting Insiders as to whether reported results remain current. This monitoring is intended to assist the Company and Reporting Insiders to detect any inadvertent breaches of this Policy and to remedy those situations promptly.

(d) Reporting of Non-Compliance

Any Company Personnel who violates the prohibitions against insider trading and/or tipping, or knows of such violation by any other persons, must report the violation immediately to Company management and General Counsel.

(e) Compliance Responsibilities

The General Counsel oversees compliance with the Policy, including the following responsibilities:

- (i) administering this Policy and monitoring and enforcing compliance with its provisions, including:
 - (A) monitoring reporting by Reporting Insiders (see Section 5(c)); and
 - (B) upon learning of any violation of the prohibitions against insider trading or tipping, determining what measures the Company should take, if any;
- (ii) designating and announcing, in its discretion, as applicable:
 - (A) quarterly blackout periods and trading windows relating to the Company's securities; and
 - (B) special blackout periods relating to the Company's securities or the securities of other public companies, including customers, suppliers, joint venturers and third parties negotiating a merger or acquisition with the Company;
- (iii) organizing training sessions to educate Company Personnel on insider trading;

- (iv) responding to all inquiries relating to this Policy;
- (v) providing copies of this Policy to all Company Personnel;
- (vi) proposing revisions to this Policy as necessary to reflect changes in applicable insider trading laws;
- (vii) preparing periodic reports on this Policy's implementation and preparing documentation of compliance efforts;
- (viii) implementing procedures for Company Personnel to report suspected breaches within the Company without fear of retribution;
- (ix) maintaining as Company records originals or copies of all required reports relating to insider trading;
- (x) reporting to the Board on all matters that arise with respect to this Policy and the Company's procedures relating to this Policy;
- (xi) seek necessary and appropriate legal advice from time to time from the Company's external legal advisors; and
- (xii) such other responsibilities as may be delegated to the General Counsel by the Board from time to time.

The General Counsel may designate one or more individuals who may perform certain of its duties.

6. Consequences of Non-Compliance

(a) **Civil, Quasi Criminal and Criminal Liability**

Violation of insider trading and tipping prohibitions can result in severe consequences under Canadian securities laws, applicable corporate legislation and the *Criminal Code*, including fines, civil liability and imprisonment.

(b) **Disciplinary Sanctions**

Violation of this Policy or insider trading laws or tipping prohibitions by any Company Personnel may subject that person to disciplinary action by the Company, up to and including termination.

STOCK TRADING POLICY CERTIFICATE

I certify that I have read and fully understand IM Cannabis Corp.'s Stock Trading Policy and will comply with its provisions and applicable insider trading laws and tipping prohibitions.

Per: _____
Signature

Name

Position

Date

APPENDIX A

TO STOCK TRADING POLICY

“**insiders**” of the Company generally include a director or officer of the Company or of any subsidiary of the Company, any significant shareholder of the Company, and a director or officer of any significant shareholder of the Company.

“**major subsidiary**” means a subsidiary of the Company if:

- (a) the assets of the subsidiary, as included in the Company’s most recent annual audited or interim statement of financial position, are 30% or more of the consolidated assets of the Company reported on that statement of financial position; or
- (b) the revenue of the subsidiary, as included in the Company’s most recent annual audited or interim statement of comprehensive income, is 30% or more of the consolidated revenue of the Company reported on that statement.

“**person**” generally includes:

- (a) an individual;
- (b) a corporation;
- (c) a partnership or trust; and
- (d) an association, syndicate or organization, whether incorporated or not.

“**persons in a special relationship with the Company**” generally include an employee of the Company or of any subsidiary of the Company, an insider of the Company, any person engaging in, proposing to engage in, or considering or evaluating whether to engage in, any business or professional activity with or for the Company, and any person who obtains material non-public information from one of the foregoing persons. Insiders of the Company can be deemed to be in a special relationship with another public company if the Company is considering or proposing a take-over bid or similar combination transaction with that public company or is considering or proposing a purchase of a substantial portion of that public company’s assets.

“**Reporting Insiders**” of the Company include:

- (a) the chief executive officer, chief financial officer and chief operating officer of the Company, of a significant shareholder of the Company or of a major subsidiary of the Company (or individuals performing similar functions);
 - (b) a director of the Company, of a significant shareholder of the Company or of a major subsidiary of the Company;
 - (c) an officer responsible for a principal business unit, division or function of the Company;
 - (d) a significant shareholder of the Company;
 - (e) a management company that provides significant management or administrative services to the Company or a major subsidiary of the Company, every director of the management company, the chief executive officer, chief financial officer and chief operating officer of the management company, and every significant shareholder of the management company;
-

- (f) the Company itself, if it has purchased, redeemed or otherwise acquired a security of its own issue, for so long as it continues to hold that security; and
- (g) any other insider that
 - (i) in the ordinary course receives or has access to information as to material facts or material changes concerning the Company before the material facts or material changes are generally disclosed; and
 - (ii) directly or indirectly exercises, or has the ability to exercise, significant power or influence over the business, operations, capital or development of the Company.

“**significant shareholder**” of the Company generally means a person that has beneficial ownership of, and/or control or direction over, whether direct or indirect, securities of the Company carrying more than 10% of the voting rights attached to all the Company’s outstanding voting securities, calculated based on the person’s post-conversion ownership of any securities convertible within 60 days.

CERTIFICATION REQUIRED BY RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Oren Shuster, certify that:

1. I have reviewed this annual report on Form 20-F of IM Cannabis Corp. (the "Issuer");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Issuer's internal control over financial reporting.
5. The Issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer's auditor and the audit committee of the Issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal control over financial reporting.

Date: March 28, 2024

By: "Oren Shuster"
Oren Shuster
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION REQUIRED BY RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Uri Birenberg, certify that:

1. I have reviewed this annual report on Form 20-F of IM Cannabis Corp. (the "Issuer");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Issuer's internal control over financial reporting.
5. The Issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer's auditor and the audit committee of the Issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal control over financial reporting.

Date: March 28, 2024

By: "Uri Birenberg"
Uri Birenberg
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of IM Cannabis Corp. (the "Company") on Form 20-F for the period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Oren Shuster, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

March 28, 2024

"Oren Shuster"
Oren Shuster
Chief Executive Officer
(Principal Executive Officer)

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of IM Cannabis Corp. (the "Company") on Form 20-F for the period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Uri Birenberg, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

March 28, 2024

"Uri Birenberg"
Uri Birenberg
Chief Financial Officer
(Principal Financial and Accounting Officer)

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form F-10 No. 333-254255) of IM Cannabis Corp. and in the related Prospectus of our report dated March 28, 2024, with respect to the consolidated financial statements of IM Cannabis Corp. included in this Annual Report (Form 20-F) for the year ended December 31, 2023.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
March 28, 2024



IM Cannabis Corp.

Management's Discussion and Analysis



For the Year and Three Months Ended December 31, 2023

March 28, 2024



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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, 2023. 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, 2023, and 2022 (the “**Annual Financial Statements**”). References herein to “Q4 2023” and “Q4 2022” refer to the three months ended December 31, 2023, and December 31, 2022.

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, 2023, 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</i> (“ IFRS 10 ”)*
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
Revoly 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

* Effective February 26, 2024, IMC Holdings exercised its option to acquire a 74% ownership stake in Focus.

**Discontinued operations. Please see note 25 in the Annual Financial Statements.

In this Annual Report, unless otherwise indicated, all references: (i) “**Company Subsidiaries**” are to the Israeli Subsidiaries and Adjupharm, (ii) “**Israeli Operations**” are to IMC Holdings and the Israeli Subsidiaries and (iii) “**Trichome**” are to Trichome Financial Corp. and its subsidiaries. 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 the Company has exited operations in Canada and considers these operations 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 preserves its existing proprietary genetics with third-party cultures 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 has exited its operations in Canada, deconsolidated Trichome pursuant to IFRS10 and 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 was 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 Company has exited operations in Canada Pursuant to an Order of the Court made on April 6, 2023, in which the Court approved a share purchase agreement, selling certain of the Trichome and certain of Trichome's wholly owned subsidiaries (collectively, the "Trichome Group") to a party that is not related to the Company.

In the context of the deconsolidation of the Canadian operations, there are no remaining liabilities to the Company or any of its consolidated subsidiaries related to the Canadian entities, except tax obligation of \$839 related to debt settlement with L5 Capital Inc. ("L5 Capital"). The CCAA Proceedings were solely in respect of the Trichome Group. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, were not parties to 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>.

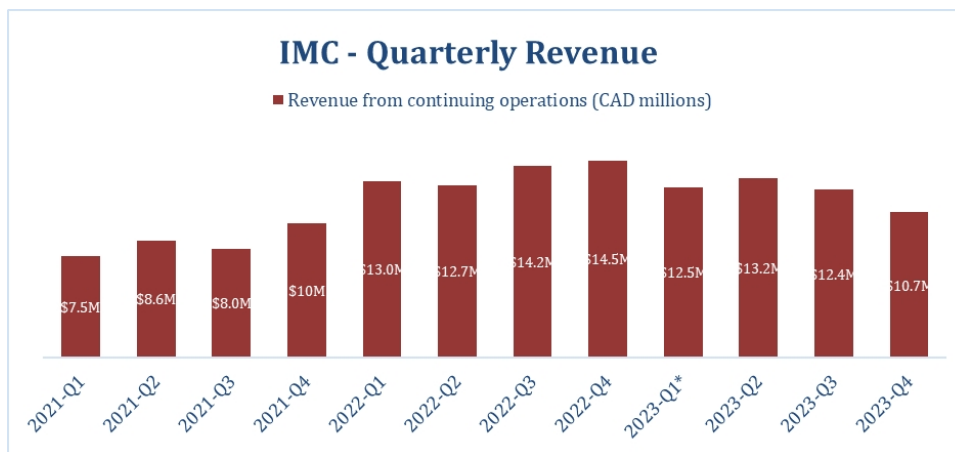
OUR GOAL – DRIVE PROFITABLE REVENUE GROWTH

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.



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 were discontinued and deconsolidated, effective November 7, 2022, pursuant to IFRS10. 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 2024.

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 is also operating in the retail segment. The Company, through IMC Holdings, holds three licensed pharmacies, 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**”). On June 30, 2023, IMC Pharma, the entity responsible for operating the trading house that was acquired within the Panaxia Transaction, ceased its operations at the aforementioned licensed center located in Lod, Israel. Consequently, the Company transitioned the operation that was conducted through IMC Pharma to third-party entities and to its own trading house currently being operated by Rosen High Way and there are no material obligations remained open following closure of the trading house.

The operation in the retail segment in Israel positions 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 operation 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 dried cannabis from its supply partners, which we believe will satisfy the rapid growth in demand for high-THC 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, favorable 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 has an EU-GMP license 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/>

BRANDS

The IMC brand is well-known in the Israeli medical cannabis market, with reputable brands highly popular among Israeli consumers.

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 premium product line with indoor-grown, hand-dried and hand-trimmed high-THC cannabis flowers. The Craft Collection includes exotic and unique cannabis strains such as Cherry Crasher, Wedding Crasher, Peanut Butter MAC and Watermelon Zkittlez. During the year ended December 31, 2023, the Company was selling products under the Craft Collection, however, In Q4 the Craft Collection was temporarily unavailable for sale by the Company and as a result, the Company did not generate any sales under the Craft Collection brand during that time. The Company has since relaunched sales under the Craft Collection..



The Top-Shelf Collection – IMC’s premium product line, which offers indoor-grown, high-THC cannabis flowers with strains such as Lemon Rocket, Diesel Drift, Tropicana Gold, Lucy Dreamz, Santa Cruz, Or’enz and Banjo. 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 proprietary cannabis dried flowers such as Roma® Chemchew, Karmalada, Rockabye, Silver haze, all an indoor-grown flowers.



The Full Spectrum Extracts – The IMC brand’s full spectrum, strain-specific cannabis extracts, includes high-THC Roma®T20 oil.

As part of its recent rebranding the Company expanded its Roma® product portfolio to include also oils. 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 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 Cherry Jam re-launched in Q3 2023, Pink Bubba, Golden Ghost, Tiki Rain, Rain, Forest Crunch and Silverback#4.



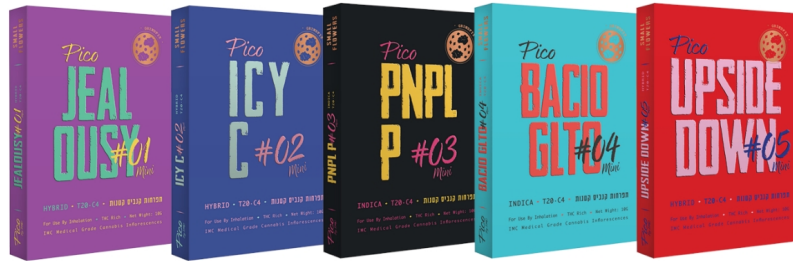
BLKMKT™, the Company's second Canadian brand, super-premium product line with indoor-grown, hand-dried and hand-trimmed high-THC cannabis flowers. The BLKMKT™ includes JEALOUSY, BACIO GLTO, PNPL P, PARK FIRE OG, UPSIDE DOWN C. In Q4 2023 the Company re-launched JEALOUSY and BACIO GLTO.



LOT420 brand launched in Israel in Q2 2023, with super-premium indoor-grown cannabis imported from Canada with high-THC. The LOT420 includes ICY C, GLTO 33, Atomic APP and as of Q3 2023 also Glto 33 and Xeno. The Company ceased from selling Atomic APP.



The PICO collection (minis)- Under the BLKMKT™ and LOT420 brands, the Company launched in 2023 a new type of products (small flowers), a super-premium indoor-grown cannabis imported from Canada with high-THC. In Q4 2023 the Company re-launched PICO JEALOUSY #1 and PICO BACIO GLTO #4 T20i. In addition, the Company launched in Q4 2023 a new cannabis strain called Pico Upside Down #05 T20H.



