



IM CANNABIS CORP. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2022

UNAUDITED



IM CANNABIS CORP. AND ITS SUBSIDIARIES

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AS OF JUNE 30, 2022

CANADIAN DOLLARS IN THOUSANDS

(Unaudited)

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**Canadian Dollars in thousands**

| | <u>Note</u> | <u>June 30, 2022 (Unaudited)</u> | <u>December 31, 2021</u> |
|---|-------------|--|------------------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | | \$ 5,861 | \$ 13,903 |
| Restricted bank deposit | | - | 1 |
| Trade receivables | | 19,441 | 16,711 |
| Advances to suppliers | | 3,024 | 2,300 |
| Other accounts receivable | | 6,167 | 14,481 |
| Loans receivable | | 686 | 2,708 |
| Biological assets | 4 | 1,491 | 1,687 |
| Inventories | 5 | <u>26,647</u> | <u>29,391</u> |
| | | <u>63,317</u> | <u>81,182</u> |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment, net | | 22,671 | 30,268 |
| Investments in affiliates | | 2,311 | 2,429 |
| Advance payment for intangible assets of pharmacy | 3 | 6,173 | 3,129 |
| Derivative assets | | 8 | 14 |
| Right-of-use assets, net | | 16,202 | 18,162 |
| Deferred tax assets | | 679 | 16 |
| Intangible assets, net | 3 | 26,719 | 30,885 |
| Goodwill | 3 | <u>117,225</u> | <u>121,303</u> |
| | | <u>191,988</u> | <u>206,206</u> |
| Total assets | | <u>\$ 255,305</u> | <u>\$ 287,388</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian Dollars in thousands

| | <u>Note</u> | <u>June 30, 2022</u> (Unaudited) | <u>December 31, 2021</u> |
|--|-------------|---|------------------------------|
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Trade payables | | \$ 15,200 | \$ 13,989 |
| Bank loans and credit facilities | | 18,002 | 9,502 |
| Other accounts payable and accrued expenses | | 16,050 | 20,143 |
| Accrued purchase consideration liabilities | 1c | 2,741 | 6,039 |
| Current maturities of operating lease liabilities | | <u>1,567</u> | <u>1,554</u> |
| | | <u>53,560</u> | <u>51,227</u> |
| NON-CURRENT LIABILITIES: | | | |
| Warrants measured at fair value | 6 | 319 | 6,022 |
| Operating lease liabilities | | 16,102 | 17,820 |
| Long-term loans | | 354 | 392 |
| Employee benefit liabilities, net | | 180 | 391 |
| Deferred tax liability, net | | <u>5,249</u> | <u>6,591</u> |
| | | <u>22,204</u> | <u>31,216</u> |
| Total liabilities | | <u>75,764</u> | <u>82,443</u> |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | | |
| Share capital and premium | 7 | 241,837 | 237,677 |
| Treasury stock | | (660) | (660) |
| Translation reserve | | 1,004 | 2,614 |
| Reserve from share-based payment transactions | | 14,242 | 12,348 |
| Accumulated deficit | | <u>(78,860)</u> | <u>(50,743)</u> |
| Total equity attributable to equity holders of the Company | | <u>177,563</u> | <u>201,236</u> |
| Non-controlling interests | | <u>1,978</u> | <u>3,709</u> |
| Total equity | | <u>179,541</u> | <u>204,945</u> |
| Total liabilities and equity | | <u>\$ 255,305</u> | <u>\$ 287,388</u> |

