

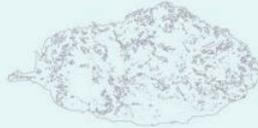


IM CANNABIS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2025

CANADIAN DOLLARS IN THOUSANDS



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
IM Cannabis Corp.

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Opinion on the consolidated financial statements

We have audited the accompanying consolidated statements of financial position of IM Cannabis Corp. and its subsidiaries (the "Company"), as of December 31, 2025 and 2024 and the related consolidated statements of operations and other comprehensive loss, changes in the shareholders' equity (Deficit) and cash flows for each of the years then ended, 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 Company as of December 31, 2025 and 2024 and the results of its operations and its cash flows for each of the years then ended, in conformity with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

Uncertainty related to going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1D to the consolidated financial statements, the Company has shareholders' deficit as of December 31, 2025 and has experienced losses from operations for the year then ended. These events or conditions, along with other matters as set forth in Note 1D, indicate that an uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company'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 Company 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 Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, 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 Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

FAHN KANNE & CO. GRANT THORNTON ISRAEL

We have served as the Company's auditor since 2025.

Tel Aviv, Israel
March 30, 2026

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
to the Shareholders and Board of directors of
IM CANNABIS CORP.

Opinion on the consolidated financial statements

We have audited the accompanying consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows of IM Cannabis Corp. (the Company) and its subsidiaries (collectively, the Group) for the year 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 results of the Company's operations and its cash flows for the year ended December 31, 2023, in conformity with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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 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 audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

We have served as the Company's auditor from 2018 to 2025.

Tel-Aviv, Israel
March 28, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian Dollars in thousands

	Note	December 31,	
		2025	2024
ASSETS			
CURRENT ASSETS:			
Cash		\$ 2,727	\$ 863
Restricted cash		582	64
Trade receivables	5	10,848	13,803
Other current assets	6	4,316	5,419
Inventory	7	4,268	3,215
		<u>22,741</u>	<u>23,364</u>
NON-CURRENT ASSETS:			
Investments in affiliate	8	1,776	1,631
Property, plant and equipment, net	9	3,711	3,730
Intangible assets, net	10	1,222	3,333
Goodwill	10	1,885	6,679
Right-of-use assets, net	11	401	451
		<u>8,995</u>	<u>15,824</u>
Total assets		<u>\$ 31,736</u>	<u>\$ 39,188</u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian Dollars in thousands

	Note	December 31,	
		2025	2024
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Current maturities of operating lease liabilities	11	\$ 322	\$ 262
Trade payables	12	12,055	11,159
Other current liabilities	13	6,073	5,001
Overdraft and Credit from bank institution and others	14	14,333	15,145
Convertible debentures	15	622	1,968
Derivative warrants liabilities and prefunded warrants	16	601	1,383
		<u>34,006</u>	<u>34,918</u>
NON-CURRENT LIABILITIES:			
Operating lease liabilities	11	54	171
Credit from bank institution and others	14	936	466
Deferred tax liabilities		355	487
		<u>1,345</u>	<u>1,124</u>
Total liabilities		<u>35,351</u>	<u>36,042</u>
CONTINGENT LIABILITIES			
	17		
EQUITY (DEFICIT) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY:			
Share capital and premium	18	270,518	265,000
Capital reserve from share-based payment transactions		475	150
Amount received on account of financial instruments and other		2,168	297
Capital reserve from translation differences of foreign operations		(3,842)	(1,265)
Capital reserve from transaction with non-controlling interests	18B6	(2,872)	-
Capital reserve from transaction with controlling shareholder	18C	33	-
Accumulated deficit		(270,210)	(258,939)
Total equity (deficit) attributable to shareholders of the Company		<u>(3,730)</u>	<u>5,243</u>
Non-controlling interests		115	(2,097)
Total shareholders' equity (deficit)		<u>(3,615)</u>	<u>3,146</u>
Total liabilities and shareholders' equity (deficit)		<u>\$ 31,736</u>	<u>\$ 39,188</u>

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

March 30, 2026
Date of approval of the
financial statements

/s/ Oren Shuster
Oren Shuster
Chief Executive Officer and Director

/s/ Oz Adler
Oz Adler
Chairman of the Board

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS

Canadian Dollars in thousands

	Note	Year ended December 31,		
		2025	2024	2023
Revenue	19A	\$ 54,731	\$ 54,031	\$ 48,804
Cost of revenue	19B	45,045	45,580	37,974
Gross profit before fair value adjustments		9,686	8,451	10,830
Fair value adjustments:				
Realized fair value adjustments on inventory sold or impaired		-	-	(984)
Total fair value adjustments		-	-	(984)
Gross profit after fair value adjustments		9,686	8,451	9,846
Selling and marketing expenses	19C	5,356	7,069	10,788
General and administrative expenses	19D	9,516	8,018	11,008
Restructuring expenses	19E	-	-	617
Other expenses	19F	6,387	3,229	-
Share-based compensation	18D	14	369	225
Total operating expenses		21,273	18,685	22,638
Operating loss		(11,587)	(10,234)	(12,792)
Finance income	19G	3,431	2,211	7,006
Finance expenses	19G	(3,502)	(4,771)	(3,671)
Finance income (expense), net		(71)	(2,560)	3,335
Loss before taxes on income (tax benefit)		(11,658)	(12,794)	(9,457)
Taxes on income (tax benefit)	20	92	(1,023)	771
Net loss		\$ (11,750)	\$ (11,771)	\$ (10,228)

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS

Canadian Dollars in thousands, except per share data

	Note	Year ended December 31,		
		2025	2024	2023 (*)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement gain on defined benefit plans		\$ 48	\$ 67	\$ 38
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods		48	67	38
Other comprehensive loss that will be reclassified to profit or loss in subsequent periods:				
Adjustments arising from translation of financial statements of foreign operations		(2,492)	(1,502)	(663)
Total other comprehensive loss		(2,444)	(1,435)	(625)
Total comprehensive loss		\$ (14,194)	\$ (13,206)	\$ (10,853)
Net loss attributable to:				
Shareholders of the Company		\$ (11,319)	\$ (10,585)	\$ (9,498)
Non-controlling interests		(431)	(1,186)	(730)
		\$ (11,750)	\$ (11,771)	\$ (10,228)
Total comprehensive loss attributable to:				
Shareholders of the Company		\$ (13,848)	\$ (11,878)	\$ (10,648)
Non-controlling interests		(346)	(1,328)	(205)
		\$ (14,194)	\$ (13,206)	\$ (10,853)
Loss per share attributable to shareholders of the Company from net loss:				
Basic loss per share (in CAD)		\$ (2.67)	\$ (4.51)	\$ (4.45)
Diluted loss per share (in CAD)		\$ (2.67)	\$ (4.51)	\$ (4.45)

(*) Loss per share includes the effect of Reverse Share Split (see also Note 18A below).

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Canadian Dollars in thousands

	Share capital and premium	Capital reserve from share-based payment transactions	Capital reserve from translation difference of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total Shareholders' equity
Balance as of January 1, 2023	\$ 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)
Common shares issued through private placements transactions, net of issuance costs (Note 18B1)	1,738	-	-	-	1,738	-	1,738
Common shares issued as debts settlement with related party (Note 18B2)	613	-	-	-	613	-	613
Other comprehensive loss 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.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Canadian Dollars in thousands

	Share capital and premium	Capital reserve from share- based payment transactions	Amount received on account of financial instruments and other	Capital reserve from translation difference of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total Shareholders' equity
Balance as of January 1, 2024	\$ 253,882	\$ 9,637	\$ -	\$ 95	\$ (249,145)	\$ 14,469	\$ (769)	\$ 13,700
Net loss	-	-	-	-	(10,585)	(10,585)	(1,186)	(11,771)
Total other comprehensive income (loss)	-	-	-	(1,360)	67	(1,293)	(142)	(1,435)
Total comprehensive loss	-	-	-	(1,360)	(10,518)	(11,878)	(1,328)	(13,206)
Common shares issued through private placement transaction, net of issuance costs (Note 18B3)	944	-	-	-	-	944	-	944
Common shares issued as share-based compensation with related party (Note 18B4)	318	-	-	-	-	318	-	318
Recognition of conversion feature related to convertible debentures (Note 15)	-	-	297	-	-	297	-	297
Other comprehensive income classification	-	-	-	-	724	724	-	724
Share-based compensation	-	369	-	-	-	369	-	369
Expired and exercised options	9,856	(9,856)	-	-	-	-	-	-
Balance as of December 31, 2024	\$ 265,000	\$ 150	\$ 297	\$ (1,265)	\$ (258,939)	\$ 5,243	\$ (2,097)	\$ 3,146

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Canadian Dollars in thousands