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 are branded generically as IMC to increase the brand awareness and build brand heritage among the German healthcare professionals.

After launching the first high THC strain in 2020, the portfolio has been carefully curated to include 5 high THC flowers, 1 high CBD flower and 3 full spectrum extracts with the goal of providing German physicians and patients with a more complete portfolio.

In Q2 2022 the Company's IMC Hindu Kush strain was the top selling T20 in the market. Since 2023, the company has been number one in sales per SKU within the entire German flower market. In July 2021, the company was recognized by the German Brand Institute with the "German Brand Award 2021," recognizing its excellence in brand strategy, creation, communication and integrated. The company is the sixth largest cannabis company in Germany. The Group's competitive advantage in Germany lies in its track record, experience and brand reputation in Israel, as well as the 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 2023, the Company re-launched cannabis strains in Israel, namely "BLKMKT JEALOUSY", "BACIO GLTO BLKMKT," "PICO JEALOUSY #1" and "PICO BACIO GLTO #4" Additionally, a new cannabis strain called "Pico Upside Down #05 " was introduced.

HIGH-QUALITY, RELIABLE SUPPLY

Israel

The company is concentrating on leveraging its skilled sourcing team and strategic alliances with Canadian suppliers as well as the import of medical cannabis from its Canadian Facilities. The Company continues to import cannabis products and supply medical cannabis to patients through licensed pharmacies. To supplement growing demand, the Company continues 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, the Company is operating through its subsidiaries who obtained a license from the IMCA to, among others, import cannabis products and supply medical cannabis to patients.

Pursuant to the applicable Israeli cannabis regulations, following the 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 has a certification for primary repackaging, making it one of a handful of companies in Germany fully licensed 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**").

CORPORATE HIGHLIGHTS AND EVENTS

KEY HIGHLIGHTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2023

In 2023, the Company continued to focus on its efforts and resources on growth in the Israeli and German cannabis markets as well as restructuring and cost reduction with a goal of reaching profitability in 2024. The Company's key highlights and events for the year ended December 31, 2023 include:

LIFE Offering

In January and February of 2023, the Company issued an aggregate of 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.

In connection with the LIFE Offering, the Company and Odyssey Trust Company entered into a series of warrant indentures on January 30, 2023 (the "**First LIFE Warrant Indenture**"), February 7, 2023 (the "**Second LIFE Warrant Indenture**") and February 16, 2024 (the "**Third LIFE Warrant Indenture**") to govern the terms and conditions of the Life Warrants.

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 provided an update on its previously announced transaction with Panaxia Pharmaceutical Industries Israel Ltd., and Panaxia Logistics Ltd., part of the Panaxia Labs Israel Ltd. group of companies (collectively, “**Panaxia**”). Under the transaction terms, the Company purchased the home-delivery services and an online retail footprint operating under the name “Panaxia-to-the-Home” in Israel, which includes a customer service center, an Israeli medical cannabis distribution with IMC-GDP license, and an online related business together with associated intellectual property (the “**Panaxia Transaction**”). 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 performed four installments as was previously announced on August 9, 2021, September 8, 2021, October 20, 2021, and November 18, 2021, respectively. The Panaxia Transaction included a further option to acquire, for no additional consideration, a pharmacy, including requisite license to dispense and sell medical cannabis to patients (“**Panaxia Pharmacy Option**”).

The Company and Panaxia reached an agreement to terminate the Panaxia Pharmacy Option on February 13, 2023. In consideration for termination of the Panaxia Pharmacy Option, the Company will not be required to make the fifth installment of \$2,619 worth of Common Shares owed by the Company to Panaxia under the Panaxia Transaction and was supposed to receive an agreed compensation amount of \$9,464 from Panaxia to be paid by Panaxia in services and cannabis inflorescence in accordance with the terms as agreed by the parties.

Restructuring

On March 8, 2023, the Company announced its strategy plan in Israel of reorganization of the company's management and operations in order to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company reduced its workforce in Israel by 20%-25% across all functions (including executives). All actions associated with the workforce reduction were substantially completed by mid-2023.

As part of the restructuring plan, key positions in the Company's global leadership team transitioned to highly skilled internal successors. They were supported through a transition period and closely monitored during the handover process to ensure continuity.

Shai Shemesh, Chief Financial Officer of the Company, stepped down and handed over his responsibilities through a structured transition period to Itay Vago, who was appointed as the Company's Chief Financial Officer. For Mr. Vago's departure and the appointment of Mr. Uri Birenberg as the new CFO please see below “*CFO Departure and New Appointment*”.

Rinat Efrima, Chief Executive Officer of IMC Holdings, stepped down and handed over her responsibilities through a structured transition period to Eyal Fisher, who was appointed as the General Manager of IMC Holdings. In his last role, Eyal served as Sales Director of IMC Holdings.

Yael Harrosh, Chief Legal and Operations Officer of the Company, has been appointed to lead the Company's restructuring plan and has stepped down and handed over her responsibilities as the General Counsel of the Company through a structured transition period to Adv. Michal Lebovitz Nissimov who was appointed as the new General Counsel of the Company.

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 April 10, 2023, 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 has until October 9, 2023, being 180 calendar days following receipt of such notice to regain compliance with the Minimum Share Price Listing Requirement for a minimum of 10 consecutive business days.

On June 13, 2023, the Company announced that it had received formal notice from Nasdaq on June 12, 2023, stating that the Company had regained compliance with the Minimum Share Price Listing Requirement. Consequently, the Company was then in compliance with all applicable listing standards and will continue to be listed and traded on the NASDAQ Stock Market.

On August 1, 2023, 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 has until January 16, 2024, being 180 calendar days following receipt of such notice to regain compliance with the Minimum Share Price Listing Requirement for a minimum of 10 consecutive business days. For additional information regarding the eligibility for an additional 180 calendar day period², or until July 29, 2024, to regain compliance please see the " SUBSEQUENT EVENTS" section below.

Canadian Restructuring

Pursuant to an order of the Court made on April 6, 2023 in the CCAA Proceedings (the "**Reverse Vesting Order**"), the Court approved a share purchase agreement (the "**Share Purchase Agreement**") dated March 28, 2023 among Trichome Financial Corp. ("**Trichome**" or the "**Vendor**"), 1000370759 Ontario Inc. (the "**Purchaser**"), Trichome JWC Acquisition Corp. ("**TJAC**"), Trichome Retail Corp. ("**TRC**"), MYM Nutraceuticals Inc. ("**MYM**"), MYM International Brands Inc. ("**MYMB**") and Highland Grow Inc. ("**Highland**", and collectively with TJAC, TRC, MYM and MYMB, the "**Purchased Entities**"). the Purchased Entities and its business and operations were sold to a party that is not related to the Company. Thus, the Company has exited operations in Canada and considers these operations discontinued. The Share Purchase Agreement is solely in respect of the Purchased Entities. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, will not be affected by it.

² Listing Rule 5810(c)(3)(A).

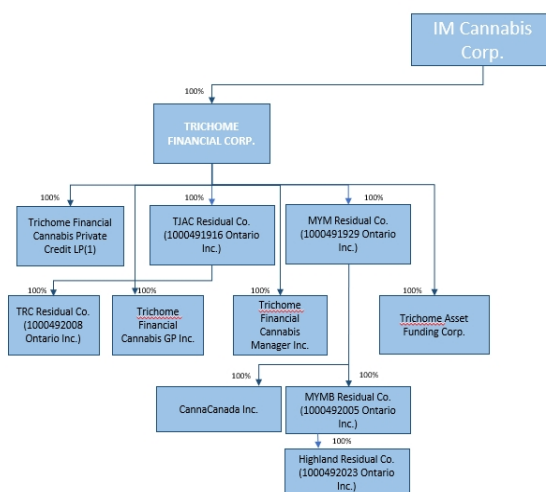
The Share Purchase Agreement contemplated a reverse vesting transaction pursuant to which Trichome agreed to sell to the Purchaser, and the Purchaser agreed to purchase, all of the issued and outstanding shares in the capital of TJAC and MYM owned by Trichome for a purchase price of \$3,375 along with certain deferred consideration. Pursuant to the Share Purchase Agreement and the Reverse Vesting Order, the Purchased Entities retained the Purchased Entities' assets, contracts and liabilities (the "Assumed Liabilities") specified in the Share Purchase Agreement free and clear of any claims other than the Assumed Liabilities, and all other assets (the "Excluded Assets"), contracts (the "Excluded Contracts"), and liabilities (the "Excluded Liabilities") of the Purchased Assets were transferred to, and assumed by, five newly created corporations being 1000491916 Ontario Inc. ("TJAC Residual Co."), 1000492008 Ontario Inc. ("TRC Residual Co."), 1000491929 Ontario Inc. ("MYM Residual Co."), 1000492005 Ontario Inc. ("MYMB Residual Co.") and 1000492023 Ontario Inc. ("Highland Residual Co.", and collectively with TJAC Residual Co., TRC Residual Co., MYM Residual Co. and MYMB Residual Co., the "Residual Corporations"), the shares of which are owned directly or indirectly by Trichome. The closing of the transactions contemplated by the Share Purchase Agreement occurred on April 6, 2023. On September 14, 2023 the CCAA Monitor has asked for an order terminating the CCAA Proceedings and bankrupting Trichome and releasing the Monitor from his duties.

On September 14, 2023, a CCAA termination order was granted upon service on the service list of an executed certificate and the above CCAA Proceedings under the CCAA and Stay was terminated without any further act or formality.

On September 29, 2023, Trichome filed (or was deemed to have filed) an assignment (or bankruptcy order was made against Trichome, and Goldhar & Associates Ltd., was appointed as trustee of the estate of the bankrupt by the official receiver (or the Court). The first meeting of the creditors was held on October 17, 2023.

In the context of the deconsolidation of the Canadian operations, there are no remaining liabilities to the Company or any of its consolidated subsidiaries related to the Canadian entities, except tax obligations of \$839 related to a debt settlement with L5 Capital. The CCAA Proceedings were solely in respect of Trichome. As such, the Company's other assets or subsidiaries, including those in Israel and Germany, were not parties to 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>.

Trichome's organizational structure pursuant to the Share Purchase Agreement is as follows:



(1) Trichome Financial Cannabis Private Credit LP is considered a 100% owned subsidiary of Trichome Financial Corp. based on the requirements of IFRS 10 Consolidated Financial Statements. Trichome Financial Corp. does not own any equity in Trichome Financial Cannabis Private Credit LP.

Court materials filed in connection with Trichome's CCAA Proceedings can be found at: <https://www.ksvadvisory.com/insolvency-cases/case/trichome>

Debt Settlement with L5 Capital

On May 8th, 2023, the Company announced that it has closed the securities for debt settlement transaction with L5 Capital (the **Debt Settlement**). Pursuant to the Debt Settlement, the Company settled outstanding indebtedness of \$838,776 (approximately US\$615,615) through issuing 492,492 Units at a price of US\$1.25 per Unit. Each Unit consists of one Common Share of the Company and one Common Share purchase Warrant. Each 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. All securities issued were subject to a statutory hold period of four months and one day from the date of issuance in accordance with applicable Canadian securities legislation.

Short-term loan agreement

On July 3rd, 2023, the Company entered into a short-term loan agreement with a non-financial institution in the amount of NIS 1,000 (approx. \$358) (the **Loan Agreement** and "**Loan**"). The Loan bore interest rate of 10% and was repaid in October 2023, according to the Loan Agreement terms.

CFO Departure and New Appointment

On September 19, 2023 the Company announced that Itay Vago, the Company's Chief Financial Officer, has decided to leave the Company for personal reasons. Current plans call for Mr. Vago to continue to serve as CFO until the publication of the Q3 2023 results.

On October 10, 2023 the Company announced that Uri Birenberg will join the company's leadership team as Chief Financial Officer effective October 10, 2023. This appointment strengthens IMC's financial leadership and strategic direction for achieving sustainable profitability. Birenberg is a senior financial executive having a wide experience as a CFO for public and private worldwide organizations, who brings over two decades of managerial experience, financial, planning, monitoring and legal activities along with strategic financial planning, fundraising and preparation of IPO.

Notice of Meeting and Record Date

On September 22, 2023, the Company announced of its intention to hold an annual general meeting (the **'Annual General Meeting'**) ON December 6, 2023. The Record Date for Notice of Meeting, Record Date for Voting and Beneficial Ownership Determination Date is October 19, 2023. The Annual General Meeting location is Toronto Ontario.

Israel-Hamas War

On October 13, 2023, the Company released a message from Chief Executive Officer about the Israel-Hamas War. For further information please see *'RISK FACTORS'* below.

Short-term Loan Agreements

On October 12, 2023, the Company announced that the Company, through IMC Holdings, entered into a series of short-term loans on October 3^d, 10th and 11th, respectively, for aggregate gross proceeds of NIS 4,082 thousands (approximately \$1,390) from certain lenders, including a director and officer of the Company.

Four of the loans, totaling aggregate gross proceeds of NIS 3,082 thousands (approximately \$1,050), bear interest at an annual rate of 18% and mature six months from the date of issuance along with the associated fees and commissions of 4% per annum for application fee and an origination fee of 4% per annum on each loan.

IMC, through Rosen High-Way, entered into the final loan, totaling aggregate gross proceeds of NIS 1,000 thousands (approximately \$340), bears interest at an annual rate of 20%, matures six months from the date of issuance and is secured against certain assets of the Company and its subsidiaries.

The Company plans to use the proceeds from the loans for general working capital purposes.