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

Canadian Dollars in thousands, except per share data

| | Six months ended June 30, | | Three months ended June 30, | |
|--|------------------------------|-------------------|--------------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | (Unaudited) | | | |
| Revenues | \$ 47,390 | \$ 19,879 | \$ 23,821 | \$ 11,112 |
| Cost of revenues | 35,423 | 14,650 | 18,208 | 10,510 |
| Gross profit before fair value adjustments | <u>11,967</u> | <u>5,229</u> | <u>5,613</u> | <u>602</u> |
| Fair value adjustments: | | | | |
| Unrealized change in fair value of biological assets | 1,135 | 4,361 | 56 | 2,018 |
| Realized fair value adjustments on inventory sold in the period | (2,517) | (5,130) | (1,654) | (3,188) |
| Total fair value adjustments | <u>(1,382)</u> | <u>(769)</u> | <u>(1,598)</u> | <u>(1,170)</u> |
| Gross profit (loss) | <u>10,585</u> | <u>4,460</u> | <u>4,015</u> | <u>(568)</u> |
| General and administrative expenses | 20,226 | 12,388 | 11,184 | 7,475 |
| Selling and marketing expenses | 8,746 | 2,491 | 5,026 | 1,301 |
| Restructuring expenses | 9,162 | - | 5,415 | - |
| Share-based compensation | 2,658 | 2,003 | 1,048 | 1,373 |
| Total operating expenses | <u>40,792</u> | <u>16,882</u> | <u>22,673</u> | <u>10,149</u> |
| Operating loss | <u>(30,207)</u> | <u>(12,422)</u> | <u>(18,658)</u> | <u>(10,717)</u> |
| Finance income | 6,097 | 13,434 | 3,206 | 6,208 |
| Finance expense | (6,927) | (846) | (4,591) | (543) |
| Finance income (expenses), net | <u>(830)</u> | <u>12,588</u> | <u>(1,385)</u> | <u>5,665</u> |
| Loss from disposal of investment | <u>(114)</u> | <u>-</u> | <u>(114)</u> | <u>-</u> |
| Income (loss) before income taxes | (31,151) | 166 | (20,157) | (5,052) |
| Income tax expense (benefit) | (1,432) | 540 | (1,179) | 37 |
| Net loss | <u>(29,719)</u> | <u>(374)</u> | <u>(18,978)</u> | <u>(5,089)</u> |
| Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods: | | | | |
| Exchange differences on translation to presentation currency | <u>(2,942)</u> | <u>(1,238)</u> | <u>(1,150)</u> | <u>152</u> |
| Other comprehensive income that will be reclassified to profit or loss in subsequent periods: | | | | |
| Adjustments arising from translating financial statements of foreign operation | <u>1,203</u> | <u>259</u> | <u>345</u> | <u>27</u> |
| Total other comprehensive income (loss) | <u>(1,739)</u> | <u>(979)</u> | <u>(805)</u> | <u>179</u> |
| Total comprehensive loss | <u>\$ (31,458)</u> | <u>\$ (1,353)</u> | <u>\$ (19,783)</u> | <u>\$ (4,910)</u> |

IM CANNABIS CORP. AND ITS SUBSIDIARIES

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

Canadian Dollars in thousands, except per share data

| | <u>Note</u> | <u>Six months ended</u> <u>June 30,</u> | | <u>Three months ended</u> <u>June 30,</u> | |
|---|-------------|--|-------------------|--|-------------------|
| | | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| <u>Unaudited</u> | | | | | |
| Net loss attributable to: | | | | | |
| Equity holders of the Company | | \$ (28,117) | \$ (125) | \$ (18,665) | \$ (4,630) |
| Non-controlling interests | | (1,602) | (249) | (313) | (459) |
| | | <u>\$ (29,719)</u> | <u>\$ (374)</u> | <u>\$ (18,978)</u> | <u>\$ (5,089)</u> |
| Total comprehensive loss attributable to: | | | | | |
| Equity holders of the Company | | \$ (29,727) | \$ (1,123) | \$ (19,437) | \$ (4,459) |
| Non-controlling interests | | (1,731) | (230) | (346) | (451) |
| | | <u>\$ (31,458)</u> | <u>\$ (1,353)</u> | <u>\$ (19,783)</u> | <u>\$ (4,910)</u> |
| Loss per share attributable to equity holders of the Company: | | | | | |
| Basic loss per share (in CAD): | 9 | \$ (0.40) | \$ - | \$ (0.27) | \$ (0.10) |
| Diluted loss per share (in CAD): | 9 | <u>\$ (0.47)</u> | <u>\$ (0.28)</u> | <u>\$ (0.30)</u> | <u>\$ (0.23)</u> |

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

IM CANNABIS CORP. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Canadian Dollars in thousands