	Share capital and premium	Capital reserve from share-based payment transactions	Amount received on account of financial instruments and other	Capital reserve from translation difference of foreign operations	Capital reserve from transaction with non- controlling interests	Capital reserve from transaction with main shareholder	Accumulated deficit	Total	Non- controlling interests	Total Shareholders' equity (deficit)
Balance as of January 1, 2025	\$ 265,000	\$ 150	\$ 297	\$ (1,265)	\$ -	\$ -	\$ (258,939)	\$ 5,243	\$ (2,097)	\$ 3,146
Net loss	-	-	-	-	-	-	(11,319)	(11,319)	(431)	(11,750)
Total other comprehensive income (loss)	-	-	-	(2,577)	-	-	48	(2,529)	85	(2,444)
Total comprehensive loss	-	-	-	(2,577)	-	-	(11,271)	(13,848)	(346)	(14,194)
Expiration of conversion feature related to convertible debentures (Note 15)	297	-	(297)	-	-	-	-	-	-	-
Recognition of conversion feature related to convertible debentures (Note 15)	-	-	364	-	-	-	-	364	-	364
Common shares issued upon partial conversion of convertible debentures (Notes 15 and 18B5)	1,651	-	(256)	-	-	-	-	1,395	-	1,395
Common shares issued as consideration upon acquisition on non-controlling interest (Note 18B6)	314	-	-	-	(2,872)	-	-	(2,558)	2,558	-
Common shares issued upon debt settlement (Note 18B7)	190	-	-	-	-	-	-	190	-	190
Net proceeds received upon completion of private placement transaction (Note 18B8)	1,750	311	3,004	-	-	-	-	5,065	-	5,065
Common shares issued upon exercise of pre-funded warrants (Notes 18B4 and 18B8)	1,316	-	(944)	-	-	-	-	372	-	372
Recognition of capital contribution from a main shareholder (Note 18C)	-	-	-	-	-	33	-	33	-	33
Share-based compensation	-	14	-	-	-	-	-	14	-	14
Balance as of December 31, 2025	\$ 270,518	\$ 475	\$ 2,168	\$ (3,842)	\$ (2,872)	\$ 33	\$ (270,210)	(3,730)	\$ 115	\$ (3,615)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,		
	2025	2024	2023
Cash flows provided by (used in) operating activities:			
Net loss	\$ (11,750)	\$ (11,771)	\$ (10,228)
Adjustments for non-cash items:			
Realized fair value adjustments on inventory sold or impaired	-	-	984
Revaluation of financial instruments	(410)	(249)	(6,955)
Issuance costs allocated to warrants granted	-	48	-
Disposal of property, plant and equipment	-	235	-
Common shares and prefunded warrants issued as share-based compensation with related party	-	758	-
Discount expenses in respect of convertible debentures	203	173	-
Depreciation of property, plant and equipment	300	456	644
Amortization of intangible assets	1,338	1,377	1,758
Depreciation of right of use assets	318	351	594
Impairment of goodwill	5,390	495	-
Impairment of intangible assets	997	-	-
Finance income, net	487	1,928	3,019
Deferred tax payments (benefit), net	(165)	(150)	394
Share-based payments	14	369	225
Loss from deconsolidation of Oranim	-	2,734	-
Revaluation expenses of investment in affiliate	-	837	-
Revaluation expenses (income) of loans receivables	-	(177)	601
Changes in employee benefit liabilities, net	-	(96)	(139)
Gain from debts restructuring	-	(960)	-
Discount expenses in respect of credit	169	87	-
	<u>8,641</u>	<u>8,216</u>	<u>1,125</u>
Changes in non-cash working capital:			
(Increase) decrease in trade receivables	4,058	(6,287)	2,320
Decrease in other current assets	2,033	1,902	1,299
(Increase) decrease in inventory, net of fair value adjustments	(722)	6,261	4,771
(Increase) decrease in trade payables	1,738	7,845	(6,098)
(Increase) decrease in other current liabilities	732	(7,147)	(750)
	<u>7,839</u>	<u>2,574</u>	<u>1,542</u>
Taxes paid	(14)	(96)	(514)
Net cash provided by (used in) operating activities	<u>4,716</u>	<u>(1,077)</u>	<u>(8,075)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canadian Dollars in thousands

	Year ended December 31,		
	2025	2024	2023
Cash flows used in investing activities:			
Purchase of property, plant and equipment	(13)	(156)	(581)
Proceeds from sales of property, plant and equipment	-	96	-
Deconsolidation of subsidiary	-	(346)	-
Loan granted	-	-	(601)
Change in restricted cash	(518)	(64)	-
Net cash used in investing activities	(531)	(470)	(1,182)
Cash provided by financing activities:			
Net proceeds allocated to issuance of share capital	5,065	944	1,688
Net proceeds allocated to issuance of warrants measured at fair value	-	1,106	6,585
Proceeds received from common shares issued upon pre-funded warrants exercised	(*) -	-	-
Repayment of lease liabilities	(282)	(331)	(586)
Payment of interest on lease liabilities	(41)	(52)	(63)
Proceeds from loans received	3,271	2,619	5,482
Repayment of loans	(1,810)	(3,834)	(4,827)
Interest paid	(2,521)	(2,080)	(1,664)
Proceeds received from discounted checks	(2,536)	5,453	2,802
Net cash provided by financing activities	1,146	3,825	9,417
Effect of foreign exchange on cash	(3,467)	(3,228)	(796)
Change in cash	1,864	(950)	(636)
Cash at the beginning of year	863	1,813	2,449
Cash at the end of year	2,727	\$ 863	\$ 1,813
Supplemental disclosure of non-cash activities:			
Right of use assets recognized with corresponding lease liabilities (Note 11)	\$ 254	\$ 40	\$ 309
Issuance of convertible debentures in exchange for loans (principal and interest) received (Note 15)	\$ -	\$ 2,092	\$ -
Common shares and warrants issued as debts settlement with related party (Note 18B1 and 18B2)	\$ -	\$ -	\$ 1,061
Common shares issued upon exercise of pre-funded warrants (Note 18B4)	\$ 1,316	\$ -	\$ -
Common shares issued upon partial conversion of convertible debentures (Note 18B5)	\$ 1,395	\$ -	\$ -
Common shares issued as debt settlement (Note 18B7)	\$ 190	\$ -	\$ -
Revaluation of put option liability versus equity	\$ -	\$ 724	\$ 1,820

(*) Represents an amount less than \$1.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1 - GENERAL

A. Corporate information

IM Cannabis Corp. (the "Company" or "IMCC") is listed for trading on the NASDAQ, commencing from March 1, 2021, under the ticker symbol "IMCC". IMCC's main office is in Kibbutz Gil-Yam, Israel. On June 2, 2025, the common shares of the Company have been voluntarily delisted from trading on the Canadian Securities Exchange (the "CSE").

The Company and its subsidiaries (collectively, the "Group") operate as one reporting unit in geographical reporting segments (see also Note 21 below). Most of the Group's revenue is generated from sales of medical cannabis products to customers in Israel and Germany. The remaining revenue is generated from sales of other products to customers in Israel and Germany.

In Israel, IMCC operates in the field of medical cannabis through several pharmacies and trade houses specializing in medical cannabis pursuant to the Israeli Dangerous Drugs Ordinance (New Version), 1973 (the "Dangerous Drugs Ordinance") and the related regulations issued by IMCA.

In Europe, IMCC operates through German-based subsidiary which 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 or export capability with requisite permits.

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

For more information regarding the list of entities under the Group, see Note 3A below

B. 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
US\$	-	United States dollar
EUR	-	EURO
NIS	-	New Israeli Shekel

C. Impact of potential Germany's legalization of cannabis

In October 2025, the German federal cabinet approved a draft legislative amendment that, if enacted as currently proposed, would (i) require in-person physician consultations for the prescription of cannabis flowers and (ii) prohibit mail-order distribution of cannabis flowers within Germany, permitting delivery only via pharmacy couriers. The timing, scope and final form of such legislation remain uncertain.

If implemented, these changes could materially adversely affect the Company's German operations, including by limiting distribution channels and reducing patient accessibility, which may, in turn, negatively impact revenues and operating results.

For more information regarding the impairment of intangible assets and goodwill allocated to the German and Israeli Cash-Generating Unit (the "CGU"), see Note 10 below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1 - GENERAL (Cont.)

D. Liquidity and capital resources and going concern

The Company devotes substantially all its efforts to commercialization of its medical cannabis products, which are expected to require substantial further expenditures. Thus, the Company is raising capital for such purposes. As of December 31, 2025, the Group has negative working capital, accumulated deficit and total shareholders' deficit of \$11,265, \$270,210 and \$3,730, respectively. In addition, during the year ended December 31, 2025, the Group had a loss from operating activities of \$11,750.

During the periods reported, the Group's operating expenses included various assumptions concerning the level and timing of cash receipts from sales and cash outlays for operating expenses and capital expenditure, of which the Company executed a cost-saving plan, to allow the continuing of its operations and meet its cash obligations. The cost saving plan consisted of cost reduction due to efficiencies and synergies, which include mainly (i) reduction in payroll and headcount, (ii) reduction in compensation paid to key management personnel (including layoffs of key executives), (iii) operational efficiencies and reduced capital expenditures and (iv) establishing new and efficient supply chains to support its activities in the German region. In the periods reported, the Company continued to closely monitor its expenses.