Out of the aggregate gross proceeds of NIS 4,082 thousand (approximately \$1,390), Oren Shuster, a director and officer of the Company (the **Participating Insider**) loaned an amount of NIS 500 thousands (approximately \$170) to IMC Holdings. The participation of the Participating Insider in the loan constitutes a “related party transaction”, as such term is defined in Multilateral Instrument 61-101 – *Protection of Minority Shareholders in Special Transactions* (“**MI 61-101**”) and would require the Company to receive minority shareholder approval for and obtain a formal valuation for the subject matter of, the transaction in accordance with MI 61-101, prior to the completion of such transaction. However, in completing the loan, the Company has relied on exemptions from the formal valuation and minority shareholder approval requirements of MI 61-101, in each case on the basis that the fair market value of the Participating Insider’s loan does not exceed 25% of the market capitalization of the Company, as determined in accordance with MI 61-101. Further details were included in a material change report that was filed by the Company. The Company did not file a material change report in respect of the loan transaction more than 21 days before entering into the loan as the shorter period was necessary to permit the Company to close the loan in a timeframe consistent with usual market practice for a transaction of this nature.

On November 9, 2023, the Company filed a material change report following a news release dated October 13, 2023, regarding securing C\$1,390,000 in short-term debt by the issuer through its wholly owned subsidiaries, IMC Holdings and Rosen High Way.

Additional Short-term Loan Agreement

On October 17, 2023, IMC Holdings entered into a short-term agreement with a non-financial institute in the amount of NIS 1,800 thousand (approximately \$610). Such loan bear interest at an annual rate of 18% and mature six months from the date of issuance along with the associated fees and commissions of 4% per annum for application fee and an origination fee of 4% per annum.

Tax on Premiums in Respect of Insurance Effected Outside Canada

By Notice of Assessment for Excise Tax dated October 23, 2023 and covering the period January 1, 2020 to December 31, 2020, IM Cannabis Corp. was assessed tax on insurance of \$198,687.57, arrears interest of \$36,248.62 and a failure to file penalty of \$7,947.49 (collectively, the “**2020 Assessment**”).

By Notice of Assessment for Excise Tax dated October 23, 2023 and covering the period January 1, 2021 to December 31, 2021, IM Cannabis Corp. was assessed excise tax on insurance of \$72,944.92, arrears interest of \$1,533.75 and a failure to file penalty of \$499.48 (collectively, the “**2021 Assessment**”).

If a person files a Notice of Objection (Excise Tax Act), the Canada Revenue Agency (the “**CRA**”) cannot take collection action on amounts in dispute until 90 days after the Notice of Decision is sent to that person. However, interest and penalty continue to accrue on any amount owing.

On November 29, 2023, the Company filed Notices of Objection (Excise Tax Act) to the 2020 Assessment and the 2021 Assessment. Therefore, the CRA cannot take collection action on the amounts noted above until 90 days after Notices of Decision are sent to the Company.

the Company assess the filed Notices of Objection (Excise Tax Act) to be low to medium complexity. The CRA is currently taking roughly 150 to 300 days to issue a Notice of Decision in respect of a low to medium complexity Notice of Objection (Excise Tax Act).

the Company assess that it is reasonably possible the Notices of Objection (Excise Tax Act) filed by it will lead to the 2020 Assessment and 2021 Assessment being vacated.

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 thousands (approximately \$4 million) 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.

On October 25, 2023, IMC Holdings and ADI signed an amendment to the ADI Agreement, extending the loan period by an additional 3 months. During this extended period, the interest rate will be 15%, with associated fees and commissions of 3% per annum for the application fee and an origination fee of 3% per annum.

On February 26, 2024, IMC Holdings and ADI signed an additional amendment to the ADI Agreement, extending the loan period until April 15, 2024, with the same terms as the first amendment, as specified above.

35 Oak Holdings Ltd – Statement of Complaint

On November 27, 2023, the Company announced that a complaint was filed in the Ontario Superior Court of Justice in Canada by Michael Wiener, 35 Oak Holdings Ltd. and MW Investments Ltd. (collectively the “**MYM Shareholder Plaintiffs**”) against certain current and former Directors and Officers of the Company and its subsidiaries arising out of the Plan of Arrangement that closed in July 2021 through which IM Cannabis acquired MYM Nutraceuticals Inc. A copy of this complaint was delivered to the Company on November 17, 2023.

The Plaintiffs, who became shareholders in the Company as a result of the Plan of Arrangement, allege that the Defendants made a series of misrepresentations in oral discussions and public disclosure regarding cannabis cultivation capacity, cultivation space, and projected revenues. The Plaintiffs further allege that the misrepresentations were later corrected and that the misrepresentations caused the value of the Company shares to be artificially inflated and induced the Plaintiffs to support the Plan of Arrangement. The Plaintiffs assert common law misrepresentation claims, and have also advanced statutory claims under the Ontario *Securities Act*, and seek damages of \$15 million. The Company and the other former Director and Officer Defendants dispute the allegations in the Claim and deny any liability. The claim was commenced in July 2023 but not served until November 2023.

The Company, together with some of the Defendants brought, on February 22, 2024, a preliminary motion to strike out several significant parts of the claim (the “**Motion**”) The Motion has not been scheduled by the court.

At this time, the Company's management is of the view that the Motion has merit and is likely to succeed in at least narrowing the scope of the claim against the Company, and that it may also result in certain of the claims against individuals being dismissed altogether, and if not dismissed narrowed in scope and complexity.

Given the preliminary stage of the action, and that the Company have not yet conducted a full investigation of the factual defences, it is too early to opine on the merits of the claim or whether it is more likely than not to result in an outflow of funds to the Company and if so, how much.

The Company plans to continue vigorously defend itself against the allegations.

Annual General Shareholders Meeting

On December 6, 2023, the Issuer held its annual general of shareholders at which time all matters put to shareholders were approved including the number of directors of the Company that was fixed at five, the election of directors to the board of directors of the Issuer and the appointment of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global as auditor of the Issuer.

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 loaned NIS 1,545 (approximately \$605) to Telecana according to the following advance schedule: NIS 45 on January 15, 2023 (approximately C\$18); NIS 250 on January 31, 2023 (approximately C\$98); NIS\$500 (approximately C\$196) on February 28, 2023; NIS 500 (approximately C\$196) on April 5, 2023; and NIS 250 (approximately C\$98) on May 5, 2023. Telecana opened a pharmacy and obtained from the IMCA a license to dispense medical cannabis products. Pursuant to the Telecana Loan Agreement, subject to IMCA approval, the loan can be converted into 51% of the share capital of Telecana, with such conversion to occur at the earlier: (i) upon receipt of a preliminary license from the IMCA; and (ii) at any time at the sole discretion of IMC Holdings. As of the date of this MD&A, notwithstanding that Telecana has received such preliminary license, the parties are in the process of obtaining IMCA approval to complete the conversion.

Medical Cannabis Reform

On December 8, 2023, the Company announced a 3-month delay of the anticipated medical cannabis reform announced by the Israeli ministry of health on August 7, 2023. Due to the Israel-Hamas war, the anticipated implementation of the medical cannabis regulatory reform, originally scheduled for December 29, 2023, has been postponed by three months. The new regulations were designed to alleviate many of the stringent restrictions in the sector, thereby enhancing access to medical cannabis for patients. In addition to the regulatory reform, the Medical Cannabis Unit of the Ministry of Health released new report that shows, among other statistics, data on the number of patients obtaining medical cannabis licenses. There was a notable surge in the number of new medical cannabis patients in November 2023, with 3,254 new patients receiving licenses, the largest increase in new patients per month since 2021.

Planning and Construction Legal Proceedings

On December 28, 2023 a settlement was reached in the Planning and Construction Legal Proceedings against Focus. As previously disclosed in the Company's annual information form dated April 26, 2021, and the press release dated July 13, 2021, as well as in the Company's financial statements and MD&A for the year 2022, certain allegations were made against Focus regarding inadequate permitting for construction at its cultivation facility. The settlement involved Focus, and Oren Shuster, Refael Gabay, and Yaron Berger, the former CEO of Focus, along with the three landowners on whose property Focus operated the cultivation facility. The settlement resulted in the dismissal of all criminal charges against the individual defendants, with only Focus being charged. Focus received a monetary fine of approximately 129 CAD (350NIS), payable in 10 installments. After a long legal process since the indictment, Focus has destroyed all the buildings that didn't have the construction permits, closed the cultivation facility in Sdei Avraham in June 2022, ceased with its cultivation operation and now focusing on import and sales operations. Currently, the Company's management do not anticipate a material impact on the licensing or normal course of operations for Focus due to the indictment and the settlement that has been achieved.

SUBSEQUENT EVENTS

Acquisition of Jerusalem's Leading Medical Cannabis Pharmacy – Oranim Pharm

On January 12, 2024, the Company announced that the final sixth payment of the Oranim Pharmacy Acquisition and the reconciliation between the parties regarding the remaining transaction payments are being rescheduled to April 15, 2024.

Through the transaction, completed on March 28, 2022, IMC Holdings Ltd. acquired 51% of the rights in Oranim Pharm Partnership through the acquisition of Oranim Plus. As part of the transaction consideration, NIS 5,363K or 1,930K CAD were supposed to be paid in six installments throughout 2023, with the final payment due February 15, 2024.

Through a new amendment signed January 10, 2024, the sixth (6) payment as well as the reconciliation between the parties regarding all remaining unpaid installments has been postponed to April 15, 2024. All six installments (that remain unpaid) will incur a 15% interest charge. Failure to meet the remaining payments will result in the transfer of IMC Holdings Ltd. shares (51%) back to the seller, along with the revocation of the transaction.

Based on the Group's working capital position as of December 31, 2023, management considers the risk of not being able to pay all six installments, potentially resulting in the revocation of the transaction, to be high.

NASDAQ Compliance Notice

On January 31, 2024, the Company received an extension a 180-calendar day extension, until July 29, 2024, from Nasdaq staff to regain compliance with the Minimum Share Price Listing Requirements (the "**Extension**"). As at the date of this MD&A, the Company continues to monitor the closing bid price of its Common Shares and plans to pursue available options to regain compliance with the Minimum Share Price Listing Requirement, including potentially pursuing a reverse stock split. If the Company authorizes a reverse stock split, it will plan to effectuate the split no later than ten business days prior to the end of the Extension.

Potential Reverse Merger with Kadimastem

On February 28, 2024, the Company announced that it has entered into a non-binding term sheet dated February 13, 2024, as amended (the "**Term Sheet**"), and a Loan Agreement (as defined below) with Holding Company (as defined below), with Israel-based Kadimastem Ltd a clinical cell therapy public company traded on the Tel Aviv Stock Exchange under the symbol (TASE:KDST) ("**Kadimastem**"), whereby the parties will complete a business combination that will constitute a reverse merger into the Company by Kadimastem (the "**Proposed Transaction**").

The Proposed Transaction will be effected by way of a plan of arrangement involving a newly created wholly-owned subsidiary of IMC and Kadimastem (the "**Arrangement**"). The resulting issuer that will exist upon completion of the Proposed Transaction (the "**Resulting Issuer**") will change its business from medical cannabis to biotechnology and, at the closing of the Proposed Transactions (the "Closing"), Kadimastem shareholders will hold 88% of the common shares of the Resulting Issuer (the "**Resulting Issuer Shares**") and the shareholders of the Company will hold 12% of the Resulting Issuer Share. Parties may agree, in the Definitive Agreement, on a different structure of equity in lieu of the warrants (as described below) with a similar result. The Proposed Transaction is an arm's length transaction.

Prior to Closing, IMC's existing medical cannabis operation and other current activities in Israel and Germany (the "**Legacy Business**") will be restructured (the "**Spin-Out**") as a contingent value right (the "**CVR**"). The CVR will entitle the holders thereof to receive net cash, equity, or other net value upon the sale of the Legacy Business following the Closing, subject to the terms of the Loan Agreement.

To facilitate the sale of the Legacy Business, a special committee of IMC's Board was formed, which will oversee the potential sale in collaboration with legal and financial advisors.

The Legacy Business will be made available for potential sale to a third party for a period of up to 12 months from Closing (the "**Record Date**"). After the Record Date, any remaining Legacy Business in the CVR will be offered for sale through a tender process, subject to the terms of the best offer. The proceeds from the sale of the Legacy Business will be utilized to settle debts and distribute the remaining balance, if any, to CVR holders.

As a condition of Closing, Kadimastem will have approximately \$5 million in gross funds, at Closing including capital raised concurrently with the completion of the Proposed Transaction from existing shareholders and additional investors.

In addition to the foregoing, subject to compliance with applicable law, the Company shall grant shareholders of the Company as of Closing, with warrant(s) equal their pro rata portion, of 2% of the Resulting Issuer's issued and outstanding common share capital (the "**IMC Shares**") prior to the Closing Date (in the aggregate), with an exercise price per share equal to the 10 day volume-weighted average price of the Resulting Issuer's shares calculated on the NASDAQ Capital Market ("**Nasdaq**"), ending 2 trading days prior to Closing, the warrants will be for a period of 24 months following Closing.

In accordance with the terms of the Proposed Transaction, the holders of the issued and outstanding shares in the capital of Kadimastem (the "**Kadimastem Shares**") will be issued such number of IMC Shares in exchange for every one (1) Kadimastem Share held immediately prior to the completion of the Proposed Transaction that reflects the ratio outlined above (the "**Exchange Ratio**"). Outstanding convertible securities of Kadimastem (the "**Kadimastem Convertible Securities**") will be treated through customary mechanics as shall be determined in the definitive agreement, which may include, the assumption of the Kadimastem Convertible Securities by IMC subject to customary adjustments to reflect the Exchange Ratio and exercise price.

Pursuant to the terms of the Term Sheet, a loan agreement dated February 28, 2024 (the "**Loan Agreement**") was entered between IMC Holdings Ltd. a wholly-owned subsidiary of IMC (the "**Holding Company**") and Kadimastem. Pursuant to the Loan Agreement, Kadimastem will provide a loan of up to US\$650,000 to the Holding Company, funded in two installments: US\$300,000 upon signing the Loan Agreement and US\$350,000 upon the execution of the definitive agreement regarding the Proposed Transaction (the "**Loan**").