Attributable to equity holders of the Company

| | Share capital and premium | Treasury stock | Reserve for share-based payment transactions | Translation reserve | Accumulate deficit | Total | Non- controlling interests | Total equity |
|--|------------------------------|-------------------|---|------------------------|-----------------------|-------------------|----------------------------------|-------------------|
| Balance as of January 1, 2022 | \$ 237,677 | \$ (660) | \$ 12,348 | \$ 2,614 | \$ (50,743) | \$ 201,236 | \$ 3,709 | \$ 204,945 |
| Net loss | - | - | - | - | (28,117) | (28,117) | (1,602) | (29,719) |
| Other comprehensive loss | - | - | - | (1,610) | - | (1,610) | (129) | (1,739) |
| Total comprehensive loss | - | - | - | (1,610) | (28,117) | (29,727) | (1,731) | (31,458) |
| Issuance of common shares | 3,061 | - | - | - | - | 3,061 | - | 3,061 |
| Exercise of options | 1,072 | - | (737) | - | - | 335 | - | 335 |
| Share based payment | - | - | 2,658 | - | - | 2,658 | - | 2,658 |
| Expired Options | 27 | - | (27) | - | - | - | - | - |
| Balance as of June 30, 2022 (unaudited) | <u>\$ 241,837</u> | <u>\$ (660)</u> | <u>\$ 14,242</u> | <u>\$ 1,004</u> | <u>\$ (78,860)</u> | <u>\$ 177,563</u> | <u>\$ 1,978</u> | <u>\$ 179,541</u> |
| Balance as of January 1, 2021 | \$ 37,040 | \$ - | \$ 5,829 | \$ 1,229 | \$ (33,001) | \$ 11,097 | \$ 1,513 | \$ 12,610 |
| Net loss | - | - | - | - | (125) | (125) | (249) | (374) |
| Other comprehensive income (loss) | - | - | - | (998) | - | (998) | 19 | (979) |
| Total comprehensive loss | - | - | - | (998) | (125) | (1,123) | (230) | (1,353) |
| Issuance of shares related to Trichome acquisition | 98,028 | - | - | - | - | 98,028 | - | 98,028 |
| Issuance of shares, net of approximately \$3,200 issuance costs | 28,131 | - | - | - | - | 28,131 | - | 28,131 |
| Exercise of warrants | 4,151 | - | - | - | - | 4,151 | - | 4,151 |
| Exercise of options | 832 | - | (771) | - | - | 61 | - | 61 |
| Share based payment | - | - | 2,003 | - | - | 2,003 | - | 2,003 |
| Expired options | 14 | - | (14) | - | - | - | - | - |
| Balance as of June 30, 2021 (unaudited) | <u>\$ 168,196</u> | <u>\$ -</u> | <u>\$ 7,047</u> | <u>\$ 231</u> | <u>\$ (33,126)</u> | <u>\$ 142,348</u> | <u>\$ 1,283</u> | <u>\$ 143,631</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Canadian Dollars in thousands

| | Six months ended June 30, | |
|--|------------------------------|-----------------|
| | 2022 | 2021 |
| <u>Cash flows from operating activities:</u> | | |
| Net loss for the period | \$ (29,719) | \$ (374) |
| Adjustments for non-cash items: | | |
| Unrealized gain on changes in fair value of biological assets | (1,135) | (4,361) |
| Fair value adjustment on sale of inventory | 2,517 | 5,130 |
| Fair value adjustment of warrants measured at fair value and derivative assets | (5,697) | (13,049) |
| Depreciation of property, plant and equipment | 1,762 | 967 |
| Amortization of intangible assets | 1,284 | 242 |
| Depreciation of right-of-use assets | 1,014 | 434 |
| Finance expenses, net | 6,527 | 461 |
| Deferred tax expense (benefit), net | (1,836) | 398 |
| Share-based payment | 2,658 | 2,003 |
| Share based acquisition costs related to business combination | - | 989 |
| Non-cash interest income on loans receivable | - | 233 |
| Revaluation of other receivable | 3,818 | - |
| Loss from disposal of investments | 114 | - |
| Restructuring expenses | 8,791 | - |
| | <u>19,817</u> | <u>(6,553)</u> |
| Changes in working capital: | | |
| Increase in trade receivables, net | (4,518) | (5,688) |
| Decrease (increase) in other accounts receivable | 556 | (4,330) |
| Decrease in biological assets, net of fair value adjustments | 569 | 4,100 |
| Increase in inventories, net of fair value adjustments | (570) | (9,516) |
| Increase in trade payables | 3,916 | 1,829 |
| Increase (decrease) in employee benefit liabilities, net | (182) | 32 |
| Decrease in other accounts payable and accrued expenses | (337) | (1,996) |
| | <u>(566)</u> | <u>(15,569)</u> |
| Taxes paid | <u>(462)</u> | <u>(515)</u> |
| Net cash used in operating activities | <u>(10,930)</u> | <u>(23,011)</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Canadian Dollars in thousands