Management plans to finance its operations through (i) sales of its medical cannabis products in Israel and on a larger scale in the German territory, resulting from Germany's legalization of cannabis on April 1, 2024, which facilitates the access to medical cannabis prescriptions for patients and legalizes non-profit social clubs starting July 1, 2024. However, the legislation in Germany might be subject to future changes that may have significant adverse effect of the Company (for more information regarding the potential change of Germany's legalization of cannabis, see Note 1C above), (ii) sales of equity and/or raising debts (including shelf registration statement on Form F-3 that was declared effective on July 11, 2025 by the U.S. Securities and Exchange Commission ("SEC") and which allows the Company to register up to US\$50,000 thousand (for more information regarding the registration of certain securities issued through private placement offering and a promissory notes offering, see Note 18B8 and 24B below) of certain equity and/or debt securities of the Company through prospectus supplement). However, there is no assurance that additional capital and financing will be available to the Group, and even if available, whether it will be on terms acceptable to the Group or in the required amounts and through (iii) exploring of additional business activities with the goal of enhancing long-term growth opportunities.

For more information regarding the funds raising through debts and/or capital transactions, see Notes 14, 15, 18B and 24 below, respectively.

These conditions raise uncertainties that cast significant doubt as to whether the Company will be able to continue as a going concern. The consolidated financial statements do not include any adjustments relating to recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

E. Impact of continued interest rate on the Group's business activity

Following macroeconomic developments around the world that have taken place in recent years, there has been an increase in inflation rates in Israel and around the world. As part of the steps taken to curb the rise in prices, central banks around the world, including the Bank of Israel, began to raise the interest rate, mainly between 2022 through 2024.

The increase in the interest rate has a negative impact on the Company due to its liabilities towards bank institution and others that bear an interest rate at a variable rates. For more information regarding variable interest rates of loans received from bank institution and others, see Note 14 below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 1 - GENERAL (Cont.)

F. Impact of the security situation on the Group's business activity

On October 7, 2023, the State of Israel was attacked by the terrorist organization Hamas, and as a result, the State of Israel declared a state of war and a large-scale mobilization of reserves (the "War"). At the same time, a front of fighting also developed in the northern border against the terrorist organization Hezbollah, which led to extensive evacuation of residents. The War is an exceptional event with security and economic implications whose extent and outcomes are unpredictable. In response to the War, the State of Israel has taken significant steps to ensure the security of its residents, which have a considerable impact on economic and business activities in the country. The events of the War have led to a reduction in business activity in the economy and a significant slowdown in economic activity, affecting the business operations of entities in various circles of influence, among others due to the closure of factories in the south and north of the country, damage to infrastructure, long-term mobilization of reservists, and more. Potential fluctuations in commodity prices, foreign exchange rates, availability of materials, availability of manpower, local services, and difficulties in accessing local resources have affected and are expected to continue to affect entities whose main operations are in Israel. In addition, the state of warfare also affects the activities of entities that rely on foreign workers or on workers recruited for the purposes of the fighting, international trade, foreign companies in Israel, civil aviation, and more. As a result, the War has significant implications for the economy and imposes a considerable burden on the continuation of business activity and the functional and operational continuity of the entities.

In November 2024, a ceasefire was reached with the terrorist organization Hezbollah in the north of the country, but the War continued in other areas.

On June 13, 2025, the State of Israel launched operation "Rising Lion" against military targets in Iran, with a focus on the Iranian nuclear project. As a result, a state of emergency was declared in Israel, causing repercussions and restrictions on the Israeli economy, which included, inter alia, partial or complete closure of businesses, restrictions on gatherings in workplaces and in the education system, as well as a decrease in workforce due to reserve enlistment and a reduction in number of foreign workers. During the operation, a targeted American strike was carried out against Iran, after which, on June 24, 2025, a ceasefire was reached between the parties.

Following the above, in October 2025 a ceasefire agreement was signed with terrorist organization Hamas in Gaza and as a result, the fighting subsided on most fronts.

Subsequent to reported date, on February 28, 2026, Israel and the United States launched a joint attack against Iranian government targets, following which Iran responded with missile fire towards Israel and other countries in the region. As a result of the aforementioned, the Israeli government declared a special situation on the home front across the entire country, including restrictions on gatherings and a reduction in economic activity except for essential workplaces until March 26, 2026.

The Company's management is continuously monitoring the developments regarding the War and is acting in accordance with the guidelines of the various authorities. The Company suffered a negative impact from the War commencing the last quarter of 2023. The Company has experienced damage to its ability to function, affecting various aspects, including employees, supplies, imports, sales, and more.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 2 - BASIS OF PRESENTATION

A. Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS Accounting Standards"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

These financial statements of the Company for the year ended December 31, 2025, have been prepared by management using the material accounting policies described in Note 3 below and were authorized for issuance in accordance with a resolution of the Board of Directors (the "Board") on March 30, 2026.

B. Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for provisions, deferred tax liabilities and financial instruments presented at fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting. The material accounting policies set out below have been applied consistently to the period presented in these consolidated financial statements.

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

C. Use of Significant Accounting Estimates and Assumptions and Judgements

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make accounting estimates and assessments that involve use of judgment and that affect the amounts of assets and liabilities presented in the financial statements, the disclosure of contingent assets and liabilities at the dates of the financial statements, the amounts of revenue and expenses during the periods reported and the accounting policies adopted by the Company. Actual results could differ from those estimates.

For information regarding significant estimates and considerations which embody significant sensitivity to future events, see Note 4 below.

D. The Functional Currency and the Presentation Currency

The Company prepares its financial statements in accordance with the currency of the country and principal economic environment in which it operates, that constitutes the functional currency from which it is primarily affected (the "Functional Currency"). Management has determined that the Functional Currency of the Group is the Canadian dollar ("CAD" or "\$").

The Group's financial statements are presented in CAD. Consequently, in accordance with IAS 21, "Accounting for Foreign Exchange Rates", results of operations of each Group entity were translated from such entities' functional currency into CAD using the actual action date currency rate and assets and liabilities were translated into CAD using currency rates at period end. Foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity (deficit).

Upon 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 (loss) is transferred to profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES

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

A. Consolidated financial statements

The consolidated financial statements comprise of the financial statements of companies controlled by the Company. 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 of a controlled entity commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and its subsidiaries are prepared on 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 fully eliminated in the consolidated financial statements.

As of reported dates, major subsidiaries over which the Company has control, directly or indirectly, include:

Subsidiaries	Percentage ownership	
	2025	2024
I.M.C. Holdings Ltd.	100%	100%
Focus Medical Herbs Ltd. (*)	100%	74%
Oranim Plus Pharm Ltd. (**)	-%	51%
Oranim Pharm (**)	-%	100%
IM Cannabis Holding NL B.V (***)	100%	100%
Adjupharm GmbH	90.02%	90.02%
I.M.C. Pharma Ltd.	100%	100%
I.M.C. Farms Israel Ltd. (****)	-%	100%
I.M.C.C. Medical Herbs Ltd. (****)	-%	100%
R.A. Yarok Pharm Ltd.	100%	100%
Rosen High Way Ltd.	100%	100%
Revoly Trading and Marketing Ltd.	51%	51%

(*) IMC Holdings held an option to acquire from main shareholders of the Company an ownership which represents a rate of 74% of the voting rights in Focus (the "Option"). According to accounting criteria in IFRS 10, IMC Holdings is viewed as effectively exercising control over Focus, and thus the financial results of Focus were consolidated with those of the Group. On February 26, 2024, the Option was fully exercised and following the exercise the Company held 74% of the voting rights in Focus. In September 2024, the Board approved the acquisition of the remaining 26% of the voting rights in Focus, pending all necessary organizational and regulatory approvals which were achieved on May 26, 2025 (see also Note 18B6 below).

(**) Was deconsolidated effective April 15, 2024 (see also Note 19F1 below).

(***) Inactive entity.

(****) In January 2025, the Israeli Companies Registrar approved a liquidation status for such entities which was completed during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

B. Cash

Cash is 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.

C. 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 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.

D. 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 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 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 sale of cannabis products is generally recognized when control over the goods has been transferred to customer. Payment is typically due prior to or upon delivery. The Group satisfies its performance obligation and transfers control upon delivery.

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:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

E. Post-employment benefits

According to the labor laws and Severance Pay Law in Israel, the Israeli entities are required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Israeli Severance Pay Law. The Israeli entities' liability is accounted for as a post-employment benefit only for employees not under section 14. The computation of the Israeli entities' 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 reported dates, all employees in Israel are under section 14.

Expenses for defined contribution plans were in immaterial amounts during the periods reported.

F. 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 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 by applying the cost model and amortized over the shorter of its useful life and the lease term. The amortization periods are up to 5.5 years for premises and 3 years for vehicles.

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 change date of 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.

In lease transaction under which the Group subleases underlying right-of-use asset while the lease ('head lease') with the original lessor remains in effect and the sublease term is for a period that is shorter than the remaining term of the head lease, it was determined that the sublease is classified as an operating lease. Thus, the Group retains the lease liability and the right-of-use asset relating to the head lease in the statement of financial position and continues to account for the original lease as described above. In addition, the Group recognizes lease income from sublease on a straight-line basis over the term of the sublease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

G. Property, plant and equipment, net

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

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

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

	%
Building	3-6
Equipment and furniture	7-25
Vehicles	33
Computer, software and equipment	20 - 33
Leasehold improvements	(*)

(*) 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.

H. Intangible assets, net

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.