The Loan accrues interest at a rate of 9.00% per annum, compounding annually and is secured by the following collaterals and guarantees: (a) 10% of the proceeds derived from any operation sale under the CVR ("Charged Rights"), limited to the outstanding Loan Amount and expenses according to the Loan Agreement, accordingly Holding Company may, at its sole discretion, to record a second-ranked fixed charge over the Charged Rights or, alternatively, in case the existing pledges over the Charged Rights at the date of signing this Loan Agreement are subsequently discharged or removed, then the Borrower shall promptly record a first-ranking fixed charge over the Charged Assets with all applicable public records; provided that Holding Company shall not impose any new lien, mortgage, charge or pledge over the Charged Rights that did not exist on the date hereof, or any other liens, subject to customary exclusions; (b) the Holding Company shall use its best efforts to record a first-ranking fixed charge over the assets of its subsidiary, A.R. Yarok Pharm Ltd, in due course when applicable and as deemed appropriate; and (c) a personal guarantee by Mr. Oren Shuster, IMC's CEO.

Prior to the completion of the Proposed Transaction, IMC will call a meeting of its shareholders for the purpose of approving, among other matters:

- approve the Proposed Transaction;
- approve the Spin-Out;

- a change of name of the Company as directed by Kadimastem and acceptable to the applicable regulatory authorities effective upon Closing; and
- reconstitution of the Company's Board.

Upon closing of the Proposed Transaction, all of IMC's current directors and executive officers will resign and the board of directors of the Resulting Issuer will, subject to the approval of governing regulatory bodies, consist of nominees of Kadimastem. All of the executive officers shall be replaced by nominees of Kadimastem, all in a manner that complies with the requirements of governing regulatory bodies and applicable securities and corporate laws.

Details of insiders and proposed directors and officers of the Resulting Issuer will be disclosed in a further news release.

The completion of the Proposed Transaction is subject to a number of conditions, including but not limited to the following:

- the execution of a definitive agreement;
- completion of mutually satisfactory due diligence;
- completion of the Share Consolidation; and
- receipt of all required regulatory, corporate and third party approvals, including approvals by governing regulatory bodies, the shareholders of IMC and Kadimastem, applicable Israeli governmental authorities, and the fulfilment of all applicable regulatory requirements and conditions necessary to complete the Proposed Transaction.

The parties are committed to seeking a successful completion of the Proposed Transaction as soon as practicable, but there can be no absolute certainty that the Proposed Transaction will take place.

Option to re-acquire the sold interest in Focus

On November 30, 2023, IMC Holdings acted to exercise its option to purchase the 74% interest in Focus held by Oren Shuster and Rafael Gabay by submitting a request to the IMCA which approved the transaction on February 25, 2024.

REVIEW OF FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

Below is the analysis of the changes that occurred for the year and three months ended December 31, 2023, with further commentary provided below.

	For the year ended December 31		For the three months ended December 31	
	2023	2022	2023	2022
Net Revenues*	\$ 48,804	\$ 54,335	\$ 10,698	\$ 14,461
Gross profit before fair value impacts in cost of sales*	\$ 10,830	\$ 11,291	\$ 1,115	\$ 2,791
Gross margin before fair value impacts in cost of sales (%)*	22%	21%	10%	19%
Operating Loss*	\$ (12,792)	\$ (30,791)	\$ (5,165)	\$ (10,708)
Net loss*	\$ (10,228)	\$ (24,922)	\$ (3,520)	\$ (9,650)
Loss per share attributable to equity holders of the Company – Basic (in CAD)*	\$ (0.74)	\$ (3.13)	\$ (0.25)	\$ (2.94)
Loss per share attributable to equity holders of the Company - Diluted (in CAD)*	\$ (0.74)	\$ (3.81)	\$ (0.25)	\$ (3.55)

	For the year ended December 31		For the three months ended December 31	
	2023	2022	2023	2022
Average net selling price of dried flower (per Gram)*	\$ 5.14	\$ 7.12	\$ 4.52	\$ 5.19
Quantity of dried flower sold (in Kilograms ²)*	8,609	6,794	2,082	2,334

* 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 137,467 as of February 2024. 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 over the past few years to develop mainly due to the difficulty in medical patients accessing prescriptions and insurance reimbursements. Starting Year 2024 after the legalization was officially approved by the Bundestag (Germany Parliament) on March 1st 2024, The Company which has already seen an increase in the number of patients paying out-of-pocket for medical cannabis products in Germany during the past few years, is expecting a change which will lead to increase in the market.

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	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues	\$ 43,316	\$ 50,500	\$ 5,488	\$ 3,835	\$ -	\$ -	\$ 48,804	\$ 54,335
Segment income (loss)	\$ (6,627)	\$ (23,606)	\$ (1,615)	\$ (3,225)	\$ -	\$ -	\$ (8,242)	\$ (26,831)
Unallocated corporate expenses	\$ -	\$ -	\$ -	\$ -	\$ (4,550)	\$ (3,960)	\$ (4,550)	\$ (3,960)
Total operating (loss) income	\$ (6,627)	\$ (23,606)	\$ (1,615)	\$ (3,225)	\$ (4,550)	\$ (3,960)	\$ (12,792)	\$ (30,791)
Depreciation, amortization & impairment	\$ 2,823	\$ 6,747	\$ 173	\$ 200	\$ -	\$ -	\$ 2,996	\$ 6,947

For the three months ended December 31:

	Israel		Germany		Adjustments		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues	\$ 9,375	\$ 13,136	\$ 1,323	\$ 1,325	\$ -	\$ -	\$ 10,698	\$ 14,461
Segment income (loss)	\$ (3,653)	\$ (10,280)	\$ (580)	\$ (517)	\$ -	\$ -	\$ (4,233)	\$ (10,797)
Unallocated corporate income (expenses)	\$ -	\$ -	\$ -	\$ -	\$ (932)	\$ 90	\$ (932)	\$ 90
Total operating (loss) income	\$ (3,653)	\$ (10,280)	\$ (580)	\$ (517)	\$ (932)	\$ 90	\$ (5,165)	\$ (10,707)
Depreciation, amortization & impairment	\$ 684	\$ 4,957	\$ 47	\$ 48	\$ -	\$ -	\$ 731	\$ 5,005

The consolidated revenues of the Group from continuing operations for the year ended December 31, 2023, were attributed to the sale of medical cannabis products in Israel and Germany.

- Revenues from continuing operations for the year ended December 31, 2023 and 2022 were \$48,804 and \$54,335, respectively, representing a decrease of \$5,531 or 10%. Revenues for the three months ended December 31, 2023, and 2022 were \$10,698 and \$14,461, respectively, representing a decrease of \$3,763 or 26%. The decrease in revenues is primarily attributed to the effects of the Israel – Hamas war and the different challenges it caused from a business perspective effecting the Company sells and also its operation activities such as longer importing cycles (transportation of goods, approvals from relevant authorities etc.)

- 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, 2023, was 8,609 kg at an average selling price of \$5.14 per gram compared to 6,794kg for the same period in 2022 at an average selling price of \$7.12 per gram, mainly attributed to the inventory life cycle, discounts given and increased competition in the segment. Total dried flower sold for the three months ended December 31, 2023, was 2,082kg at an average selling price of \$4.52 per gram compared to 2,334kg for the three months ended December 31, 2022, at an average selling price of \$5.19 per gram. The decreased is mainly attributed to the Israel – Hamas war effect.

COST OF REVENUES

Cost of revenues is comprised of purchase of raw materials and finished goods, import costs, production costs, product laboratory testing, shipping and salary expenses. Inventory is later expensed to the cost of sales when sold. Direct production costs are expensed through the cost of sales.

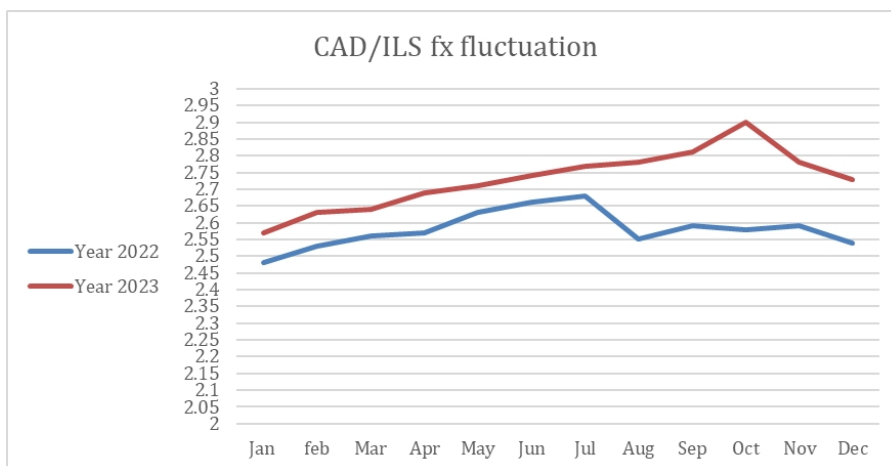
The cost of revenues from continuing operations for the year ended December 31, 2023 and 2022 were \$37,974 and \$43,044, respectively, representing a decrease of \$5,070 or 12% which is in line with the 10% revenue decreased during the period. The cost of revenues for the three months ended December 31, 2023 and 2022 were \$9,583 and \$11,670, respectively, representing a decrease of \$2,087 or 18% which is in line with the Revenue decreased of 26% during the 3 months period.

GROSS PROFIT

Gross profit from continuing operations for the year ended December 31, 2023, and 2022 was \$9,846 and \$9,162, respectively, representing an increase of \$684 or 7.5% this is mainly contributed to the changes in the business activities from own cannabis grow in the farm owned by the Company in Y2022 to importing a premium high quality Cannabis from Canada. For the three months ended December 31, 2023, and 2022 gross profit was \$841 and \$2,603, respectively, representing a decrease of \$1,762 or 68%.

Gross profit included losses from unrealized changes in fair value of biological assets and realized fair value adjustments on inventory sold of \$(984) and \$(2,129) for the year ended December 31, 2023, and 2022, 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, 2023, and 2022 were \$(274) and \$(188), respectively.

There are a few other external circumstances that effected the profitability during year 2023 including of fluctuation in FX rates of the CAD vs. ILS as can be seen in the following graph:



YE 2023 results were affected by the CAD/ILS exchange rate (Revenue are mainly in ILS while the COST of Revenue as well as operational expenses are mainly in CAD, therefore any increased strength of the CAD will hit the Gross Profit while any increased strength of the ILS will have the opposite effect.

Q4 2023 gross profit is highly affected by the Israel – Hamas war. The main effect was due to sells decrease from one side (equivalent to the effect of the war also in other Israeli markets), and slow inventory transportation processes and regulatory approvals processes which caused delays in Inventory ready for sells during the quarter.

EXPENSES

GENERAL AND ADMINISTRATIVE

General and administrative expenses from continuing operations for the year ended December 31, 2023, and 2022 were \$11,008 and \$21,460, respectively, representing a decrease of \$10,452 or 49%. For the three months ended December 31, 2023, and 2022, general and administrative expenses from continuing operations were \$3,300 and \$9,790, respectively, representing a decrease of \$6,490 or 66%.

The decrease in the general and administrative expense is attributable mainly to the two restructuring plans published April 6, 2022 (closing of Focus facility in Israel) and March 8, 2023, which aimed for reorganization of the company's management and operations to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company reduced its workforce in Israel across all functions. The general and administrative expenses are comprised mainly from salaries to employees in the amount of \$2,314 on year 2023 vs \$4,027 on year 2022, professional fees in the amount of \$4,095 vs \$4,689 for the same years, depreciation and amortization in the amount of \$669 vs. 819 and insurance costs in the amount of \$1,847 and 1,566 respectively. The decrease in the other General and administrative costs from \$10,359 in Year 2022 to \$2,083 on year 2023 is mainly attributed to the fair value adjustment occur in Year 2022 of the Company's purchase option to acquire a pharmacy.

SELLING AND MARKETING

Selling and marketing expenses from continuing operations for the year ended December 31, 2023, and 2022 were \$10,788 and \$11,473, respectively, representing a decrease of \$685 or 6%. For the three months ended December 31, 2023, selling and marketing expenses from continuing operations were \$2,797, compared to \$3,094 for the three months ended December 31, 2022, representing a decrease of \$297 or 10%. The decrease in the selling and marketing expenses was due mainly to decrease salaries to employees in the amount of \$5,677 on year 2023 vs \$6,398 on year 2022, Selling and marketing in the amount of \$1,568 and 2,075 for the same years, increase of depreciation and amortization to \$2,320 from \$1,941 respectively.

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.

On March 8, 2023, the Company announced its strategy plan in Israel of reorganization of the company's management and operations in order to strengthen its focus on core activities and drive efficiencies to realize sustainable profitability. The Company reduced its workforce in Israel by 36% across all functions (including executives). Therefore, the Company recorded restructuring expenses for the year ended December 31, 2023 related mainly to salaries to employees in the amount of \$617.

SHARE-BASD COMPENSATION

Share-based compensation expense from continuing operations for the year ended December 31, 2023, and 2022 was \$225 and \$2,637, respectively, representing a decrease \$2,412 or 91%. For the three months ended December 31, 2023, and 2022, share-based compensation expense was \$(91) and \$428, respectively, representing a decrease of \$519 or 121%. The decrease for the year ended December 31, 2023, in expenses was mainly attributed to the cancellation of incentive stock options (“**Options**”) held by employees who no longer worked for the Company.

FINANCING

Financing income (expense) net from continuing operations for the year ended December 31, 2023, and 2022 was \$3,335 and \$4,731, respectively, representing a decrease of \$1,396 or 30% in the financing income. For the three months ended December 31, 2023, and 2022, financing income (expense), net was \$2,466 and \$949, respectively, representing an increase of \$1,517 or 160%.

NET INCOME/LOSS

Net loss for the year ended December 31, 2023, and 2022 was \$10,228 and \$191,301, respectively, representing a net loss decrease of \$181,073 or 95%. For the three months ended December 31, 2023, and 2022, net loss was \$3,520 and \$33,449, respectively, representing a net loss increase of \$29,929 or 89%. The net loss decrease related to factors impacting net income described above, and loss from discontinued operations in the amount of \$166,379 recorded in the year ended December 31, 2022 related to the discontinued operations in Canada.