| | Six months ended June 30, | |
|---|------------------------------|------------------|
| | 2022 | 2021 |
| | <u>Unaudited</u> | |
| <u>Cash flows from investing activities:</u> | | |
| Purchase of property, plant and equipment | (1,076) | (1,837) |
| Proceeds from sales of property, plant and equipment | 201 | - |
| Proceeds from loans receivable | 350 | 7,620 |
| Acquisition of business, net of cash acquired - TFC | - | 362 |
| Acquisition of business, net of cash acquired - Panaxia | - | (2,079) |
| Investments in financial assets | - | (13) |
| Change in restricted bank deposit | - | 18 |
| Investments in associate | (114) | - |
| Net cash provided by (used in) investing activities | <u>\$ (639)</u> | <u>\$ 4,071</u> |
| <u>Cash flow from financing activities:</u> | | |
| Proceeds from issuance of share capital, net of issuance costs | \$ - | \$ 39,353 |
| Proceeds from exercise of warrants | - | 3,292 |
| Proceeds from exercise of options | 335 | 61 |
| Repayment of lease liability | (722) | (31) |
| Payment of lease liability interest | (859) | (578) |
| Proceeds from bank loan and credit facilities, net | 8,871 | 1,424 |
| Interest paid | (504) | - |
| Net cash provided by financing activities | <u>7,121</u> | <u>43,521</u> |
| Effect of foreign exchange on cash and cash equivalents | <u>(3,594)</u> | <u>584</u> |
| Increase (decrease) in cash and cash equivalents | (8,042) | 25,165 |
| Cash and cash equivalents at beginning of the period | <u>13,903</u> | <u>8,885</u> |
| Cash and cash equivalents at end of the period | <u>\$ 5,861</u> | <u>\$ 34,050</u> |
| <u>Supplemental disclosure of non-cash activities:</u> | | |
| Right-of-use asset recognized with corresponding lease liability | <u>\$ 269</u> | <u>\$ 81</u> |
| Issuance of shares in payment of purchase consideration liability | <u>\$ 3,147</u> | <u>\$ -</u> |

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 Glil-Yam, Israel.

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. See Note 1c.

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, 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 operates through Trichome JWC Acquisition Corp. ("TJAC") d/b/a JWC and MYM, both Canadian federally licensed producers of cannabis products in the adult-use recreational cannabis market in Canada.

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

The Company, its subsidiaries and Focus (collectively: the "Group"), operate in geographical reporting segments (Note 10). The majority of the Group's revenues are generated from sales of medical cannabis products to customers in Israel and recreational cannabis products in Canada. The remaining revenues are generated from sales of medical cannabis, as well as other products, to customers in Germany.

These financial statements have been prepared in a condensed format as of June 30, 2022, and for the six and three months then ended (the "interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2021, and for the year then ended and accompanying notes (the "annual consolidated financial statements").

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 1:- GENERAL (Cont.)***Liquidity and capital resources*

As of June 30, 2022, the Company's cash position (cash and cash equivalents) totaled \$5,861 and the Company's working capital (current assets less current liabilities) amounted to \$9,757. In the six months ended June 30, 2022, the Company had an operating loss of (\$30,207) and negative cash flows from operating activities of (\$10,930). The Company'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 (see Note 1c).

The Company is planning to finance its operations from its existing and future working capital resources and to continue to evaluate additional sources of capital and financing.

However, there is no assurance that additional capital and or financing will be available to the Company, and even if available, whether it will be on terms acceptable to the Company or in amounts required. Accordingly, the Company's board of directors approved a cost saving plan, to be implemented if needed, in whole or in part, at its discretion, to allow the Company to continue its operations and meet its cash obligations. The cost saving plan consist of cost reduction due to efficiencies and synergies, which include mainly the following steps: reduction in payroll and headcount, reduction in compensation paid to key management personnel, operational efficiencies and reduced capital expenditures. The Company and the board of directors believe that its existing financial resources and its operating plans, including the effects of the costs saving plan, will be adequate to satisfy its expected liquidity requirements for a period of at least twelve months from the end of the reporting period.

During 2021, TJAC and certain MYM subsidiaries entered into a revolving credit facility (the "Facility") with a private Canadian creditor. The Facility is guaranteed by Trichome Financial Corp. Advances from the Facility is used for working capital needs. The Facility had a total commitment of up to \$10,000 and has a one-year term, renewable upon mutual agreement by the parties for up to two additional periods of 180 days. During April 2022, the Company completed an amendment to increase the availability under the existing revolving credit facility to \$15,000 and the term of the Revolving Credit Facility was extended to May 2023. The borrowing base available for draw at any time throughout the Facility is a function of the trade receivable and inventory balances at the time of drawdown. The Facility bears interest at the higher of 9.75% and the Toronto Dominion Bank Prime Rate plus 7.30% per annum. As of June 30, 2022, the Company withdrew from the facility \$12,107.