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 each year's end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

	Years
Cultivations and processing licenses	(*)
Customer relationships	5 - 8
Trade name	9

(*) The licenses consisted of GMP and GDP licenses in Germany which have determined to have an indefinite useful life but were impaired in total amount of \$997 during the year ended December 31, 2025 (see Note 10 below).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

I. 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 CGU 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 the 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 CGU to which the goodwill has been allocated. For purpose of goodwill impairment assessment, the Company identified the operations of Israel and Germany as two separate CGUs.

An impairment loss is recognized if the recoverable amount of the CGU to which goodwill has been allocated is less than the carrying amount of the CGU. 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, 2024, the Company recorded goodwill impairment in the amount of \$495 related to Panaxia activity. During the year ended December 31, 2025, the Company recorded goodwill impairment in the amount of \$5,390 with respect to the CGU in Israel. See Note 10 below. As of December 31, 2025, the remaining balance of goodwill amounted to \$1,885 is allocated to the Israeli CGU.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

J. 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 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. Subsequently, instruments 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 thus 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 reported 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.

Derecognition of financial assets:

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

L. Financial instruments (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 issuance 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.

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, as incurred.

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

Derecognition of financial liabilities:

Financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. 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.

K. 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 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 best economic interest.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

L. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) resulting from past events, 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 the expense to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in statement of operations net of any reimbursement.

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 reported 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.

M. Taxes on income

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

Current taxes

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

Deferred taxes

Deferred taxes are computed with respect to temporary differences between 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 reported date.

Deferred tax assets are reviewed at each reported 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 reported date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been considered 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 considered in computing deferred taxes since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

N. Issuance of a unit of securities

When multiple instruments are issued in a single transaction (package issuance), the total net proceeds from the transaction are allocated among the individual freestanding instruments identified. The allocation occurs after identifying all freestanding instruments and the subsequent measurement basis for those instruments.

Financial instruments that are required to be subsequently measured at fair value (such as derivative liabilities) are measured firstly at fair value and the remaining consideration, if any, is allocated to other financial instruments that are not required to be subsequently measured at fair value (such as liabilities measured at amortized cost, common shares and warrants and pre-funded warrants eligible for equity classification), based on the relative fair value basis for such instruments.

Issuance costs allocated to financial instruments that are required to be subsequently measured at fair value immediately expensed. Issuance costs allocated to financial liabilities measured at amortized cost are recorded as a discount and accreted over the contractual term of the financial instrument using the effective interest method. Issuance costs allocated to financial instruments that are eligible for equity classification are recorded as a reduction of shareholders' equity.

O. Convertible debentures

Upon initial recognition of convertible debentures and similar instruments, the Company considers the provisions of IAS 32 in order to determine whether the transaction represents a compound financial instrument that includes financial liability component and an equity component, such when the conversion option is eligible for equity classification. In such cases, the Company applies 'split-accounting' in accordance with IAS 32 under which liability component of convertible debenture is measured first, at the fair value of a similar liability that does not have an associated equity conversion feature and the remaining proceeds are allocated to the equity component. Thereafter, the liability component is accounted for at amortized cost using the effective interest method and the amount allocated to the equity component is credited directly to equity and is not subsequently remeasured.

When the conversion option is not eligible for equity classification (such as the conversion price is not considered fixed) the transaction is accounted for as a hybrid contract that is based on a financial liability host with an embedded derivative (conversion option). In such cases, the embedded conversion option is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. The liability host of the convertible debenture is measured at the remaining amount, and in subsequent periods, the liability host is accounted for at amortized cost using the effective interest method.

P. Put option granted to non-controlling interests

When the Group grants non-controlling interests a put option, the non-controlling interests are classified as financial liability and are not accorded to their share in the subsidiary's earnings. At each reported date, the financial liability was measured based on 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 liability were recorded within equity. The related liability was derecognized as part of deconsolidation of Oranim. See Note 19F1 below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

Q. Share-based payment transactions

The cost of equity-settled transactions with employees, officers and directors and other service providers who render services that are settled with the Group's equity instruments is measured at the fair value of the equity instruments granted at the grant date. The fair value is determined by using an acceptable option pricing model.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period when the service conditions are to be satisfied, ending on the date the relevant grantees become entitled to the award. The cumulative expense recognized for equity-settled transactions at the end of each reported 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.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

R. Loss per share

Loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted number of common shares outstanding during the period.

Potential common shares are included in the computation of diluted loss per share when their effect increases loss per share from operations. In computing diluted loss per share, basic loss per share is adjusted to reflect the potential dilution that could occur upon exercise of options and similar instruments using the "treasury stock method" and using the if-converted method with respect to convertible debentures, warrants and pre-funded warrants derivative liabilities, if the effect of each of such financial instruments is dilutive. Potential common shares that are converted during the period are included in diluted loss per share only until the conversion date and from that date in basic loss per share.

Shares to be issued upon exercise of financial instruments such as options, warrants, pre-funded warrants and conversion of convertible debentures, have been excluded from the calculation of the diluted net loss per share for all the periods reported for which net loss was reported because their effect was anti-dilutive.

S. Operating cycle

The operating cycle of the Company is one year.

T. New standards adopted at January 1, 2025**Amendments to IAS 21, "The Effects of Changes in Foreign Exchange Rates"**

On August 15, 2023, the IASB issued Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates) (the "Amendments").

IAS 21 sets out the requirements for determining the exchange rate to be used for recording a foreign currency transaction into functional currency and translating a foreign operation into a different currency, whereby the Amendments clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of currency not being exchangeable.

The Amendments became effective to annual reporting periods beginning on or after January 1, 2025. The adoption did not have significant effect on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 3 - MATERIAL ACCOUNTING POLICIES (Cont.)

U. A summary of new reporting standards not yet effective and which are relevant to the Company's activities

1. IFRS 18, Presentation and Disclosure in Financial Statements

On April 9, 2024 the IASB published IFRS 18, which replaces IAS 1 'Presentation of Financial Statements' with the objective to improve how information is communicated in an entity's financial statements, particularly in the statement of profit or loss and in its notes to the financial statements.

The main changes that will apply to the financial statements with the implementation of IFRS 18, in relation to the presentation and disclosure instructions that apply today include the following:

- IFRS 18 changes the structure of the profit or loss report and includes three new defined categories: operating, investment and financing and adds two new interim summaries: operating profit and profit before financing and income taxes.
- IFRS 18 includes guidelines for providing disclosure on performance indicators defined by management (management-defined performance measures).
- IFRS 18 provides guidelines regarding the aggregation and disaggregation of the information in the financial statements in relation to the question of whether information should be included in the main reports or in explanations and disclosures regarding items defined as "other".
- IFRS 18 includes amendments to other standards, including limited amendments to International Accounting Standard 7, Statement of Cash Flows.

IFRS 18 will become effective, in a retrospective manner, for annual reporting periods beginning on or after January 1, 2027.

The Company is examining the possible impact of the new standard on the financial statements, but at this stage it is unable to assess such an impact. The effect of the new standard, however it may be, will only affect matters of presentation and disclosure.

2. Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7

In May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- A clarification that financial liability is derecognized on the 'settlement date' and introduction of an accounting policy choice (if specific conditions are met) to derecognize financial liabilities settled using an electronic payment system before the settlement date.
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed.
- Classification on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments.
- Introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

The Amendments are effective for annual periods starting on or after January 1, 2026 with early adoption permitted for classification of financial assets and related disclosures only. The Company does not anticipate that the amendments will have a material effect on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

 Canadian Dollars in thousands, except share and per share data

NOTE 4 - SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

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

A. 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, revenue and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the consolidated financial statements concerning uncertainties at the reported 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.

- Impairment of inventory:

Inventory impairment exists when the cost exceeds the net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Management estimates net realizable values of inventories, considering the most reliable evidence available at each reported date. The future realization of these inventories may be affected by competition, demands or other market-driven changes that may reduce future selling prices or affect customer demand for the products. See Note 7 below.

- Determining the fair value of unquoted financial assets:

Fair value of unquoted financial assets in level 3 of the fair value hierarchy is determined by using acceptable valuation techniques, applicable for items with similar terms and risk characteristics. The inputs into the measurement model are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date. See Note 8 below.

- Impairment of goodwill and other intangible assets:

The Group reviews goodwill and other intangible assets with indefinite useful lives for impairment at the CGU level, at least once a year at December 31, or more often whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. With respect to intangible assets with finite useful lives, the Group assesses, at each reporting date, whether there is an indication that an asset may be impaired.

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model which is based on the projected future cash flows from the continuing use of the asset are the related CGU. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group. See Note 10 below.

- Legal claims:

In estimating the likelihood of legal claims filed against the Group entities, the Group management relies 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. See Note 17 below.

- Tax provision:

The Company has transactions for which the tax results are uncertain. The Company recognizes liabilities for the tax outcomes of these transactions based on the management's estimates, which rely on its professional advisors, regarding the timing and amount of tax liability arising from these transactions. When the tax results of these transactions differ from management's estimates, the tax expenses will change at the time the final assessment is determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 5 - TRADE RECEIVABLES

	December 31,	
	2025	2024
Open balance	\$ 6,188	\$ 7,039
Checks at a discount (*)	4,660	6,764
	<u>\$ 10,848</u>	<u>\$ 13,803</u>

(*) Represents several identified outstanding unpaid invoices of certain customers that are used as guarantees for short-term loans received under execution of financing transactions of the Company with non-banking credit services entities. For more information, see Note 14C below.