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, 2023, and 2022 were \$(0.74) and \$(3.13) per Common Share, respectively. For the three months ended December 31, 2023, and 2022 were \$(0.25) and \$(2.94), respectively.

Diluted Income (Loss) per Common Share from continuing operations for the year ended December 31, 2023 and 2022 were \$(0.74) and \$(3.81) per Common Share, respectively. Diluted Income (Loss) per Common Share for the three months ended December 31, 2023, and 2022 were \$(0.25) and \$(3.55), respectively.

TOTAL ASSETS

Total assets as of December 31, 2023 were \$48,813, compared to \$60,675 as at December 31, 2022, representing a decrease of \$11,862 or 20%. This decrease was primarily due to the reduction of cash and cash equivalents in the amount of \$636 and inventory reduction of \$6,609. Additional decrease is attributed to currency fluctuation effected the translation of items denominated in NIS in the Company's balance sheet.

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, (see also the financial statements note 17c).

TOTAL LIABILITIES

Total liabilities as of December 31, 2023, were \$35,113, compared to \$36,879 at December 31, 2022, representing a decrease of \$1,766 or 5%. The decrease was mainly due to the reduction in trade payables in the amount of \$6,089, off set by increase in bank loans and credit facilities in the amount of \$2,873, and a decrease in other payables in the amount of \$629. Additional decrease is attributed to the effect of translation of items denominated in NIS in the Company's balance sheet.

LIQUIDITY AND CAPITAL RESOURCES

For the twelve months ended December 31, 2023, the Company recorded revenues of \$48,804.

The Company can face liquidity fluctuations from time to time, resulting from delays in sales and slow inventory movements.

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 is 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%. During the first quarter of 2023 the Company reduced total commitment to NIS 10,000 (approx. \$3,600) and as of September 30, 2023 Focus has drawn down \$nil in respect of the Mizrahi Facility.

On May 17, 2023, the Company and Bank Mizrahi entered to new credit facility with total commitment of up to NIS 10,000 (approximately \$3,600) (the **New Mizrahi Facility**). The New Mizrahi Facility consists of NIS 5,000 credit line and NIS 5,000 loan to be settled with 24 monthly installments from May 17, 2023. This loan bears interest at the Israeli Prime interest rate plus 2.9%. As of December 31, 2023 Focus has drawn down \$3,227 in respect of the new Mizrahi facility (comprised of approx. \$1,827 credit line and \$1,400 loan). The New Credit facility is also subject to several covenants to be measured on a quarterly basis which are not met as of December 31, 2023, therefore the loan is classified as short-term loan.

The Company's CEO and director, provided to the bank a personal guarantee in the amount of the outstanding borrowed amount, allowing the New Mizrahi Facility to remain effective.

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, 2023, the Group's cash and cash equivalents totaled \$1,813 and the Group's working capital deficit from continuing operations (current assets less current liabilities) amounted to (\$8,543). In the year ended December 31, 2023, the Group had an operating loss from continuing operation of (\$12,792) and negative cash flows from continuing operating activities of (\$8,075).

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. The Company is managing its cash flow daily and will look for external funding for its operations. Cost saving plans and restructuring actions taken in 2022 and in 2023. 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, 2023, 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, 2023, management considers liquidity risk to be high.

As of December 31, 2023, 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	\$ 12,618	\$ 1,293	-	-

The maturity profile of the Company's other financial liabilities (trade payables, other account payable and accrued expenses, and warrants) as of December 31, 2023, are less than one year.

	Payments Due by Period				
	Total	Less than one year	1 to 3 years	4 to 5 years	After 5 years
Contractual Obligations					
Debt	\$ 12,513	\$ 12,119	\$ 394	\$ -	\$ -
Finance Lease Obligations	\$ 1,398	\$ 499	\$ 814	\$ 85	\$ -
Total Contractual Obligations	\$ 13,911	\$ 12,618	\$ 1,208	\$ 85	\$ -

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 13,394,136 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, 2023, the Company also has the following outstanding securities which are convertible into, or exercisable or exchangeable for, voting or equity securities of the Company: 270,452 Options, 18,261 2019 Broker Compensation Options (as defined below), 294,348 Offered Warrants (as defined below) and 5,769,611 2023 LIFE Offering Warrants.

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.

As of December 31, 2023, and 2022, there were 6,063,960 and 304,348 warrants outstanding, respectively, re-measured by the Company, using the Black-Scholes pricing model, in the amount of \$38 and \$8, respectively. For the year ended December 31, 2023, and 2022, the Company recognized a revaluation gain (loss) in the consolidated statement of profit or loss and other comprehensive income, of \$6,955 and \$6,014, respectively. For the three months ended December 31, 2023, and 2022, the Company recognized a revaluation gain (loss) in the consolidated statement of profit or loss and other comprehensive income, of \$2,408 and \$109, respectively, 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, 2023 and 2022:

Net cash provided by (used in):	For the year ended December 31,		For the three months ended December 31,	
	2023	2022	2023	2022
Operating activities	\$ (8,075)	\$ (12,340)	\$ (218)	\$ (2,978)
Investing activities	\$ (1,182)	\$ (793)	\$ (629)	\$ (580)
Financing activities	\$ 9,417	\$ 6,612	\$ (37)	\$ 2,668
Effect of foreign exchange	\$ (796)	\$ (2,168)	\$ 1,393	\$ (289)
Increase (Decrease) in cash	\$ (636)	\$ (8,689)	\$ 509	\$ (1,179)

Operating activities from continuing operations used cash of \$8,075 and \$12,340 for the year ended December 31, 2023, and 2022, respectively. For the three months ended December 31, 2023, and 2022, operating activities from continuing operation used cash of \$218 and \$2,978, 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 \$1,182 and \$793 for the year ended December 31, 2023, and 2022, respectively. For the three months ended December 31, 2023, and 2022, investing activities from continuing operation used cash of \$629 and \$580, respectively. Decrease derived from purchase of property, plant and equipment in the amount of \$581.

Financing activities from continuing operations provided cash of \$9,417 and \$6,612 for the year ended December 31, 2023, and 2022, respectively. For the three months ended December 31, 2023, and 2022, financing activities used cash of \$37 and provided cash of \$2,668, respectively. Majority of the increase derived from issuance of share capital and warrants in the amount of \$8,273, proceeds derived from discounted checks in the amount of \$2,802, set-off by repayment of bank loan in the amount of \$4,827 and receipt of bank loan in the amount of \$5,482 in 2023.

SELECTED ANNUAL INFORMATION – CONTINUING OPERATIONS

For the year ended	December 31, 2023	December 31, 2022	December 31, 2021
Revenues	\$ 48,804	\$ 54,335	\$ 34,053
Net Loss	\$ (10,228)	\$ (24,922)	\$ (664)
Basic net income (Loss) per share:	\$ (0.74)	\$ (3.13)	\$ 0.02
Diluted net income (Loss) per share:	\$ (0.74)	\$ (3.81)	\$ (3.62)
Total assets	\$ 48,813	\$ 60,676	\$ 129,066
Total non-current liabilities	\$ 2,305	\$ 3,060	\$ 21,354

SUMMARY OF QUARTERLY RESULTS

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023 (1)
For the three months ended				
Revenues	\$ 10,698	\$ 12,370	\$ 13,207	\$ 12,529
Net Loss	\$ (3,520)	\$ (2,136)	\$ (3,706)	\$ (866)
Basic net income (Loss) per share:	\$ (0.25)	\$ (0.16)	\$ (0.26)	\$ (0.05)
Diluted net loss per share:	\$ (0.25)	\$ (0.16)	\$ (0.26)	\$ (0.05)

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
For the three months ended				
Revenues	\$ 14,461	\$ 14,170	\$ 12,703	\$ 13,001
Net income (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 income (Loss) per share:	\$ (1.28)	\$ (0.06)	\$ (0.30)	\$ (0.17)

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, 2023	December 31, 2022
Net Revenue	\$ 48,804	\$ 54,335
Cost of sales	\$ 37,974	\$ 43,044
Gross profit before FV adjustments	\$ 10,830	\$ 11,291
Gross margin before FV adjustments (Non-IFRS)	22%	21%

Three months ended	December 31, 2023	December 31, 2022
Net Revenue	\$ 10,698	\$ 14,461
Cost of sales	\$ 9,583	\$ 11,670
Gross profit before FV adjustments	\$ 1,115	\$ 2,791
Gross margin before FV adjustments (Non-IFRS)	10%	19%

EBITDA AND ADJUSTED EBITDA FROM CONTINUING OPERATIONS

	For the year ended December 31,		For the three months ended December 31,	
	2023	2022	2023	2022
Operating Loss	\$ (12,792)	\$ (30,791)	\$ (5,165)	\$ (10,709)
Add: Depreciation & Amortization	\$ 2,996	\$ 2,815	\$ 731	\$ 873
EBITDA (Non-IFRS)	\$ (9,796)	\$ (27,976)	\$ (4,434)	\$ (9,836)
Add: IFRS Biological assets fair value adjustments, net ⁽¹⁾	\$ 984	\$ 2,129	\$ 274	\$ 188
Add: Share-based payments	\$ 225	\$ 2,637	\$ (91)	\$ 428
Add: Restructuring cost ⁽²⁾	\$ 617	\$ 4,383	\$ -	\$ -
Add: Other non-recurring costs ⁽³⁾	\$ -	\$ 7,336	\$ -	\$ 7,336
Adjusted EBITDA (Non-IFRS)	\$ (7,970)	\$ (11,491)	\$ (4,251)	\$ (1,884)

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. Costs attributable to the Israel Restructuring and closure of Sde Avraham Farm in 2022, and to Israel reorganization plan of the company's management and operations in 2023.
3. Mainly fair value adjustment of the Company's purchase option to acquire a pharmacy. See "Subsequent Events – Panaxia Transaction Update" of the 2022 MD&A.

The Company's Adjusted EBITDA loss for the year ended December 31, 2023, was reduced, and improved primarily due to restructuring plans, savings in 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, 2023:

	Less than one year	1 to 5 years	6 to 10 years	>10 years
Lease liabilities	\$ 499	\$ 899	-	-

December 31, 2022:

	Less than one year	1 to 5 years	6 to 10 years	>10 years
Lease liabilities	\$ 922	\$ 1,830	\$ 598	-

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 was set to 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.

On June 22, 2023, a hearing took place before the esteemed Honorable Judge Orit Kertz. During the hearing it was decided that the defendants and the municipal committee's attorney would engage in negotiations and make diligent efforts to reach a settlement before August 15, 2023. The responsibility of informing the court about any progress concerning a potential settlement was assigned to the attorney representing the municipal committee. On September 9, 2023, the municipal committee's attorney was summoned to appear at a hearing before the Honorable Judge Orit Kertz. The hearing was postponed to December 28, 2023 due to the 2023 Israel–Hamas war as will be further specified under "RISK FACTORS" section of the MD&A.

On January 2, 2024, the Company announced that the construction proceedings against Focus, were concluded on December 28, 2023. The company maintains "de facto" control of Focus. Focus was indicted and a fine of CAD\$129,000 has been imposed. The cultivation facility, which was the focus of the proceedings, was closed in June 2022 in alignment with the Company's strategic shift towards import and sales.

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 at the end of March 2021. In January 2022, Stroakmont & Atton filed its statement of defence to the Stuttgart Court in which they mainly stated two arguments for their defense:

1. The contractual party of the Company was not the Stroakmont & Atton. The contract with Stroakmont & Atton was only concluded as a sham transaction in order to cover up a contract with a company named Uniclamo GmbH. Therefore, Stroakmont & Atton is not the real purchaser rather than Uniclamo GmbH.
2. The Company allegedly placed an order with Uniclamo GmbH for a total of 4.3 million Clongene COVID-19 tests, of which Uniclamo 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. Uniclamo 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 the allegation that the contract with Stroakmont & Atton was only concluded as a sham transaction lies with the opponents and they offered evidences to the court in the form of testimony from certain witnesses.

A court hearing with witnesses was held on January 11, 2023 and on February 22, 2023, where witnesses testified.

According to the court the witnesses were not able to provide required evidence for the allegation regarding the sham transaction with Stroakmont & Atton. On April 5, 2023, Stuttgart Court announced its decision (the "**Judgment**") and sentenced Stroakmont & Atton to pay to Adjupharm EUR 947,563.68 plus interest in the amount of 5 percentage points above the German basis rate since May 8, 2021. In addition, Stroakmont & Atton was sentenced to pay Adjupharm EUR 6,551.20 plus interest at 5 percentage points above the German basis rate since December 14, 2021.

The directors of Stroakmont, Mr. Simic and Mr. Lapeschi, were not sentenced and in this respect, the claim was dismissed against them with regard to their personal liability. Adjupharm shall pay 2/3 of the Stuttgart Court expenses and the out-of-court expenses of Mr. Simic and Mr. Lapeschi. Stroakmont shall bear 1/3 of the Stuttgart Court expenses and 1/3 of the out-of-court expenses of Adjupharm. The remaining out-of-court expenses shall be borne by each party.

Furthermore, the court did not decide on the counterclaims from an alleged order by Adjupharm for 4.3 million Clongene tests due to a set-off prohibition. This set-off prohibition follows from a jurisdiction agreement concluded between Adjupharm and Uniclaro, which determined the courts in Hamburg to be the competent court to decide about such allegations.

The Judgment is not yet final and, therefore, cannot be enforced. On May 5, 2023, Adjupharm and Stroakmont & Atton, each submitted an appeal with the Stuttgart Court (the "**Appeals**") against the Judgment.

On June 23, 2023, Adjupharm filed its statement of grounds for appeal with the Higher Regional Court of Stuttgart. Adjupharm appeals against the fact that the directors of Stroakmont & Atton were not sentenced to pay jointly and severally together with Stroakmont & Atton as a result of fraud. Since they concluded the purchase agreement with Adjupharm in the name of Stroakmont & Atton and there is indication that they did not intend to pay the purchase price from the very beginning, this could be considered to be fraudulent inducement, for which they would be personally liable.