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 thousand (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% (approximately 4.25%) per annum. As of June 30, 2022, the Company met the Mizrahi Facility Covenants and withdrew \$5,525.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 1:- GENERAL (Cont.)**

b. Approval of Interim Condensed Consolidated Financial Statements:

These interim condensed consolidated financial statements of the Company were authorized for issue by the board of directors on August 14, 2022.

c. Strategic Developments:

1. On April 30, 2021, the Company announced that its wholly-owned Israeli subsidiary, IMC Holdings, signed a definitive agreement (the "Panaxia Agreement") with Panaxia Pharmaceutical Industries Israel Ltd. and Panaxia Logistics Ltd. (collectively "Panaxia") (the "Panaxia Transaction"). Pursuant to the Panaxia Agreement, IMC Holdings will acquire Panaxia's trading house license and in-house pharmacy activities, certain distribution assets and an option to purchase a pharmacy with licenses to sell medical cannabis to patients, for an aggregate purchase price of NIS 18,700 thousand (approximately \$7,000), comprised of NIS 7,600 thousand (approximately \$2,800) in cash and NIS 11,100 thousand (approximately \$4,200) in Common Shares. As of June 30, 2022, the accrued purchased consideration with respect to Panaxia transaction amounted to \$358. See Note 3.
2. On July 28, 2021, IMC Holdings entered into a definitive agreement to acquire all of the issued and outstanding share of R.A. Yarok Pharm Ltd., Rosen High Way Ltd. and High Way Shinua Ltd. (collectively "Pharm Yarok Group"). The aggregate consideration for the Pharm Yarok Group acquisition comprised of NIS 11,900 thousand (approximately \$4,600), of which NIS 3,500 thousand (approximately \$1,300) in Common Shares which were issued on March 14, 2022, as a settlement of the remained purchase consideration liability.
3. On August 16, 2021, IMC Holdings signed a definitive agreement to acquire 51% of the outstanding ordinary shares of "Vironna" for a total consideration of NIS 8,500 thousand (approximately \$3,300), of which NIS 5,000 thousand (approximately \$1,900) in cash and NIS 3,500 thousand (approximately \$1,400) is in Common Shares which were issued on March 14, 2022. As of June 30, 2022, the accrued consideration payable to Vironna's former shareholder amounts to \$462.
4. 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) paid in 251,001 Common Shares. As of June 30, 2022, the Company issued the Common Shares, paid NIS 5,200 thousand (approximately \$2,100) and the accrued consideration payable to Oranim's former shareholder amounts to \$1,921.
5. On April 6, 2022, Focus announced its decision, from March 30, 2022, to close the Sde Avraham cultivation farm in Israel, 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

6. On June 30, 2022, the Company announced on its decision to dispose one of its facilities in Canada (“Sublime”), therefore the Company recorded restructuring expenses related to impairment of property, plant and equipment, and right of use assets and write-off of abandoned biological assets in the total amount of \$4,779.

d. Definitions:

In these financial statements:

The Company, or IMCC - IM Cannabis Corp.

The Group - IM Cannabis Corp., its Subsidiaries and Focus

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

USD or US\$ - United States Dollar

EURO or € - Euro

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation and measurement:

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34").

The interim condensed consolidated financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, described in the Company's annual consolidated financial statements.

b. Significant accounting judgements and estimates:

The preparation of the Company's interim condensed consolidated financial statements under IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of certain assets and liabilities. Estimates and related assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis for reasonableness and relevancy. Where revisions are required, they are recognized in the period in which the estimate is revised as well as future periods that are affected.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Canadian Dollars in thousands, except share and per share data****NOTE 3:- BUSINESS COMBINATION***Panaxia's Assets and Operations*

As described in Note 1c(1), on April 30, 2021, the Company acquired certain assets and operations of Panaxia for an aggregate purchase price of NIS 18,700 thousand (approximately \$7,000). As of December 31, 2021, the Group recognized the fair value of the assets acquired and liabilities assumed in the business combination based on a preliminary valuation study prepared by an external valuation specialist.