(**) Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. As of reported dates, there were no material past-due receivables.

NOTE 6 - OTHER CURRENT ASSETS

	December 31,	
	2025	2024
Prepaid expenses	\$ 114	\$ 191
Advances to suppliers	2,073	2,352
Government authorities	947	1,450
Former non-independent director	839	839
Shareholders (see Note 22A below)	129	134
Loans receivables	-	177
Other receivables	214	276
	<u>\$ 4,316</u>	<u>\$ 5,419</u>

NOTE 7 - INVENTORY

	December 31,	
	2025	2024
Work in progress:		
Bulk cannabis	\$ 326	\$ 325
Finished goods:		
Packaged dried cannabis	3,709	2,605
Other products	233	285
	<u>\$ 4,268</u>	<u>\$ 3,215</u>

During the years ended December 31, 2025, 2024 and 2023, inventory expensed to cost of revenue of cannabis products, including inventory write-off, was \$43,351, \$44,395 and \$36,265, respectively, which included also an amount of \$nil, \$nil and \$984 of non-cash expenses, respectively, related to the changes in fair value of inventory sold or impaired. In addition, during the years ended December 31, 2025, 2024 and 2023, cost of revenue also includes overhead production not allocated to costs of inventory produced and recognized as an expense, as incurred. See also Note 19B below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 8 - INVESTMENT IN AFFILIATE

On December 26, 2019, IMC Holdings entered into a Share Purchase Agreement (the "SPA") with Xinteza API Ltd. ("Xinteza"), a company with a unique biosynthesis technology, under which IMC Holdings invested an aggregate amount of US\$1,700 thousand (approximately \$2,468) in exchange for issuance of 38,082 preferred shares of Xinteza.

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

As of the reported dates, IMC Holdings holds 25.32% of the voting rights of Xinteza on regular basis and has the right to two members of the Board of Directors out of five. However, it was determined that the economic interests of the preferred shares are not substantially identical to those of ordinary shares (due to such features as liquidation preference and redemption feature). Thus, since the preferred shares do not meet the criteria for ordinary equity ownership interest, the equity method is not applicable and thus the investment in Xinteza is subject to the provisions of IFRS 9 and is accounted for as a financial asset measured at fair value through profit or loss categorized within Level 3 of fair value hierarchy.

During the year ended December 31, 2024, Xinteza has raised funds in total amount of US\$125 thousand through SAFE transactions (the "2024 SAFE transactions"). However, given the time that has elapsed since the original investment dates, as of December 31, 2024, the management by using the assistance of third-party appraiser performed valuation work which was based on costs approach (the "Valuation Work"). The fair value of the shares of Xinteza held by the Company was estimated in total amount of \$1,631 (in NIS terms), as of December 31, 2024.

Noting that no changes were identified with respect to major quantitative or qualitative indicators during the year ended December 31, 2025, indicating a significant change in fair value of the investment in Xinteza since the last Valuation Work conducted as of December 31, 2024, and given that Xinteza has raised funds through SAFE transactions from new investor which include similar commercial terms included in 2024 SAFE transactions, it has been determined by management that the fair value of Xinteza's shares held by the Company is estimated at \$1,776 (in NIS terms) as of December 31, 2025.

	December 31,	
	2025	2024
Open balance	\$ 1,631	\$ 2,285
Change of fair value in investment in affiliate (Note 19G)	-	(837)
Foreign currency translation	145	183
	<u>\$ 1,776</u>	<u>\$ 1,631</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT, NET

	Building and leasehold improvements	Equipment and furniture	Computer, software and equipment	Vehicles	Total
Cost:					
Balance at December 31, 2023	9,899	4,739	922	511	16,071
Additions during the year	4	101	-	51	156
Disposals	(411)	(17)	(11)	(197)	(636)
Deconsolidation of Oranim	(523)	(173)	(30)	(277)	(1,003)
Foreign currency translation	130	41	39	(46)	164
Balance at December 31, 2024	9,099	4,691	920	42	14,752
Additions during the year	-	6	7	-	13
Foreign currency translation	276	97	56	(2)	427
Balance at December 31, 2025	9,375	4,794	983	40	15,192
Accumulated depreciation:					
Balance at December 31, 2023	6,301	3,792	718	202	11,013
Depreciation during the year	186	116	101	53	456
Disposals	(147)	(8)	(10)	(140)	(305)
Deconsolidation of Oranim	(100)	(53)	(17)	(50)	(220)
Foreign currency translation	33	16	52	(23)	78
Balance at December 31, 2024	6,273	3,863	844	42	11,022
Depreciation during the year	142	114	44	-	300
Foreign currency translation	59	32	70	(2)	159
Balance at December 31, 2025	6,474	4,009	958	40	11,481
Depreciated cost at December 31, 2025	\$ 2,901	\$ 785	\$ 25	\$ -	\$ 3,711
Depreciated cost at December 31, 2024	\$ 2,826	\$ 828	\$ 76	\$ -	\$ 3,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 10 - GOODWILL AND INTANGIBLE ASSETS, NET

	Cultivations and processing licenses (*)	Customer relationships	Trade name	Goodwill	Other	Total
Cost:						
Balance at January 1, 2024	\$ 2,524	\$ 12,727	\$ 1,564	\$ 10,095	\$ 23	\$ 26,933
Impairment	-	-	-	(495)	-	(495)
Deconsolidation of Oranim	-	(2,822)	-	(3,499)	-	(6,321)
Foreign currency translation adjustments	147	174	-	578	-	899
Balance at December 31, 2024	2,671	10,079	1,564	6,679	23	21,016
Impairment	(997)	-	-	(5,390)	-	(6,387)
Foreign currency translation adjustments	123	101	-	596	-	820
Balance at December 31, 2025	1,797	10,180	1,564	1,885	23	15,449
Accumulated amortization:						
Balance at January 1, 2024	1,691	7,798	1,523	-	23	11,035
Amortization during the year	-	1,369	8	-	-	1,377
Deconsolidation of Oranim	-	(1,408)	-	-	-	(1,408)
Balance at December 31, 2024	1,691	7,759	1,531	-	23	11,004
Amortization during the year	-	1,330	8	-	-	1,338
Balance at December 31, 2025	1,691	9,089	1,539	-	23	12,342
Amortized cost at December 31, 2025	\$ 106	\$ 1,091	\$ 25	\$ 1,885	\$ -	\$ 3,107
Amortized cost at December 31, 2024	\$ 980	\$ 2,320	\$ 33	\$ 6,679	\$ -	\$ 10,012

(*) The licenses consisted of GMP and GDP licenses in Germany that had indefinitely useful life. The Company recognized an impairment loss in total amount of \$997 during the year ended December 31, 2025 (see below).

Amortization expenses amounted to \$1,338, \$1,377 and \$1,758, were recorded as part of selling and marketing expenses during the years ended December 31, 2025, 2024 and 2023, respectively.

During the year ended December 31, 2024, the Company derecognized goodwill and intangible assets in the amount of \$3,499 and \$1,414, respectively, as part of the deconsolidation of Oranim and goodwill impairment amounted to \$495 related to Panaxia.

As part of the preparation of the interim financial statements for the third quarter of 2025, the management has performed an intangible assets (indefinite useful life licenses in Germany) and goodwill impairment analysis as of September 30, 2025, due to existence of significant changes in the extent or manner in which, the related CGUs to which such intangible assets and goodwill relate, was expected to be used, including potential impact of the legalization of cannabis in Germany on the entire Group, as noted in Note 1C above. Accordingly, the management, using the assistance of external appraiser, measured the recoverable amounts of the intangible assets and the goodwill derived from the applicable CGUs based on the value in use which was calculated at the expected estimated future cash flows, as determined according to management's budget for the next five years, by taking into account a pre-tax discount rate of cash flows for the Israeli CGU and the German CGU of 21.86% and 18.64%, respectively. In addition, the projected cash flow for the period exceeding five years was estimated by using a fixed growth rate of 1.5% for both Israeli and German CGUs, representing the long-term average growth rate as expected for such business. Based on the analysis performed, the Company has determined that recoverable amount of the applicable CGUs to which intangible assets and goodwill has been allocated is less than the carrying amount of the applicable CGUs. Thus, the impairment analysis resulted in a write-off of \$997 and \$2,126 of indefinite useful life intangible assets and goodwill, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 10 - GOODWILL AND INTANGIBLE ASSETS, NET (Cont.)

As of December 31, 2025, the management using the assistance of external appraiser performed the annual impairment analysis of goodwill, under which the recoverable amount of the Israeli CGU to which the remaining balance of goodwill relates, was determined based on the value in use of such CGU, using the expected estimated future cash flows, as determined according to the budget for the next five years and approved by the management. As part of the annual impairment analysis, the pre-tax discount rate of the cash flows was determined as 19.07% and the projected cash flows for the period exceeding five years was estimated using a fixed growth rate of 1.5%, representing the long-term average growth rate as expected for such business. Based on the analysis performed, the Company has determined that recoverable amount of the Israeli CGUs to which the remaining balance of goodwill relates is less than the carrying amount of the Israeli CGUs. Thus, the impairment analysis resulted in an additional write-off of \$3,264 of goodwill.