Stroakmont & Atton appeals against the judgement and request to reject the payment claim. Furthermore, they appeal against the prohibition of the set-off. Stroakmont & Atton are of the opinion that there is no such prohibition, and they want to include their alleged counterclaims in the proceedings and to receive a decision for their counterclaim by the court in Stuttgart.

So far, there have not been any instructions from the Court of Appeal and no oral hearing was held yet. It is not yet possible to estimate the outcome of the appeal proceedings at this early stage in the process.

At this stage, the Company management cannot assess its ability to collect the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Appeal.

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 payment of the amount of EUR 1,046,010 (including VAT) in exchange for 300,000 Covid-19 rapid.

Uniclaro alleges in this lawsuit that Adjupharm purchased 4.3 million Covid-19 rapid tests of the brand "Clongene" from Uniclaro. 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 a further 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. Adjupharm rejected the claim stating that it did not purchase such an amount of Covid-19 rapid tests, but only small portions on a case-by-case-basis and according to the available cash flow.

On February 14, 2024, a court hearing took place before the district court of Hamburg, at which the court also took evidence. The court first heard the managing directors of Unclaro and Adjupharm. They commented on the events of March 23, 2021 and the alleged purchase. The statements of all managing directors differed from each other. Afterwards, the witness Francesco Bisceglia, who holds the position of Sales Director at Adjupharm, was also heard. His statement also partially deviated from the statements of all managing directors, but overall, the witness basically testified that the company did not purchase 4.3 million Clungene Tests in the meeting of 23. March 2021. The transcript of the hearing is still pending.

The court provided the parties a deadline until March 27, 2024, to evaluate the statements of the managing directors and the testimony of the witness and to deliver to the court a summary of the factual and legal situation after the court hearing. The court will announce its decision for further proceedings or its judgment on April 24, 2024.

The burden of proof for the question whether or not the Company has purchased 4.3 million Clungene Tests is borne by Uniclaro. After reviewing the written statements of the parties, the court will evaluate the testimony and all the statements of the managing directors. The court will then decide about the further proceedings. If, due to the fact that the statements of the managing directors and the witness are controversial, the court will not be able to determine whether a purchase agreement was concluded or not, it is more likely than not that the claim will be dismissed. However, it cannot be excluded that the court will conduct further investigations of further witnesses.

At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

PROCEEDINGS UNDER CCAA

See "*EXECUTIVE SUMMARY - OVERVIEW – CURRENT OPERATIONS IN ISRAEL AND GERMANY*" 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>.

THE REGIONAL LABOR COURT - TEL AVIV (BAT YAM) 17419-04-23

On May 10, 2023, IMC Holdings received a notice that a former employee has recently filed a claim with The Regional Labor Court - Tel Aviv against 3 companies, including IMC Holdings. The nature and details of the claim are still in the preliminary stages, and IMC Holdings is actively working to comprehend the full scope of the allegations.

A preliminary hearing is set for May 6, 2024, before the esteemed Honorable Judge Karin Liber-Levin at the The Regional Labor Court - Tel Aviv (Bat Yam).

At this stage, the Company management cannot accurately assess the potential outcome of the claims or the likelihood of the claims progressing further.

ONTARIO SUPERIOR COURT OF JUSTICE IN CANADA – STATEMENT OF CLAIM

On November 17, 2023, the Company received a copy of a Statement of Claim that was filed in the Ontario Superior Court of Justice in Canada by 35 Oak Holdings Ltd., MW Investments Ltd., 35 Oak Street Developments Ltd., Michael Wiener, Kevin Weiner, William Weiner, Lily Ann Goldstein-Weiner, in their capacity as trustees of the Weiner Family Foundation (collectively the "**MYM Shareholder Plaintiffs**") against the Company and its board of directors, Board and officers, (collectively, the "**MYM Defendants**").

MYM Shareholder Plaintiffs claims that the MYM Defendants made misrepresentations in its disclosures prior to the Company's transaction with MYM in 2021. The MYM Shareholder Plaintiffs are claiming damages that amount to approximately \$15,000 and aggravated, exemplary and punitive damages in the amount of \$1,000.

The Company has reviewed the complaint and believes that the allegations are without merit.

The Company, together with some of the Defendants brought, on February 22, 2024, a preliminary motion to strike out several significant parts of the claim (the "**Motion**") The Motion has not been scheduled by the court.

At this time, the Company's management is of the view that the Motion has merit and is likely to succeed in at least narrowing the scope of the claim against the Company, and that it may also result in certain of the claims against individuals being dismissed altogether, and if not dismissed narrowed in scope and complexity.

The Company plans to vigorously defend itself against the allegations. At this stage, the Company management cannot assess the chances of the claim advancing or the potential outcome of this these proceedings.

OFF-BALANCE SHEET ARRANGEMENTS

IM Cannabis had no off-balance sheet arrangements as of December 31, 2023.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties mainly includes enterprises owned by directors or major shareholders and enterprises that have a member of key management in common with us. All of the transactions have been reviewed and approved by the Board or another independent committee of the board.

- On April 2, 2019, IMC Holdings and Focus entered into an option agreement (the **'Focus Agreement'**) pursuant to which IMC Holdings acquired an option to purchase, at its sole discretion and in compliance with Israeli cannabis regulation, all of the ordinary shares held by Messrs. Shuster and Gabay held in Focus at a price equal to NIS 765.67 per ordinary share until April 2029. On November 30, 2023, IMC Holdings sent a request letter to approve IMC Holding's exercise of the option and on February 25, 2024, IMCA's approval was obtained. Effective February 27, 2024, IMC Holdings acquired 74% of the ordinary shares of Focus.
- 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. 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; however, L5 advised that it would not complete the proposed transaction contemplated by the Stalking Horse Share Purchase Agreement.
- 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. The first and second tranche of which closed on August 24, 2022 and October 5, 2022, respectively. Insiders of the Company, led by the CEO and Director, and the Company's former CFO, Shai Shemesh, subscribed for 1,563,496 Common Shares for aggregate proceeds of US\$782 in the first tranche of the 2022 Private Placement, and the Executive Chairman of the Company, subscribed for 1,112,504 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 CEO, CFO and Executive Chairman, 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 Concurrent Offering was led by insiders of the Company. The units offered under the Concurrent Offering were sold under similar terms as the Life Offering.
- 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 the Executive Chairman of the Company whose subscription price was satisfied by the settlement of approximately US\$128 in debt owed by the Company to him 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. Marc Lustig'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.

- Pursuant to the consulting agreement between the Company and L5 Capital, the Company issued 50,414 Common Shares as a result of the vested RSUs according to the agreed vesting schedule. The Common Shares were issued on May 5, 2023. In July 24, 2023, an additional 4,585 Common Shares were issued as a result of the vested RSUs according to the agreed vesting schedule.
- On October 12, 2023, Oren Shuster, the CEO loaned an amount of NIS 500 thousand (approximately \$170) to IMC Holdings. The participation of the CEO constituted a "related party transaction", as such term is defined in MI 61-101 and would require the Company to receive minority shareholder approval for and obtain a formal valuation for the subject matter of, the transaction in accordance with MI 61-101, prior to the completion of such transaction. However, in completing the loan, the Company has relied on exemptions from the formal valuation and minority shareholder approval requirements of MI 61-101, in each case on the basis that the fair market value of the CEO's loan did not exceed 25% of the market capitalization of the Company, as determined in accordance with MI 61-101. For further information please see "SUBSEQUENT EVENTS – Short -Term Loan Agreement".

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.

PROPOSED TRANSACTIONS

There are no proposed transactions as at the date of this MD&A that have not been disclosed.

CRITICAL ACCOUNTING POLICIES

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.

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:

Functional currency, presentation currency and foreign 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.

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.

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.

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).

ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that influence 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. Restructuring Plans and actions taken in 2022 and in 2023. The Company's board of directors approved on year 2023 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, reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures. On year 2024, the company will work for fund and/or debt raising and will continue with cost savings effort as well as increased efficiency.

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

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 and 2023, the Company does not hold biological assets.

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. 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.

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.

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.

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

The Group 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 in 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.

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.

PUT OPTION GRANTED TO NON-CONTROLLING INTERESTS

When the Group grants non-controlling interests a put option, the non-controlling interests are classified as a financial liability and are not accorded their share in the subsidiary's earnings. At each reporting date, the financial liability is measured on the basis of the estimated present value of the consideration to be transferred upon the exercise of the put option / based on the fair value of the consideration. Changes in the amount of the liability are recorded in profit or loss.

DEFERRED TAX

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 carry forward 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 in respect of investment property that is held with the objective of recovering substantially all of the economic benefits embedded in the investment property through sale and not through use are measured in accordance with the expected manner of recovery of the base asset, on the basis of sale rather than use.

When the Company owns an investment in a single property company and the manner in which the Company expects to dispose of the investment is by selling the shares of the property company rather than by selling the property itself, the Company recognizes deferred taxes for both inside temporary differences arising from the difference between the carrying amount of the property and its tax basis, and for outside temporary differences arising from the difference between the tax basis of the investment and the Company's carrying amount of the net assets of the investment in the consolidated financial statements. Taxes that would apply in the event of the disposal of investments in investees have not been considered in computing deferred taxes, if the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been considered in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability. Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12. 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.

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

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.

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

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.

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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

a. Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates":

In August 2023, the IASB issued "Amendments to IAS 21: Lack of Exchangeability (Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates")" ("the Amendments") to clarify how an entity should assess whether a currency is exchangeable and how it should measure and determine a spot exchange rate when exchangeability is lacking.

The Amendments set out the requirements for determining the spot exchange rate when a currency lacks exchangeability. The Amendments require disclosure of information that will enable users of financial statements to understand how a currency not being exchangeable affects or is expected to affect the entity's financial performance, financial position and cash flows.

The Amendments apply for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted, in which case, an entity is required to disclose that fact. When applying the Amendments, an entity should not restate comparative information. Instead, if the foreign currency is not exchangeable at the beginning of the annual reporting period in which the Amendments are first applied (the initial application date), the entity should translate affected assets, liabilities and equity as required by the Amendments and recognize the differences as of the initial application date as an adjustment to the opening balance of retained earnings and/or to the foreign currency translation reserve, as required by the Amendments .

The Company believes that the Amendments are not expected to have a material impact on its consolidated financial statements.

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, 2023 and 2022, amounted to \$6,955 and \$6,014, respectively.

The warrants fair value for December 31, 2023 was measured using the Black & Scholes model with the following key assumptions:

	Issue date		
	May 2023	February 2023	May 2021
Expected volatility	48.43%	48.43%	48.43%
Share price (Canadian Dollar)	0.48	0.48	0.48
Expected life (in years)	2.342	2.096	2.342
Risk-free interest rate	4.12%	4.12%	4.12%
Expected dividend yield	0%	0%	0%
Fair value:			
Per Warrant (Canadian Dollar)	\$ 0.009	\$ 0.006	\$ 0
Total Warrants (Canadian Dollar in thousands)	\$ 5	\$ 33	\$ 0

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, 2023, 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, 2023 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, 2023, 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, 2023 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, 2023.

As of December 31, 2023, 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 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 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. On November 30, 2023, IMC Holdings exercised its option to purchase the 74% interest in Focus, held by Oren Shuster and Rafael Gabay by submitting a request to the IMCA, which approved the transaction on February 25, 2024. IMC Holdings will provide all necessary information and filing to the tax authorities according to the applicable law.

As part of the IMC Restructuring, on April 2, 2019, IMC Holdings and Focus entered into an agreement, as amended on January 1, 2021 (the **IP Agreement**”), which provides for Focus’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 through the IP Agreement.

Focus 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.

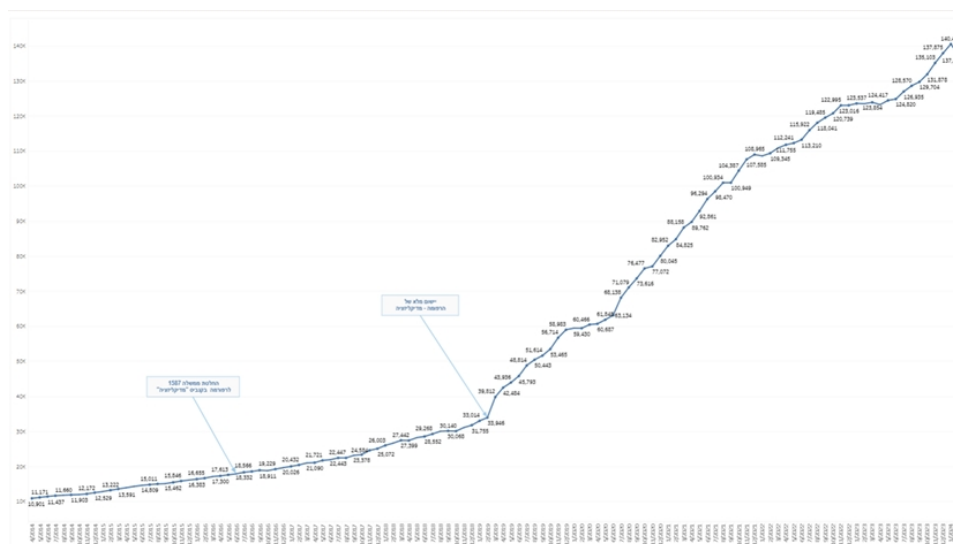
Under the IP Agreement, the parties apply an arm’s length royalty as a percentage of the licensee’s net revenues, on a quarterly basis in accordance with a transfer pricing analysis to be updated from time to time, as consideration for Focus’ use of IMC Holdings’ intellectual property.

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.