The fair value of the identifiable assets acquired and liabilities assumed on the acquisition date based on a final adjusted valuation as of June 30, 2022, are as follows:

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

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

(*) As part of the acquisition, the Company purchased an option to purchase the on-line related activities of a Panaxia pharmacy, including cannabis-related licenses. As the exercise price of the option related only to the medical cannabis inventory at the date of exercise, the Company allocated \$6,204 of the non-cancellable purchase price to effectively reflect the Company's advance payment for the estimated fair value of the licenses and other assets (including customer relationships) of the Panaxia pharmacy that will be acquired upon exercise of the option. As of June 30, 2022, the transfer had not yet been completed. The Company expects completion during the third quarter of 2022.

NOTE 4:- BIOLOGICAL ASSETS

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

| | |
|--|-----------------|
| Balance as of January 1, 2022 | \$ 1,687 |
| Production costs capitalized | 4,867 |
| Changes in fair value less cost to sell due to biological transformation | 1,200 |
| Transferred to inventory upon harvest | (6,152) |
| Restructuring write-off | (108) |
| Foreign exchange translation | (3) |
| Balance as of June 30, 2022 | <u>\$ 1,491</u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 4:- BIOLOGICAL ASSETS (Cont.)

As of June 30, 2022 and December 31, 2021, the weighted average fair value less cost to sell was \$2.85 and \$2.48 per gram, respectively.

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

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

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

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

| | June 30, 2022 | December 31, 2021 | 10% change as of | |
|---|------------------|----------------------|---------------------|----------------------|
| | | | June 30, 2022 | December 31, 2021 |
| | In CAD | | In Thousands of CAD | |
| Average selling price per gram of dried cannabis | \$ 3.61 | \$ 3.64 | \$ 186 | \$ 296 |
| Average post-harvest costs per gram of dried cannabis | \$ 0.76 | \$ 1.16 | \$ 41 | \$ 140 |
| Attrition rate | 30% | 27% | 149 | 100 |
| Average yield per plant (in grams) | 40 | 47 | 144 | 228 |
| Average stage of growth | 48% | 47% | 139 | 212 |

The Company'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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 5:- INVENTORIES

The following is a breakdown of inventory as of June 30, 2022:

| | June 30, 2022 | | |
|-----------------------------|--------------------------|---------------------------------------|-----------------------|
| | Capitalized costs | Fair valuation adjustment, net | Carrying value |
| Work in progress: | | | |
| Bulk cannabis | \$ 15,728 | \$ - | \$ 15,728 |
| Other products | 973 | - | 973 |
| Finished goods: | | | |
| Packaged dried cannabis | 8,329 | - | 8,329 |
| Other cannabis products | 1,199 | - | 1,199 |
| Other products | 418 | - | 418 |
| Balance as of June 30, 2022 | <u>\$ 26,647</u> | <u>\$ -</u> | <u>\$ 26,647</u> |

The following is a breakdown of inventory as of December 31, 2021:

| | December 31, 2021 | | |
|---------------------------------|--------------------------|---------------------------------------|-----------------------|
| | Capitalized costs | Fair valuation adjustment, net | Carrying value |
| Work in progress: | | | |
| Bulk cannabis | \$ 14,113 | \$ 3,336 | \$ 17,449 |
| Other cannabis products | 1,074 | - | 1,074 |
| Finished goods: | | | |
| Packaged dried cannabis | 8,974 | 270 | 9,244 |
| Other cannabis products | 744 | - | 744 |
| Other products | 880 | - | 880 |
| Balance as of December 31, 2021 | <u>\$ 25,785</u> | <u>\$ 3,606</u> | <u>\$ 29,391</u> |

During the six months ended June 30, 2022 and 2021, inventory expensed to cost of revenue of cannabis products was \$35,970 and \$12,219, respectively, which included \$2,517 and \$5,130 of non-cash expense, respectively, related to the changes in fair value of inventory sold.

During the three months ended June 30, 2022 and 2021, inventory expensed to cost of revenue of cannabis products was \$15,997 and \$7,606, respectively, which included \$1,654 and \$3,188 of non-cash expense, respectively, related to the changes in fair value of inventory sold.

Cost of revenues in the six and three months ended June 30, 2022 and 2021, also include production overhead not allocated to costs of inventories produced and recognized as an expense as incurred.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 6:- FINANCIAL INSTRUMENTS

- a. 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.

| <i>Financial Instruments Measured at Fair Value</i> | Fair Value Method |
|---|--|
| Derivative assets | Black & Scholes model (Level 3 category) |
| Warrants liability*) | Black & Scholes model (Level 3 category) |
| Investment in affiliates | Market comparable (Level 3 category) |

Management believes that the carrying amount of cash and cash equivalents, restricted bank deposit, trade receivables, other accounts receivable, loans receivables, trade payables, bank loans and credit facility, other account payables and accrued expenses and accrued purchase consideration payable approximate their fair value due to the short-term maturities of these instruments.