NOTE 11 - LEASING

A. Right of use assets:

	Premises	Vehicles	Total
Cost:			
Balance at December 31, 2023	\$ 3,703	\$ 675	\$ 4,378
Changes during the year:			
New leases	-	40	40
Termination of leases	-	(92)	(92)
Deconsolidation of Oranim	(921)	-	(921)
Currency translation adjustments	(5)	37	32
Balance at December 31, 2024	2,777	660	3,437
Changes during the year:			
New leases	-	254	254
Termination of leases	-	(112)	(112)
Currency translation adjustments	442	74	516
Balance at December 31, 2025	3,219	876	4,095
Accumulated depreciation:			
Balance at December 31, 2023	2,723	348	3,071
Changes during the year:			
Depreciation and amortization	250	101	351
Termination of leases	-	(33)	(33)
Deconsolidation of Oranim	(388)	-	(388)
Currency translation adjustments	(47)	32	(15)
Balance at December 31, 2024	2,538	448	2,986
Changes during the year:			
Depreciation and amortization	231	87	318
Termination of leases	-	(86)	(86)
Currency translation adjustments	251	225	476
Balance at December 31, 2025	3,020	674	3,694
Depreciated cost at December 31, 2025	\$ 199	\$ 202	\$ 401
Depreciated cost at December 31, 2024	\$ 239	\$ 212	\$ 451

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 11 - LEASING (Cont.)

B. Operating lease liabilities:

	Premises	Vehicles	Total
Balance at January 1, 2024	\$ 1,119	\$ 150	\$ 1,269
Changes during the year:			
New leases	-	40	40
Payment of lease liabilities	(213)	(170)	(383)
Interest on lease liabilities	19	33	52
Termination of leases	-	(63)	(63)
Deconsolidation of Oranim	(527)	-	(527)
Currency translation adjustments	(8)	53	45
Balance at December 31, 2024	390	43	433
Changes during the year:			
New leases	-	254	254
Payment of lease liabilities	(210)	(113)	(323)
Interest on lease liabilities	21	20	41
Termination of leases	-	(22)	(22)
Currency translation adjustments	(21)	14	(7)
Balance at December 31, 2025	\$ 180	\$ 196	\$ 376
		December 31	
		2025	2024
Current liability		\$ 322	\$ 262
Non-current liability		54	171
Balance at December 31		\$ 376	\$ 433

C. Amounts recognized in statements of cash flow:

	Year ended December 31,		
	2025	2024	2023
Amortization of the right for use assets	\$ 318	\$ 351	\$ 594
Interest on lease liabilities	41	52	63
Payment of lease liabilities	\$ 323	\$ 383	\$ 649

Total negative cash flows in respect of leasing for the years ended December 31, 2025, 2024 and 2023 are approximately \$323, \$383 and \$649, respectively.

D. Analysis of contractual payment dates of leasing liability at December 31, 2025:

Up to a year	341
Between 1-3 years	114
Total (undiscounted)	455

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 12 - TRADE PAYABLES

	December 31,	
	2025	2024
Open accounts in Israel	\$ 9,780	\$ 8,929
Open accounts abroad	2,275	2,230
	<u>\$ 12,055</u>	<u>\$ 11,159</u>

NOTE 13 - OTHER CURRENT LIABILITIES

	December 31,	
	2025	2024
Accrued expenses (*)	\$ 2,621	\$ 2,632
Employees and payroll accruals	423	493
Government authorities	2,588	1,237
Advances from customers	209	492
Liability for restructuring	117	117
Other payables (**)	115	30
	<u>\$ 6,073</u>	<u>\$ 5,001</u>

(*) Including outstanding amount related to management fee to be paid to entity controlled by main shareholders of the Company in total amount of \$698 and \$427 as of December 31, 2025 and 2024, respectively. See also Note 22A below. Considering the relatively limited scale of the outstanding amounts, the total benefit the company received from the main shareholder is immaterial amount and therefore was not accounted for as transaction with main shareholders.

(**) Including subleasing income received in advance from an entity controlled by main shareholders in total amount of \$35 and \$30 as of December 31, 2025 and 2024, respectively. See also Note 22A below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15 - CONVERTIBLE DEBENTURES OFFERING

On May 26, 2024, the Company closed a debt settlement agreement under which an aggregate current liability in the amount of \$1,902 (the "Debt") to certain creditors (collectively, the "Creditors") have been settled through the issuance of up to \$2,092 of secured convertible debentures (the "Debentures"), including of a 10% extension fee. The Debentures will mature on May 26, 2025, will not incur interest except in the event of default and may be converted into common shares of the Company at a fixed conversion price of \$5.1 per common share. The Company was entitled through the term of the Debentures to early repayment of the Debentures for cash amount of \$2,092. Upon initial recognition, the Company recognized an amount of \$2,092 with respect to such liability, less than \$297 related to the conversion feature which was eligible to equity classification. On May 25, 2025, as the conversion feature expired unexercised, the amount of \$297 related to such option was classified from conversion feature related to convertible debt to share capital and premium.

Effective May 26, 2025, following the shareholders' approval, the Company and the Creditors agreed to extend the term of the Debentures until May 25, 2026, subject to additional 10% extension fee, such that the principal to be paid will be \$2,301 upon maturity. The conversion price was determined as \$2.61 per Common Share and the Company is entitled to through the term of the Debentures to early repayment of the Debentures for cash amount of \$2,301.

Based on the updated terms of the Debentures, including the Company's early repayment option, it was determined that the fair value of the modified financial instrument upon its extension is \$2,301. As the terms of the debentures were substantially modified, the modification was accounted for as derecognition of the original liability in an amount of \$2,092 and the recognition of a new liability in the amount of \$2,301. The difference in the respective amounts in the amount of \$209 was recognized as an immediate expense in the statement of profit or loss.

As the exercise price of the conversion option is fixed and determined in the functional currency of the Company, it was determined to be eligible for equity classification. Thus, it was determined that the Company has issued a compound instrument that include a financial instrument that is considered as "host" which comprised of Debentures and an embedded conversion feature with an embedded prepayment option which was determined as not closely related to the host. In accordance with IAS 32, the Company applied "split-accounting" as follows: first, the Company measured the fair value of the host liability at fair value of a similar liability that does not have an associated equity conversion feature in total amount of \$1,937 and the equity conversion component was measured as a residual amount in the amount of \$364. In subsequent periods, the host liability is accounted for at amortized cost using an effective interest method.

Pursuant to the above, on May 26, 2025, management by assistance of third-party appraiser allocated the Debentures amount to identified components as follows:

	<u>May 26, 2025</u>
Debentures (host instrument) (*)	\$ 1,937
Embedded conversion feature (residual amount)	364
Total fair value of the convertible debentures	<u>\$ 2,301</u>

(*) The fair value of the host instrument was measured by management using the assistance of an external appraiser taking into account a debt discount rate of 18.79%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 15 - CONVERTIBLE DEBENTURES OFFERING (Cont.)

The following tabular presentation reflects the reconciliation of the carrying amount of Debentures during the years ended December 31, 2025 and 2024:

	Year ended	
	December 31,	
	2025	2024
Balance at January 1	\$ 1,968	\$ -
Issued of debentures as part of debt settlement	-	2,092
Derecognition of debentures as part of modification of terms	(2,092)	-
Issuance of debentures as part of modification of terms	2,301	-
Recognition of discount equal to embedded conversion feature	(364)	(297)
Partial conversion into common shares (see Note 18B5 below)	(1,395)	-
Amortization of discount expenses	204	173
Balance at December 31	\$ 622	\$ 1,968

During the years ended December 31, 2025 and 2024, the Company recorded finance expenses related to extension fee and discount amortization amounted to \$413 and \$363, respectively. See also Note 19G below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 16 - DERIVATIVE WARRANTS LIABILITIES AND PREFUNDED WARRANTS

- A. From time to time the Company entered into a non-brokered private placement offering transactions or settlement agreements under which the Company issued units that consist of common shares and warrants which are exercisable into common shares over a limited period of the time at an exercise price which is denominated in foreign currency and/or as the warrants might be exercisable to variable number of shares due to cashless exercise mechanism. As a result of the above, such warrants are accounted for as a derivative warrants liability which is measured at fair value through profits and losses.

At the initial date and subsequently, the fair value of the warrants is estimated by management using the assistance of external appraiser based on Black and Scholes option pricing model, when unrealized gains or losses are included in finance income (expense), respectively, until expiration or exercise of the warrants.