ISRAELI MARKET DEVELOPMENT 2013-2024

According to Israeli Ministry of Health, as of February 2024, there are 137,467 medical cannabis licensed patients in Israel. A monthly prescription of 5,332,000 grams of medical cannabis were recorded in February 2024 an increase of 570,000 grams of cannabis from February 2023.³

The chart below reflects the growth in licensed medical cannabis patients in Israel between January 2017 to February 2024⁴



In Israel, cannabis is currently defined as a “dangerous drug” according to the Dangerous Drugs Ordinance⁵ (“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. 3069.⁶ The production, distribution and consumption of adult-use recreational cannabis products is currently illegal in Israel.

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**).⁸ 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.

⁵ 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

⁶ Israeli Government Res. No. 3609 [in Hebrew], August 7th, 2011 https://www.gov.il/he/departments/policies/2011_des3609

⁷ 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)

⁸ 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

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, 2019,⁹ and in December 2020, the IMCA published guidelines for the medical cannabis export permit application process.¹⁰

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.

⁹ Directive 4490 [Hebrew] - https://www.gov.il/he/departments/policies/dec4490_2019

¹⁰ Directive 110, December 2020 [Hebrew] - https://www.health.gov.il/hozer/CN_110.pdf

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**). On June 13, 2023, the health committee of the Knesset approved The Dangerous Drugs Regulations (Amendment), 2023 (hereinafter referred to as the **Regulations Amendment**), which entail a model change from issuing licenses to prescriptions permits following the publication of the Proposed Outline¹². The Regulations Amendment allows accessibility and significant bureaucratic relief for patients. The purpose of the new prescription model (as defined below) is to enable qualified specialist doctors (excluding general practitioner, family physician, internal physician and pediatrician) to write prescriptions for medical cannabis for patients under the supervision of health care providers (widely known as Kapat Holim), without requiring a usage license from the Ministry of Health (hereinafter referred to as **The New Prescription Model**).

The main changes in the Regulations Amendment 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 Regulations Amendment will come into effect within 180 days from the date of their publication. To the best of the Company's knowledge, the indications approved as part of the Regulations Amendment encompass various conditions, such as oncological diseases, active inflammatory bowel disease, AIDS, Multiple Sclerosis, Parkinson's disease, Tourette syndrome, epilepsy, autism, and dementia.

On December 8, 2023 the Company announced a 3-month delay of the anticipated medical cannabis reform announced by the Israeli ministry of health on August 7, 2023 (the **Reform**). Due to the Israel-Hamas war, the anticipated implementation of the medical cannabis regulatory reform, originally scheduled for December 29, 2023, has been postponed by three months. The new regulations were designed to alleviate many of the stringent restrictions in the sector, thereby enhancing access to medical cannabis for patients.

"Anti-Dumping" investigation into cannabis imports from Canada

A notice on the Israeli Government's website dated January 18, 2024, was addressed to 10 different Canadian cannabis producers: Village Farms International, Organigram Holdings, Tilray Canada, Hexo Corp (owned by Tilray), The Green Organic Dutchman, Canopy Growth Corporation, SNDL, Cronos Group, Auxly Cannabis Group, Decibel Cannabis, and all the medical cannabis manufacturers in Canada who export their goods to Israel.

The Commissioner for Trade Levies at the Ministry of Economy and Industry, announced by virtue of his authority according to Section 24(d) of the Law on Trade Levies and Defence Measures, 5591 – 1991, of his decision to open an investigation on his own initiative into the export import of cannabis from Canada, after he found that special circumstances of actual damage exist or the probability of actual damage to the local manufacturing industry and a causal link between the imported imports and said damage.

¹² [Hebrew] - <https://www.gov.il/he/Departments/policies/reform-of-drug-prescription>

The notice also included a letter sent to Michael Mancini, the Chief Commercial Counselor with the Embassy of Canada, informing them of the investigation, dated January 15, 2024.

The Ministry of Economy and Industry issued a formal notice to the public to respond to questionnaires regarding the "Anti-Dumping" investigation.

Further to several requests received from the parties and in accordance with section 27(b) of the Law on Trade Levies and Defense Measures, 1991 which states that "The Commissioner may, for special reasons that shall be recorded, extend the period specified in subsection (a) by an additional period that shall not exceed 30 days." (the emphasis is not in the original), the Commissioner decided that special conditions exist for extending the deadline for the submission of the required materials as part of the investigation into the export of medical cannabis to Israel from Canada for 10 days until March 10, 2024. Due to constraints presented by the parties following the "Iron Swords" war, mainly significant delays in the preparation of the materials due to the absence of many workers as part of the extensive recruitment in Israel for the reserve service at this time and due to the unique complexity of the Israeli cannabis market where many players are required to submit data both as producers and importer.

The Company has submitted the relevant questionnaires regarding its subsidiaries Focus and IMC Pharma, which are included in the investigation and for its subsidiary Rosen High Way.

REGULATORY FRAMEWORK IN GERMANY

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 paper¹³ 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. After a long political debate, the German Bundestag approved the federal government's draft law "on the controlled use of cannabis" (BT Drs. 20/8704¹⁴, BT Drs. 20/8763¹⁵, BT-Drs. 20/10426¹⁶) on Friday, 23 February 2024. It can be assumed that the draft will also be passed without further hurdles in the German Bundesrat at the end of March and will then essentially come into force on 1 April 2024 in accordance with Art. 15 of the draft. Some components of Article 1 of the draft, which deals with so-called consumer cannabis, will not come into force until later (according to Art. 15 para. 2 of the draft, for example, not until 1 July 2024). This also has direct consequences for medicinal cannabis, which is the subject matter of Art. 2 (Medical Cannabis Act - MedCanG) and 3 (BtMG) of the draft. With the entry into force of the draft law, cannabis is no longer a narcotic by definition and is therefore no longer subject to the BtMG. The definition in Annex 3 of the BtMG will be replaced by that in Section 2 MedCanG: "*Cannabis for medical purposes: plants, flowers and other parts of plants belonging to the genus Cannabis that are grown for medical purposes under state control in accordance with Articles 23 and 28(1) of the Single Convention on Narcotic Drugs of 1961 of 30 March 1961 (Federal Law Gazette 1973 II p. 1354), as well as delta-9-tetrahydrocannabinol including dronabinol and preparations of all the aforementioned substances*". However, the narcotics regulations will be replaced by comparable regulations and authorisations. The Federal Institute for Drugs and Medical Devices (BfArM) will remain responsible for the latter as a higher federal authority. From a regulatory perspective, medicinal cannabis will remain a medicinal product or an active pharmaceutical ingredient even after the amendment of the law, meaning that the requirements under medicinal product law will remain in place. As a result, the marketing of irradiated products will continue to require a marketing authorisation in accordance with the Ordinance on Medicinal Products Treated with Radioactive or Ionising Radiation (AMRadV). Only the narcotics licence pursuant to Section 3 BtMG will be replaced by a new licence pursuant to the Medicinal Cannabis Act (MedCanG) (see Section 1), which, however, largely corresponds to the previous provisions of the BtMG with regard to the application process and general regulations. However, there are the following differences that are new due to the entry into force: Medicinal cannabis no longer has to be stored and transported like a narcotic. The corresponding safety precautions no longer apply, meaning that compliance with the provisions of pharmaceutical law is sufficient. The so-called semi-annual reports will be replaced by annual reports. The requirements for the person responsible for medicinal cannabis are slightly reduced compared to those for narcotics. In future, a prescription will be possible without a prescription for narcotics. A normal prescription will suffice. This is just an overview - you are welcome to comment on this in more detail separately. In order to differentiate, reference is made below to the respective upcoming changes, if relevant at the respective point. However, it is likely to be of great importance that the cultivation of medicinal cannabis based on Section 17 MedCanG is no longer subject to public tenders, but - like the trading licence - is ultimately subject to a two-stage authorisation (at state level with regard to the pharmaceutical regulations and at federal level with regard to the fact that it is medicinal cannabis).

¹³ https://www.bundesgesundheitsministerium.de/fileadmin/Dateien/3_Downloads/Gesetze_und_Verordnungen/GuV/C/Kabinetttvorlage_Eckpunktepapier_Abgabe_Cannabis.pdf (in German language).

¹⁴ <https://dserver.bundestag.de/btd/20/087/2008704.pdf> (in German language).

¹⁵ <https://dserver.bundestag.de/btd/20/087/2008763.pdf> (in German language).

¹⁶ <https://dserver.bundestag.de/btd/20/104/2010426.pdf> (in German language).

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), further European Pharmacopoeia (Ph. Eur.) Cannabis monographs are in preparation.

The European Pharmacopoeia (Ph. Eur.) Suppl. 11.5 is currently available and contains the new Ph. Eur. Monograph on cannabis flowers and the new Ph. Eur. Monograph on Cannabidiol (CBD). According to the current status, the Ph. Eur. Monograph on Cannabis Flowers will replace the currently existing national monographs (NL, DK, D and CH) from the official implementation date (1 July 2024). However, there are various authorities that only want to refer to this monograph from the official translation into German in Germany. The new monograph on cannabis flowers includes Starting materials for the production of extracts, medicinal products that can be prescribed as such (herbal medicinal products) that are taken by patients by inhalation or oral administration. There are not entirely irrelevant changes compared to the German monograph.

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. The same applies with regard to Sections 7, 8 MedCanG in relation to the future authorisation to trade in medicinal cannabis, although it is now apparent that no expected annual quantities are to be specified. However, it can be assumed that the BfArM will nevertheless enquire about these due to the (albeit somewhat reduced compared to the BtMG) reporting obligations in Sections 16 and 17 MedCanG and the Foreign Narcotics Trade Regulation, which remains applicable (see Section 14 MedCanG).

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).

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 so far. 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.

Future Situation:

With the entry into force of the above-mentioned draft, the granting of licences for domestic cultivation is governed by §§ 4 et seq. MedCanG. The previously time-consuming tendering and awarding of contracts for the domestic cultivation of cannabis for medical purposes by the Cannabis Agency and the subsequent purchase and distribution of the domestic harvest yields by the Cannabis Agency from the economic operators determined in the course of the tendering procedure will no longer be necessary in future.

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 under the MedCanG as well) and AMG 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 "flos"), 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, 2023 available on the Company's profile on SEDAR+ at www.sedarplus.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, 2023, 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.

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.

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.

LIQUIDITY RISK

As of December 31, 2023, 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, checks receivables 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, 2023, management considers liquidity risk to be high.

CURRENCY RATE RISK

As of December 31, 2023, 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 278 thousand (approximately \$407), NIS 3,698 thousand (approximately \$1,350), USD 15 thousand (approximately \$20), 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 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 \$2,285.

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.

By Notice of Assessment for Excise Tax dated October 23, 2023 and covering the period January 1, 2020 to December 31, 2020, the Company was assessed tax on insurance of \$198,687.57, arrears interest of \$36,248.62 and a failure to file penalty of \$7,947.49 (collectively, the "**2020 Assessment**").

By Notice of Assessment for Excise Tax dated October 23, 2023 and covering the period January 1, 2021 to December 31, 2021, the Company was assessed excise tax on insurance of \$72,944.92, arrears interest of \$1,533.75 and a failure to file penalty of \$499.48 (collectively, the "**2021 Assessment**").

If a person files a Notice of Objection (Excise Tax Act), the CRA cannot take collection action on amounts in dispute until 90 days after the Notice of Decision is sent to that person. However, interest and penalty continue to accrue on any amount owing.

On November 29, 2023, the Company filed Notices of Objection (Excise Tax Act) to the 2020 Assessment and the 2021 Assessment. Therefore, the CRA cannot take collection action on the amounts noted above until 90 days after Notices of Decision are sent to the Company.

The Company assess the filed Notices of Objection (Excise Tax Act) to be low to medium complexity. The CRA is currently taking roughly 150 to 300 days to issue a Notice of Decision in respect of a low to medium complexity Notice of Objection (Excise Tax Act).

The Company assess that it is reasonably possible the Notices of Objection (Excise Tax Act) filed by IM Cannabis Corp. will lead to the 2020 Assessment and 2021 Assessment being vacated.

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 in accordance with IFRS 10 to conclude whether it should continue to consolidate the accounts of Focus 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 (and the terms of the contractual agreements between the Company and Focus cannot be changed without the approval of IMC Holdings);
- (b) IMC Holdings having the option to purchase the divested 74% interest in Focus 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 (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 through a services agreement.

Accordingly, under IFRS 10, the Company has "de facto control" over Focus, and therefore consolidates the financial results of Focus 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 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.

On November 30, 2023, IMC Holdings acted to exercise its option to purchase the divested 74% interest in Focus held by Oren Shuster, and Rafael Gabay by submitting a request to the "IMCA," an agency operated by the Israeli Ministry of Health that will allow the option exercise. On February 25, 2024, IMCA approved the persons who will be acting on behalf on IMC Holding pursuant to the exercise of the option, allowing to complete the transaction . On February 26, 2024, IMC Holdings has exercised its option and as of that date, IMC holds 74% of Focus. The Company will continue to consolidate the financial results of Focus in the Company's financial statements.

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. Restructuring Plans and actions taken in 2022 and in 2023. The Company's board of directors approved on year 2023 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, reduction in payroll and headcount, reduction in compensation paid to key management personnel (including layoffs of key executives), operational efficiencies and reduced capital expenditures. On year 2024, the company will work for fund and/or debt raising and will continue with cost savings effort as well as increased efficiency.

These conditions raise substantial doubt on 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 2023 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 ISRAEL- HAMAS WAR

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.

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.

On October 7, 2023, a war between the terror organization Hamas and Israel began. This war has an impact on the Company's business operations. The Company has suffered a negative impact in Q4 2023 and there will be a potential positive effect in the medium to long term. The Company has experienced damages to its ability to function, affecting various aspects, including employees, supplies, imports, sales, and more.

While there are damages, it is still too early to fully assess the extent of their impact. However, the first and certain effect of the war is the postponement of the medical cannabis reform, which was initially set to commence on December 29, 2023. 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

Israel is undergoing political and social instability relating to the judicial and legislative reforms proposed by the current 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.