*) Finance income (expenses) include fair value adjustment of Warrants, Investments, and Derivative assets measured at fair value, which for the six months ended June 30, 2022 and 2021, amounted to \$(5,697) and \$(13,049) respectively.

Finance income (expenses) include fair value adjustment of Warrants, Investments, and Accounts Receivable measured at fair value, for the three months ended June 30, 2022 and 2021, amounted to \$(3,009) and \$(5,989), respectively.

- b. On April 4, 2022, the Company issued a Notice of Default to Biome Grow Inc. and its subsidiary, Cultivator Catalyst Corp. (the "Borrowers"), for an unpaid loan and interest of approximately \$2,680. On May 12, 2022, the Company applied to and received from the Superior Court in Ontario an order which allows the Company to freeze the assets of the Borrowers including the assets, which comprise MYM's Collateral for the Loan. As a result of the Borrower's default the Company recorded non-cash financial expenses in the amount of approximately \$1,800.

NOTE 7:- EQUITY

- a. Composition of share capital:

| | June 30, 2022 | | December 31, 2021 | |
|---------------------------------|--------------------------|-----------------------------------|------------------------------|-----------------------------------|
| | Authorized | Issued and outstanding | Authorized | Issued and outstanding |
| Common Shares without par value | <u>Unlimited</u> | <u>69,695,325</u> | <u>Unlimited</u> | <u>68,217,894</u> |

Common Shares confer upon their holders the right to participate in the general meeting where each Common 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 7:- EQUITY (Cont.)

b. Changes in issued and outstanding share capital:

| | Number of shares |
|---|-----------------------------|
| Balance as of January 1, 2022 | 68,217,894 |
| Common Shares issued as a result of options exercised | 217,368 |
| Common Shares issued in settlement of purchase consideration of a business combination (1) | <u>1,260,063</u> |
| Balance as of June 30, 2022 | <u><u>69,695,325</u></u> |

(1) Pharm Yarok - 523,700, Vironna - 485,362, Oranim - 251,001

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

| | Six months ended June 30, 2022 | |
|--|---|---|
| | Number of options | Weighted average exercise price in CAD |
| Options outstanding at the beginning of the period | 5,443,245 | 3.91 |
| Options granted during the period | 97,500 | 2.13 |
| Options exercised during the period (*) | (227,067) | 1.60 |
| Options forfeited during the period | <u>(188,850)</u> | <u>7.63</u> |
| Options outstanding at the end of the period | <u>5,124,828</u> | <u>3.89</u> |
| Options exercisable at the end of the period | <u>2,799,538</u> | <u>3.77</u> |

(*) Includes 18,755 Options exercised under cashless mechanism to 9,056 Common Shares.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 8:- SELECTED STATEMENTS OF PROFIT OR LOSS DATA

| | Six months ended | |
|-------------------------------------|-------------------------|-----------------|
| | June 30, | |
| | 2022 | 2021 |
| Salaries and related expenses | <u>\$ 13,071</u> | <u>\$ 6,773</u> |
| Depreciation and amortization | <u>\$ 4,060</u> | <u>\$ 1,643</u> |
| Revaluation of other receivable (*) | <u>\$ 3,818</u> | <u>\$ -</u> |

(*) As more fully described in Note 5 to the annual consolidated financial statements, upon the acquisition of Trichome Financial Corp in 2021 (the “Trichome Transaction”), the Company recorded approximately \$8,131 to settle withholding tax liabilities to Canada Revenue Agency ("CRA"), with a corresponding indemnification asset comprised of 927,463 Common Shares of the Company withheld to cover the tax liabilities. In addition, certain directors and officers of the Company and Trichome agreed to indemnify and hold harmless the Company to cover certain tax liabilities, interest and penalties arising from the Trichome Transaction. The chairman of the Company’s board of directors (a former director of Trichome) also entered into a security pledge agreement with the Company to secure the obligations under the Indemnification Agreement, with the pledge consisting of certain securities of the Company owned by the chairman (the “Indemnification Asset”).

During the six months ended June 30, 2022, in a partial satisfaction of the indemnification asset, the chairman transferred cash to the Company in the amount of \$3,250 and a portion of the tax liability was paid. As of June 30, 2022, the Company’s financial statements include a tax liability of \$6,280 and a tax indemnification asset of \$2,224. During the six months ended June 30, 2022, the Company recorded a revaluation loss of the indemnification asset in the amount of \$3,818 which was recorded under general and administrative expenses.