The following table summarizes the observable inputs used in the valuation of the derivative warrants liabilities as of December 31, 2025 and 2024:

	December 31, 2025			December 31, 2024		
	Series 2024 (*)	Series 2023	Series 2021	Series 2024	Series 2023	Series 2021
Share price (in CAD)	1.91	1.91	1.91	3.25	3.25	3.25
Exercise price (in CAD)	3.43	12.34	59.21	4.32	12.95	62.14
Expected volatility (%)	67.72%	67.28%	67.3%	72.2%	75.7%	75.7%
Risk-free interest rate (%)	2.90%	3.63%	3.63%	2.93%	4.21%	4.21%
Dividend yield (%)	-	-	-	-	-	-
Expected term (years)	4.59	0.37	0.37	1.88	1.35	1.35
Number of warrants	742,517	818,818	49,058	742,517	818,818	49,058
Fair value per warrant (in CAD)	0.81	0.00	0.00	1.06	0.14	0.00

The following tabular presentation reflects the reconciliation of the total fair value of derivative warrants liabilities during the periods reported:

	Series 2024	Series 2023	Series 2021	Total
Balances at January 1, 2023	\$ -	\$ -	\$ 8	\$ 8
Issued (see Notes 18B1-18B2 below)	-	7,253	-	7,253
Changes in fair value (**)	-	(7,215)	(8)	(7,223)
Balances at December 31, 2023	-	38	-	38
Issued (see Note 18B3 below)	1,154	-	-	1,154
Changes in fair value (**)	(367)	62	-	(305)
Balances at December 31, 2024	787	100	-	887
Changes in fair value (**)	(*) (186)	(100)	-	(286)
Balances at December 31, 2025	\$ 601	\$ -	\$ -	\$ 601

(*) Including, inter alia, the implication of execution of agreements dated August 13, 2025, with the holders of certain common share purchase warrants (the "Warrants") originally issued as part of its private placement offering that closed on November 12, 2024 (the "2024 Private Placement"), pursuant to which the Company reduced the exercise price of each Warrant from \$4.32 per common share to \$3.43 per common share and extended the expiration date of each Warrant from November 12, 2026 to July 31, 2030.

(**) See Note 19F below.

- B. For more information regarding prefunded warrants granted to Company's Chief Executive Officer, then Chairman of the Board and main shareholder, see also Note 18B4 below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17 - CONTINGENT LIABILITIES

A. Legal proceedings:

1. 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 of approximately EUR 948 thousand for COVID-19 test kits purchased by Stroakmont & Atton from Adjupharm in May 2021. The Claim was served on December 2, 2021. In January 2022, Stroakmont & Atton filed its statement of defense to the Stuttgart Court in which it essentially stated two main arguments for defense: (i) 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 GmbH ("Uniclaro"). Therefore, Stroakmont & Atton is not the real purchaser rather than Uniclaro; and (ii) The Company allegedly placed an order with Uniclaro for a total of 4.3 million Clongene COVID-19 tests, of which Uniclaro claims to have a payment claim against the Company for a partial delivery of 380,400 Clongene COVID-19 tests in a total amount of EUR 941,897. Uniclaro has assigned this alleged claim against the Company to Stroakmont & Atton Trading GmbH, and Stroakmont & Atton Trading GmbH has precautionary declared a set-off against the Company's claim.

On March 22, 2022, Adjupharm filed a response to Stroakmont & Atton's statement of defense and rejected both allegations with a variety of legal arguments and facts and 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.

A court hearing with witnesses was held on January 11, 2023 and February 22, 2023, where witnesses testified. According to the court the witnesses could not provide the required evidence for the allegation regarding the sham transaction with Stroakmont.

On April 5, 2023, Stuttgart Court announced its decision (the "Test Kits Judgment") and sentenced Stroakmont to pay to Adjupharm EUR 948 thousand plus interest of 5% above the German basis rate since May 8, 2021. In addition, Stroakmont was sentenced to pay Adjupharm EUR 7 thousand plus interest at 5% above the German basis rate since December 14, 2021.

The directors of Stroakmont, Mr. Simic and Mr. Lapeschi, were not sentenced and in this respect, the COVID-19 Test Kit Claim was dismissed against them with regard to their personal liability. Adjupharm shall pay 2/3 of the Stuttgart Court expenses and the out-of-court expenses of Mr. Simic and Mr. Lapeschi. Stroakmont shall bear 1/3 of the Stuttgart Court expenses and 1/3 of the out-of-court expenses of Adjupharm. The remaining out-of-court expenses shall be borne by each party.

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

The judgment is not final. An Appeal by Stroakmont & Atton was not successful. Adjupharm initiated enforcement measurements and pledged the bank account of Stroakmont & Atton. However, there is no information about the possible amount in the bank account. In the meantime, after the pledge of the bank account, Stroakmont & Atton filed for insolvency proceedings and the court ordered not to transfer any pledged amount to Adjupharm until an insolvency administrator is appointed and will decide about the further steps in the insolvency proceedings. According to the information available, the insolvency proceedings have not commenced yet and an insolvency administrator has not yet been appointed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17 - CONTINGENT LIABILITIES (Cont.)

A. Legal proceedings (Cont.):

2. On December 22, 2022, Uniclaro filed a statement of claim against Adjupharm with the district court in Hamburg, pursuant to which Uniclaro is claiming the purchase price for 300,000 COVID-19 rapid tests in the total amount of approximately EUR 1,046 thousand (approximately \$1,540), including VAT, which Uniclaro has in its storage.

Uniclaro alleged 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).

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.

On February 14, 2024, a court hearing took place before the district court of Hamburg, at which the court first heard the managing directors of Uniclaro and Adjupharm.

On April 24, 2024, the Regional Court of Hamburg announced its decision under which (i) Adjupharm was not sentenced. Uniclaro's lawsuit for payment of approximately EUR 1,046 thousand in exchange for delivery of 300,000 Clungene tests was dismissed and (ii) Uniclaro is sentenced to pay Adjupharm approximately EUR 54 thousand plus interest at a rate of 5% above the German basis rate since January 17, 2023.

The judgement is not yet final. Uniclaro has appealed the judgment and applied for the judgment to be overturned and to sentence Adjupharm in accordance with Uniclaro's original application to pay the amount of approximately EUR 1,046 thousand (including VAT) in exchange for 300,000 Covid-19 rapid. Furthermore, Uniclaro has requested in its appeal to dismiss Adjupharm's counterclaim.

On January 15, 2026, a court hearing took place before the High Court of Justice of Hamburg. The attorney of Uniclaro did not arrive at the court hearing, hence the court dismissed the appeal and issued a default judgment against Uniclaro. According to this judgment the initial judgment of the Regional Court of Hamburg on behalf of Adjupharm was confirmed and the appeal was dismissed.

On January 29, 2026, Uniclaro objected against the default judgment and requested to continue the proceedings. The High Court of Justice of Hamburg will have now to appoint a new court hearing to decide about the objection and whether the default judgment will remain in place.

At this stage, management cannot assess the chances of the claim advancing or the potential outcome of these proceedings. Thus, no provision has been recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17 - CONTINGENT LIABILITIES (Cont.)

A. Legal proceedings (Cont.):

3. On November 17, 2023, we received a copy of the 35 Oak Statement of Claim that was filed in the ONSC by 35 Oak Holdings Ltd., MW Investments Ltd., 35 Oak Street Developments Ltd., Michael Wiener, Kevin Weiner, William Weiner, Lily Ann Goldstein-Weiner, in their capacity as trustees of the Weiner Family Foundation (collectively the "MYM Shareholder Plaintiffs") against us and our Board and officers, (collectively, the "MYM Defendants").

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

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

The Company, together with some of the MYM Defendants, brought, on February 22, 2024, a preliminary motion to strike out several significant parts of the claim. Following prolonged discussions and negotiations with the plaintiffs, the MYM Shareholder Plaintiffs narrowed their claim, provided further particulars of it, and agreed to resolve the motion on consent. The Plaintiffs have agreed to discontinue or dismiss their claims against several of the individual defendants. Their claim will only continue against IM Cannabis, MYM Neutraceuticals Inc., Michael Ruscetta, and Howard Stenberg.

The Company delivered a Statement of Defence by March 23, 2026, as did Messrs. Steinberg and Ruscetta.

Given the preliminary stage of this action, 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 us and if so, how much.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 17 - CONTINGENT LIABILITIES (Cont.)

B. Tax Remittance:

On October 31, 2023, notices of assessment for excise tax have been received covering the period commencing January 1, 2020 through December 31, 2021, under which the Company was assessed for tax on insurance, arrears interest and failure to file penalty in aggregate amount of \$319 (collectively, the "2020-2021 Assessments").

On November 29, 2023, the Company filed notices of objection (Excise Tax Act) to the 2020-2021 Assessments. The Company assesses the filed notices of objection (Excise Tax Act) to be low to medium complexity.

On April 26, 2024, the Company received a letter from the Canada revenue agency that the notice of assessment for excise tax that the Company objected to is voided and no outstanding balance is owed with respect to such assessments. Based on the foregoing, this matter has been resolved to the Company's satisfaction and the objections were finalized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT)

A. Composition of share capital:

	December 31, 2025		December 31, 2024	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common Shares without par value	Unlimited	5,894,812	Unlimited	3,085,452

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

As of July 12, 2024, the Board of the Company has approved a reverse share split of all outstanding common shares of the Company at a ratio of 6:1 so that each six common shares without par value were consolidated into one common share without par value (the "Reverse Share Split"). For accounting purposes, all common shares, restricted share units, options and warrants to purchase common shares and loss per share amounts have been adjusted to give retroactive effect to the Reverse Share Split for all periods presented in the consolidated financial statements. All fractional Common Shares equal to or greater than one-half resulting from the Reverse Share Split were rounded to the next whole number, otherwise, the fractional Common Share was cancelled.

