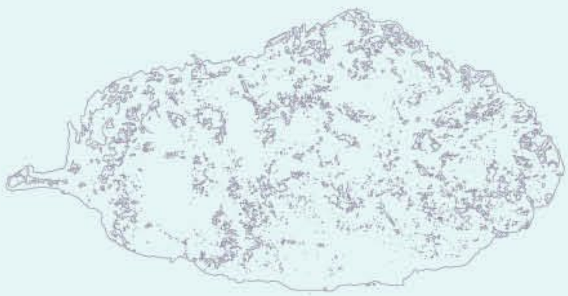
IM CANNABIS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

CANADIAN DOLLARS IN THOUSANDS



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CANADIAN DOLLARS IN THOUSANDS

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Building a better working world

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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.

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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	December 31, 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
		24,265	32,672
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
		24,548	28,004
Total assets		$ 48,813	$ 60,676

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	December 31, 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
		32,808	33,819
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
		2,305	3,060
Total liabilities		35,113	36,879
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	20		
Share capital and premium		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		14,469	22,652
Non-controlling interests		(769)	1,145
Total equity		13,700	23,797
Total equity and liabilities		$ 48,813	$ 60,676

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	253,882	9,637	95	(249,145)	14,469	(769)	13,700

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
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	-	-
	1,264	144,867	(4,230)
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
	1,403	34,475	(10,790)
Taxes paid	(514)	(681)	(834)
Net cash used in operating activities	(8,075)	(12,640)	(34,372)

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
CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,		
	2023	2022	2021
Cash flows from investing activities:			
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	(1,182)	(1,533)	(9,012)
Cash provided by financing activities:			
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	9,417	4,762	48,731
Effect of foreign exchange on cash and cash equivalents	(796)	(2,043)	(329)
Increase (decrease) in cash and cash equivalents	(636)	(11,454)	5,018
Cash and cash equivalents at beginning of year	2,449	13,903	8,885
Cash and cash equivalents at end of year	$ 1,813	$ 2,449	$ 13,903
Supplemental disclosure of non-cash activities:			
Right-of-use asset recognized with corresponding lease liability	$ 309	$ 613	$ 1,678
Conversion of warrant and compensation options into common shares	$ -	$ -	$ 611
Issuance of shares in payment of purchase consideration liability	$ -	$ 3,061	$ -
Issuance of shares in payment of debt settlement to a non-independent director of the company	$ 1,061	$ -	$ -

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.

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 activitiesas defined in Canadian Securities Administrators Staff Notice 51-352.

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.

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

NOTE 1:- GENERAL (Cont.)

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.

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).

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).

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.

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:

Subsidiaries		Percentage ownership 2023	2022
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%
Revoly 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.

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.

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

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.

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,

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

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.

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.

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.

l. 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.

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:

	%	Mainly %
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:

	Years
Customer relationship	5 - 8
Brand name	9
Other intangibles	9

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 $107,854, with respect to the cash generating unit in Canada following the CCAA filing in Canada (see Note 1).

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.

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.

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.

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.

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:

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.

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.

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).

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.

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
	$ 3,889	$ 3,323

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)
Balance at of December 31, 2022		-
Balance at of December 31, 2023		-

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

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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.

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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 $35,154, $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

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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	$ 3,598	$ 947	$ -	$ 204	$ 309	$ 5,058
Depreciated cost at December 31, 2022	$ 3,456	$ 1,049	$ -	$ 398	$ 318	$ 5,221

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

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 $275 related to Adjupharm.

For the year ended December 31, 2022, the Company recorded a goodwill and intangible assets impairment in the amount of $107,854 and $3,067, respectively, related to Trichome (see Note 25).

For the year ended December 31, 2023, the Company did not recorded 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 $1,758, $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.

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NOTE 12:- RIGHT-OF-USE ASSETS

	buildings	Motor vehicles	Total
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.

Canadian Dollars in thousands, except share and per share data

NOTE 13:- CREDIT FROM BANKS AND OTHERS

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

1. 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 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 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 NIS 5,882 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

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

NOTE 15:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2023	December 31, 2022
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
	$ 6,218	$ 6,013

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.

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	$ 12,618	$ 1,293	$ -	$ -

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	$ 10,168	$ 2,229	$ 598	$ -

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

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:

	Loans	Lease liabilities	Warrants	Total liabilities arising from financing activities
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	12,513	1,269	38	13,820

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 timed 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.

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.

NOTE 18:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)

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

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

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

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

NOTE 18:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)

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).

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 $15,599. 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

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NOTE 19:- TAXES ON INCOME (Cont.)

c. Income tax expense (benefit):

	Year ended December 31,		
	2023	2022	2021
Current	$ 182	$ 688	$ 243
Deferred, net	394	(1,810)	278
Income tax from previous years	195	(16)	(21)
	$ 771	$ (1,138)	$ 500

d. Deferred taxes:

	December 31,	
	2023	2022
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	$ (963)	$ (569)

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

	December 31,	
	2023	2022
Non-current assets	$ -	$ 763
Non-current liabilities	$ 963	$ 1,332

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:

	Year ended December 31,		
	2023	2022	2021
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)	$ 771	$ (1,138)	$ 500

NOTE 20:- EQUITY

a. Composition of share capital:

	December 31, 2023		December 31, 2022	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common Shares without par value	Unlimited	13,394,136	Unlimited	7,569,526

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.

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

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

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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 issued 2,828,248 units of the Company (each a "Unit") at a price of US$1.25 per Unit for aggregate gross proceeds of US$3,535 (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

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NOTE 20:- EQUITY (Cont.)

c. Changes in issued and outstanding share capital:

	Number of shares
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	599,999
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	5,277,119
Balance as of December 31, 2023	13,394,136

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	325,452	28.72
Options exercisable at the end of year	299,442	28.39

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	519,170	37.6
Options exercisable at the end of year	360,769	36.95

*) 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 $225, $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	55,000
Exercisable at the end of year	-

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.)

g. 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:

		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

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
	48,804	54,335	34,053

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
	37,974	43,044	25,458

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
	10,788	11,473	6,725

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
	11,008	21,460	17,221

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 (*)	12,819	$ (9,498)	7,485	$ (28,525)
For the computation of basic and diluted net earnings from discontinued operations (*)	-	-	7,181	$ (166,379)

*) 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:

Year ended December 31, 2023	**Israel**	**Germany**	**Adjustments**	**Total**
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	**Israel**	**Germany**	**Adjustments**	**Total**
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	**Israel**	**Germany**	**Adjustments**	**Total**
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

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	December 31, 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.

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.

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 $17,959 in non-operating income (loss) and the investment in Trichome group decreased to $nil.

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

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
	11,885	36,713
NON-CURRENT ASSETS:		
Property, plant and equipment, net	14,645	21,236
Derivative assets	-	14
Right-of-use assets, net	10,999	14,570
Intangible assets, net	17,157	22,846
Goodwill	-	107,854
	42,801	166,520
Total assets	$ 54,686	$ 203,233
LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	$ 7,266	$ 4,667
Bank loans and credit facilities	3,774	8,684
Other accounts payable and accrued expenses	25,217	14,019
Current maturities of operating lease liabilities	869	841
	37,126	28,211
NON-CURRENT LIABILITIES:		
Operating lease liabilities	13,517	14,883
Deferred tax liability, net	2,872	4,065
	16,389	18,948
Total liabilities	$ 53,515	$ 47,159

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	$ (166,379)	$ (17,854)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 26:- SUBSEQUENT EVENTS (Cont.)

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.

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.

NOTE 26:- SUBSEQUENT EVENTS (Cont.)

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.