NOTE 9:- NET EARNINGS (LOSS) PER SHARE

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

| | Six months ended June 30, | | | |
|--|---|---|---|---|
| | 2022 | | | 2021 |
| | Weighted average number of shares (in thousands) | Net loss attributable to equity holders of the Company | Weighted average number of shares (in thousands) | Net loss attributable to equity holders of the Company |
| For the computation of basic net earnings | 69,427 | \$ (28,117) | 46,112 | \$ (125) |
| Effect of potential dilutive Ordinary shares | 1,809 | (5,703) | - | (12,702) |
| For the computation of diluted net earnings | <u>71,236</u> | <u>\$ (33,820)</u> | <u>46,112</u> | <u>\$ (12,827)</u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 9:- NET EARNINGS (LOSS) PER SHARE (Cont.)

| | Three months ended June 30, | | | |
|--|--|---|--|---|
| | 2022 | | 2021 | |
| | Weighted average number of shares (in thousands) | Net loss attributable to equity holders of the Company | Weighted average number of shares (in thousands) | Net loss attributable to equity holders of the Company |
| For the computation of basic net earnings | 68,634 | \$ (18,665) | 45,616 | \$ (4,630) |
| Effect of potential dilutive Ordinary shares | 3,077 | (3,028) | - | (5,642) |
| For the computation of diluted net earnings | <u>71,711</u> | <u>\$ (21,693)</u> | <u>45,616</u> | <u>\$ (10,272)</u> |

NOTE 10:- OPERATING SEGMENTS

- a. Reporting operating segments:

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

Six months ended June 30, 2022:

| | Israel | Canada | Germany | Adjustments | Total |
|---|-------------------|--------------------|-------------------|-------------------|--------------------|
| Revenue | \$ 24,206 | \$ 21,686 | \$ 1,498 | \$ - | \$ 47,390 |
| Inter-segment revenues | \$ - | \$ 2,481 | \$ - | \$ (2,481) | \$ - |
| Total revenues | <u>\$ 24,206</u> | <u>\$ 24,167</u> | <u>\$ 1,498</u> | <u>\$ (2,481)</u> | <u>\$ 47,390</u> |
| Segment loss | <u>\$ (9,986)</u> | <u>\$ (15,880)</u> | <u>\$ (2,009)</u> | <u>\$ -</u> | <u>\$ (27,875)</u> |
| Unallocated corporate expenses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,332)</u> | <u>\$ (2,332)</u> |
| Total operating loss | <u>\$ (9,986)</u> | <u>\$ (15,880)</u> | <u>\$ (2,009)</u> | <u>\$ (2,332)</u> | <u>\$ (30,207)</u> |
| Depreciation, amortization and impairment | <u>\$ 1,316</u> | <u>\$ 2,744</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,060</u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Canadian Dollars in thousands, except share and per share data

NOTE 10:- OPERATING SEGMENTS (Cont.)

Six months ended June 30, 2021:

| | <u>Israel</u> | <u>Canada</u> | <u>Germany</u> | <u>Adjustments</u> | <u>Total</u> |
|---|-----------------|-------------------|-------------------|--------------------|--------------------|
| Revenue | <u>\$ 9,807</u> | <u>\$ 3,778</u> | <u>\$ 6,294</u> | <u>\$ -</u> | <u>\$ 19,879</u> |
| Segment loss | <u>\$ 9,807</u> | <u>\$ 3,778</u> | <u>\$ 6,294</u> | <u>\$ -</u> | <u>\$ 19,879</u> |
| Unallocated corporate expenses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (4,524)</u> | <u>\$ (4,524)</u> |
| Total operating loss | <u>\$ (776)</u> | <u>\$ (5,996)</u> | <u>\$ (1,126)</u> | <u>\$ (4,524)</u> | <u>\$ (12,422)</u> |
| Depreciation, amortization and impairment | <u>\$ 1,038</u> | <u>\$ 565</u> | <u>\$ 40</u> | <u>\$ -</u> | <u>\$ 1,643</u> |

NOTE 11:- SUBSEQUENT EVENTS

Subsequent to June 30, 2022, on August 5, 2022, as part of the Company's cost saving plans and restructuring actions in Canada, the Company entered into a related party share price agreement with current and former management members of Sublime. The total consideration amounted to \$100 less working capital adjustments, for a final net purchase price of \$89.