On August 7, 2023, the Israeli ministry of health announced the anticipated medical cannabis regulatory reform (the **Reform**). The new regulations under the Reform might remove many of the heavy regulations in the sector, making medical cannabis more accessible to patients as well as boosting export, all of which may materially and positively impact the business, financial condition and results of operations of the Company, its subsidiaries and Focus. Due to the Israel-Hamas war, the anticipated implementation of the Reform, originally scheduled for December 29, 2023, has been postponed by three months.

CCAA PROCEEDINGS

On September 14, 2023 a CCAA Termination Order was granted by the Honourable Justice Osborne (upon service on the Service List of an executed certificate and the above CCAA Proceedings under the *Companies Creditors' Arrangement Act* and the Stay Period were terminated without any further act or formality. On September 29th, 2023, Trichome Financial Corp. filed (or was deemed to have filed) an assignment (or a bankruptcy order was made against Trichome Financial Corp.), and Goldhar & Associates Ltd., was appointed as trustee of the estate of the bankrupt by the official receiver (or the Court). The first meeting of creditors of the bankrupt was held on October 17th, 2023.

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.

ENVIRONMENTAL RISKS

The Group's operations are subject to environmental and occupational safety laws and regulations in certain jurisdictions, concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and nonhazardous materials and wastes, and employee health and safety. The Group incurs ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Any failure to comply or maintain compliance with environmental and occupational safety laws and regulations may result in additional costs for corrective measures, penalties or restrictions on manufacturing operations and could have a material adverse effect on the business, results of operations and financial condition of the Group.

RISKS INHERENT IN THE AGRICULTURAL BUSINESS

The Company's business involves the growing of cannabis products by third party suppliers, which are agricultural products. As such, the business is subject to the risks inherent in the agricultural business, such as pests, plant diseases and similar agricultural risks. Although, the third-party cultivators the Company partner with carefully monitor the growing conditions with trained personnel and applicable equipment, there can be no assurance that natural elements will not have a material adverse effect on the production of its products and results of operations. Any decline in production could have a material adverse effect on the Group's business, operating results or financial condition.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 Company's intentions to expand the business, operations and potential activities of the Company;
- the Company's plans to expand its sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- 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 competitive conditions of the industry, including the Company's ability to maintain or grow its market share and maintain its competitive advantages;
- statements relating to the Company's commitment to responsible growth and compliance with the strictest regulatory environments;
- the Company's focus on providing premium cannabis products to medical patients in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company's plans to amplify its commercial and brand power to become a global high-quality cannabis player;
- the Company's primary goal of sustainably increasing revenue in its core markets;
- the demand and momentum in the Company's Israeli and Germany operations;
- how the Company intends to position its brands;
- the efficiencies and synergies of the Company as a global organization with domestic expertise in Israel and Germany;
- expectations that providing high-quality, reliable supply to the Company's customers and patients will lead to recurring sales;
- expectations related to the Company's introduction of new Stock Keeping Unit ("SKUs")
- anticipated cost savings from the reorganization of the Company's and the completion thereof upon the timelines disclosed herein;
- geographic diversification and brand recognition and the growth of the Company's brands in the jurisdictions that the Company operates in or may expand to;
- expectations related to the Company's ability to address the ongoing needs and preferences of medical cannabis patients;
- the Company's retail presence, distribution capabilities and data-driven insights;
- the future impact of the Regulations Amendment regarding the transition reform from licenses to prescriptions for medical treatment of cannabis;
- the Company's continued partnerships with third party suppliers and partners and the benefits thereof;
- the Company's ability to achieve profitability in 2024;
- the number of patients in Israel licensed by the Israeli Ministry of Health ("MOH") to consume medical cannabis;
- expectations relating to the number of patients paying out-of-pocket for medical cannabis products in Germany;
- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany;
- expectations related to the demand and the ability of the Company to source premium and ultra-premium cannabis products exclusively and competition in this product segment;
- the anticipated impact of inflation and liquidity on the Company's performance;
- expectations with respect to the Company's operating budget and the assumptions related thereto;

- expectations relating to the Company as a going concern and its ability to conduct business under the ordinary course of operations;
- expectations related to the collection the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Test Kits Appeal (as defined herein);
- the continued listing of the Company's Common Shares in the capital of the Company ("**Common Shares**") on the Nasdaq Stock Market ("**Nasdaq**") and Canadian Securities Exchange ("**CSE**");
- cannabis licensing in the jurisdictions in which the Company operates;
- the renewal and/or extension of the Company's licenses;
- the Company's anticipated operating cash requirements and future financing needs;
- the Company'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;
- 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;
- contractual obligations and commitments; and
- the Company completing the Potential Transaction with Kadimastem (each as defined herein).

With respect to the forward looking-statements contained in this MD&A, the Company has made assumptions regarding, among other things:

- the Company has the ability to achieve its business objectives and milestones under the stated timelines;
- the Company will succeed in carrying out its business, strategies and operations;
- the Company will realize upon its intentions to expand the business, operations and potential activities of the Company;
- the Company will expand its sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- the competitive conditions of the cannabis industry and the growth of medical or adult-use recreational cannabis in the jurisdictions in which the Company operates;
- the competitive conditions of the industry will be favorable to the Company, and the Company has the ability to maintain or grow its market share and maintain its competitive advantages;
- the Company will commit to responsible growth and compliance with the strictest regulatory environments;
- the Company will remain focused on providing premium cannabis products to medical patients in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company has the ability to amplify its commercial and brand power to become a global high-quality cannabis player;
- the Company will maintain its primary goal of sustainably increasing revenue in its core markets;
- the demand and momentum in the Company's Israeli and Germany operations will be favorable to the Company;

- the Company will carry out its plans to position its brands as stated;
- the Company's Company has the ability to realize upon the stated efficiencies and synergies the Company as a global organization with domestic expertise in Israel and Germany;
- providing a high-quality, reliable supply to the Company's customers and patients will lead to recurring sales;
- the Company will introduce of new SKUs;
- the Company will realize the anticipated cost savings from the reorganization;
- the Company has the ability to achieve geographic diversification and brand recognition and the growth of the Company's brands in the jurisdictions that the Company operates in or may expand to;
- the Company's has the ability to address the ongoing needs and preferences of medical cannabis patients;
- the Company has the ability to realize upon its retail presence, distribution capabilities and data-driven insights;
- the future impact of the Regulations Amendment will be favorable to the Company;
- the Company will maintain its partnerships with third parties, suppliers and partners;
- the Company has the ability to achieve profitability in 2024;
- the accuracy of number of patients in Israel licensed by the MOH to consume medical cannabis;
- the accuracy of the number of patients paying out-of-pocket medical cannabis products in Germany;
- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany will occur;
- the Company has the ability to source premium and ultra-premium cannabis products exclusively and competition in this product segment;
- the anticipated impact of inflation and liquidity on the Company's performance will be as forecasted;
- the accuracy with respect to the Company's operating budget and the assumptions related thereto;
- the Company will remain as going concern;
- a favorable outcome with respect to the collection the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Test Kits Appeal;
- the Company's Common Shares will remain listed on the Nasdaq and the CSE;
- the Company's ability to maintain cannabis licensing in the jurisdictions in which the Company operates;
- the Company has the ability to obtain the renewal and/or extension of the Company's licenses;
- the Company has the ability to meet operating cash requirements and future financing needs;
- the Company will meet or surpass its expectations regarding its revenue, expenses, profit margins and operations;
- the Company will meet or surpass its expectations regarding Gross Margins, EBITDA and Adjusted EBITDA from the Company's operations;
- the Company will increase its revenue and margins in its Israeli medical cannabis market activities arising from its acquisitions;
- the Company has the ability to capitalize on future opportunities for the Company in Israel, particularly in the retail and distribution segments of the cannabis market;
- the Company will carry out its future expansion and growth opportunities for the Company in Germany and Europe and the timing of such;
- the Company will fulfill its contractual obligations and commitments; and
- the Company will complete the Proposed Transaction with Kadimastem.

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:

- the Company's inability to achieve its business objectives and milestones under the stated timelines;
- the Company inability to carry out its business, strategies and operations;
- the Company's inability to realize upon its intentions to expand the business, operations and potential activities of the Company;
- the Company will not expand its sales channels, distribution, delivery and storage capacity, and reach to medical cannabis patients;
- the competitive conditions of the cannabis industry and the growth of medical or adult-use recreational cannabis markets will be unfavourable to the Company in the jurisdictions in which the Company operates;
- the competitive conditions of the industry will be unfavourable to the Company, and the Company's inability to maintain or grow its market share and maintain its competitive advantages;
- the Company will not commit to responsible growth and compliance with the strictest regulatory environments;
- the Company's inability to remain focused on providing premium cannabis products to medical patients in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company inability to amplify its commercial and brand power to become a global high-quality cannabis player;
- the Company will not maintain its primary goal of sustainably increasing revenue in its core markets;
- the demand and momentum in the Company's Israeli and Germany operations will be unfavourable to the Company;
- the Company will not carry out its plans to position its brands as stated;
- the Company's inability to realize upon the stated efficiencies and synergies of the Company as a global organization with domestic expertise in Israel and Germany;
- providing a high-quality, reliable supply to the Company's customers and patients will not lead to recurring sales;
- the Company will not introduce of new SKUs;
- the Company's inability to realize upon the anticipated cost savings from the reorganization;
- the Company's inability to achieve geographic diversification and brand recognition and the growth of the Company's brands in the jurisdictions that the Company operates in or may expand to;
- the Company's inability to address the ongoing needs and preferences of medical cannabis patients;
- the Company's inability to realize upon its retail presence, distribution capabilities and data-driven insights;
- the future impact of the Regulations Amendment will be unfavourable to the Company;
- the Company will not maintain its partnerships with third party suppliers and partners;

- the Company's inability to achieve profitability in 2023;
- the inaccuracy of number of patients in Israel licensed by the MOH to consume medical cannabis;
- the inaccuracy of the number of patients paying out-of-pocket for medical cannabis products in Germany;
- the anticipated decriminalization or legalization of adult-use recreational cannabis in Israel and Germany will not occur;
- the Company's ability to source premium and ultra-premium cannabis products exclusively and competition in this product segment;
- the anticipated impact of inflation and liquidity on the Company's performance will not be as forecasted;
- the inaccuracy with respect to the Company's operating budget and the assumptions related thereto;
- the Company will not remain as going concern;
- an unfavourable outcome of the negotiations or the Construction Proceedings;
- an unfavourable outcome with respect to the collection the payment awarded in the Judgment and the chances of the claim advancing or the potential outcome of the Appeal;
- the Company's Common Shares will not remain listed on the Nasdaq and the CSE;
- the Company's inability to maintain cannabis licensing in the jurisdictions in which the Company operates;
- the Company's inability to obtain the renewal and/or extension of the Company's licenses;
- the Company's inability to meet operating cash requirements and future financing needs;
- the Company will not meet or surpass its expectations regarding its revenue, expenses, profit margins and operations;
- the Company will not meet or surpass its expectations regarding Gross Margins, EBITDA and Adjusted EBITDA from the Company's operations;
- the Company will not increase its revenue and margins in its Israeli medical cannabis market activities arising from its acquisitions;
- the Company's ability to capitalize on future opportunities for the Company in Israel, particularly in the retail and distribution segments of the cannabis market;
- the Company will not carry out its future expansion and growth opportunities for the Company in Germany and Europe and the timing of such; and
- the Company will not fulfill its contractual obligations and commitments; and
- the Company will not complete the Proposed Transaction with Kadimastem.

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.sedarplus.ca and on EDGAR at www.sec.gov/edgar.

All forward-looking statements in this MD&A is qualified by these cautionary statements.

CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

This MD&A may contain future oriented financial information ("FOFI") within the meaning of Canadian securities legislation, about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action, which FOFI is not presented in the format of a historical balance sheet, income statement or cash flow statement. The FOFI has been prepared by management to provide an outlook of the Company's activities and results and has been prepared based on a number of assumptions including the assumptions discussed under the heading above entitled "Cautionary Note Regarding Forward-Looking Statements" and assumptions with respect to the costs and expenditures to be incurred by the Company, capital expenditures and operating costs, taxation rates for the Company and general and administrative expenses. Management does not have, or may not have had at the relevant date, firm commitments for all of the costs, expenditures, prices or other financial assumptions which may have been used to prepare the FOFI or assurance that such operating results will be achieved and, accordingly, the complete financial effects of all of those costs, expenditures, prices and operating results are not, or may not have been at the relevant date of the FOFI, objectively determinable.

Importantly, the FOFI contained in this MD&A are, or may be, based upon certain additional assumptions that management believes to be reasonable based on the information currently available to management, including, but not limited to, assumptions about: (i) the future pricing for the Company's products, (ii) the future market demand and trends within the jurisdictions in which the Company may from time to time conduct the Company's business, (iii) the Company's ongoing inventory levels, and operating cost estimates, and (iv) the Company's financial results for 2023. The FOFI or financial outlook contained in this MD&A do not purport to present the Company's financial condition in accordance with IFRS as issued by the International Accounting Standards Board, and there can be no assurance that the assumptions made in preparing the FOFI will prove accurate. The actual results of operations of the Company and the resulting financial results will likely vary from the amounts set forth in the analysis presented in any such document, and such variation may be material (including due to the occurrence of unforeseen events occurring subsequent to the preparation of the FOFI). The Company and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments as at the applicable date. However, because this information is highly subjective and subject to numerous risks including the risks discussed under the heading above entitled "Cautionary Note Regarding Forward-Looking Statements" and under the heading "Risk Factors" in the Company's public disclosures, FOFI or financial outlook within this MD&A should not be relied on as necessarily indicative of future results.

Readers are cautioned not to place undue reliance on the FOFI, or financial outlook contained in this press release. Except as required by Canadian securities laws and analogous U.S. securities laws, the Company does not intend, and does not assume any obligation, to update such FOFI.

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.sedarplus.ca and on EDGAR at www.sec.gov/edgar.