B. Changes in issued and outstanding share capital:

	Number of shares		
	2025	2024	2023 (*)
Balance as of January 1	3,085,452	2,232,359	1,261,590
Common shares issued through private placements offerings (1), (3), (8)	1,202,000	742,517	879,520
Common shares issued as debts settlement (2), (7)	52,380	-	82,082
Common shares issued as compensation to a related party (4)	-	110,576	-
Common shares issued upon RSUs vested	-	-	9,167
Common shares issued upon pre-funded warrants exercised (4), (8)	800,701	-	-
Common shares issued upon debentures converted (5)	625,461	-	-
Common shares issued as consideration upon acquisition of non-controlling interest (6)	128,818	-	-
Balance as of December 31	5,894,812	3,085,452	2,232,359

(*) Includes the effect of Reverse Share Split (see also Note 18A above).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

B. Change in issued and outstanding share capital (Cont.):

1. In January and February of 2023, the Company issued 471,375 units of the Company at a price of US\$7.5 per unit for aggregate gross proceeds of US\$3,535 (approximately \$4,705) in a series of closings pursuant to a non-brokered private placement offering to purchasers (the "LIFE Offering"). Each unit consisted of one common share and one warrant which eligible for exercise into one common share at an exercise price of US\$9.00 over a period of 36 months from the issuance date.

Concurrently with the LIFE Offering, the Company issued 21,950 units to a non-independent director under the LIFE Offering at an aggregate price of US\$165 (approximately \$222) as a settlement of debt in the same amount owed by the Company to the director for certain consulting services previously rendered by the director to the Company. Each unit consisted of one common share and one warrant which eligible for exercise into one common share at an exercise price of US\$9.00 over a period of 36 months from the issuance date (the "LIFE Offering Warrants").

Concurrent with the LIFE Offering, the Company issued 386,195 units on a non-brokered private placement basis at a price of US\$7.5 per unit for aggregate gross proceeds of US\$2,896 (approximately \$3,854) (the "Concurrent Offering"). Each unit consisted of one common share and one warrant which eligible for exercise into one common share at an exercise price of US\$9.00 over a period of 36 months from the issuance date. The Concurrent Offering was led and participated by insiders of the Company of 193,333 units out of the total Concurrent offering units.

All the above warrants issued are considered as "January-February 2023 Warrants".

The Company incurred direct and incremental transaction costs related to the LIFE Offering amounted to approximately \$334.

As the exercise price of January-February 2023 Warrants is denominated in foreign currency, which is not the Company's functional currency, the January-February 2023 Warrants were accounted for as a derivative liability, which was measured at fair value at initial date by management using the assistance of external appraiser in total amount of US\$5,277 thousand (approximately \$7,027) by using Black-Scholes pricing model. The residual amount of US\$1,319 thousand (approximately \$1,754) was allocated to common shares issued and was recorded as part of share capital and premium.

Issuance costs amounted to \$268 allocated to January-February 2023 Warrants have been charged immediately to statement of operations as part of finance expenses and the amount of \$66 that was allocated to common shares was recorded as deduction from share capital and premium.

2. On May 8, 2023, the Company closed a debt settlement transaction (the "Debt Settlement") with L5 Capital Inc., a company controlled by Marc Lustig, the then executive chairman of the Board of the Company ("L5 Capital"), pursuant to which the Company settled outstanding indebtedness of US\$616 (approximately \$839) through issuance of 82,082 units at a price of US\$7.00 per unit. Each unit consisted of one common share and one warrant which is eligible for exercise into one common share at an exercise price of US\$9.00 per common share over a period of 36 months from the issuance date (the "May 2023 Warrants").

As the exercise price of the May 2023 Warrants is denominated in foreign currency, which is not the functional currency of the Company, the May 2023 Warrants were accounted for as a derivative liability, which was measured at fair value at the initial date. The fair value of the May 2023 Warrants was determined by management using the assistance of external appraiser in total amount of US\$166 thousand (approximately \$226) by using Black-Scholes pricing model. The residual amount of US\$450 thousand (approximately \$613) was allocated to common shares issued and was recorded as part of share capital and premium.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

B. Change in issued and outstanding share capital (Cont.):

3. On November 12, 2024, the Company closed a non-brokered private placement offering through issuance of 742,517 units at a price of \$2.88 per unit for aggregate gross proceeds of \$2,138. Each unit consisted of one common share and one warrant which eligible for exercise into one common share at an exercise price of \$4.32 equal to a 50% premium to the offering price at any time prior to November 12, 2026 (the "November 2024 Warrants").

November 2024 Warrants might be exercisable to variable number of shares due to cashless exercise mechanism and thus they were accounted for as a derivative liability, which was measured at fair value at the initial date by management using the assistance of external appraiser in total amount of \$1,154 by using Black-Scholes pricing model. The residual amount of \$984 was allocated to common shares issued and was recorded as part of share capital and premium.

The Company incurred direct and incremental transaction costs amounted to approximately \$88, of which an amount of \$48 that was allocated to November 2024 Warrants classified as financial liability was charged immediately to statement of operations as part of finance expenses and the amount of \$40 that was allocated to common shares was recorded as deduction from share capital and premium.

4. Since October 2022, the Company has borrowed from various institutions more than US\$8,000 thousand (approximately \$10,832) (collectively, the "Loans"). As required by the lenders, the Company's chairman of the Board and the Chief Executive Officer (the "Guarantor") has personally guaranteed the Loans. The independent members of the Board commissioned a valuation work which determined that the value of the Guarantor's personal guarantees ascribed the benefit to the Company in total amount of approximately US\$560 thousand (approximately \$758) (the "Benefit").

In October 2024, the Company completed an agreement with the Guarantor, under which the Company issued 110,576 common shares and 152,701 pre-funded warrants at a price of \$2.88, which equals the Benefit amount. Each of the prefunded warrants is eligible for exercise into one common share at a price of \$0.00001 (each of the prefunded warrant may be exercised also through cashless exercise basis), upon receipt of shareholders' approval to allow the Guarantor to become a control person (as defined under the policies of the CSE). In the event the approval from the Company's shareholders is not received on or before March 31, 2025, the Guarantor agrees to return the prefunded warrants to the Company and the amount of Benefit allocated to the prefunded warrants shall remain owing to the Guarantor.

The above transaction was accounted for as a share-based compensation in exchange for instruments (i.e. common shares and prefunded warrants) that were issued to the Guarantor. However, since the achievement of the shareholders' approval was beyond the control of the Company, the prefunded warrants were accounted for as derivative liability that was measured in total amount of \$440 at the closing date and subsequently at fair value under a marked to market approach, until their exercise or expiration, as earlier. The amount of \$318 which was allocated to the common shares was recognized as part of the permanent equity of the Company.

Through December 31, 2024, the shareholders' approval was not received and none of the pre-funded warrants have been exercised. In addition, as of December 31, 2024, the fair value of the prefunded warrants amounted to \$496 based on the quoted price of the common shares. Consequently, during the period commencing the settlement date through December 31, 2024, the Company recognized revaluation expenses of \$56.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

B. Change in issued and outstanding share capital (Cont.):

4. (Cont.)

Effective May 26, 2025, following the shareholders' approval for the Company's then chairman of the Board, Chief Executive Officer to become a control person (as defined under the policies of the CSE), an aggregate 152,701 Pre-Funded Warrants held by the Guarantor have been exercised for the same number of ordinary shares at an exercise price of \$0.00001 per Pre-Funded Warrant. Consequently, the Pre-Funded Warrants were classified from derivative liability to equity at their fair value as of that date in total amount of \$372 based on a deemed price of \$2.44 per Common Share, equal to the 10-day volume weighted average price of the common shares on the CSE ending on May 26, 2025. During the period commencing January 1, 2025 through the exercise date, the Company recorded revaluation income of \$124 due to a change in the fair value of derivative liability.

5. During the period commencing May 26, 2025 through December 31, 2025, total carrying amount of debentures of approximately \$1,395 have been converted into 625,461 common shares of the Company. See Note 15 above.

6. In February 2024, the Company, through IMC Holdings, exercised an Option and acquired 74% of the voting rights in Focus. In September 2024, the Board approved the acquisition of the remaining 26% of the voting rights in Focus from Ewave Group Ltd.'s ("Ewave") which is a privately held entity jointly owned by two main shareholders of the Company (the "Focus Transaction"), pending all necessary organizational and regulatory approvals.

Management estimated by using the assistance of third-party appraiser the fair value of Focus to be approximately NIS 3.1 million based on discounted cash flow approach. Thus, it was determined that 26% interest in Focus is equal to approximately NIS 819 thousand (approximately \$314) (the "Focus Purchase Price"). As a result, the Company issued an aggregate of 128,818 common shares at a deemed price of \$2.44 per Common Share, equal to the 10-day volume weighted average price of the common shares on the CSE ending on May 26, 2025, the date in which the Company received disinterested shareholders' approval to complete the Focus Transaction (the "Closing Date").

At Closing Date, the common shares issued were recorded as part of share capital and premium based on the estimated Focus Purchase Price. The difference between the estimated Focus Purchase Price (\$314) and the amount of (\$2,558) which represents the book value of non-controlling interest allocated to 26% interest in Focus at the Closing Date was recorded as capital reserve related to transaction with non-controlling interest.

7. On June 12, 2025, the Board approved the Company to enter into a debt settlement agreement with an unrelated service provider, pursuant to which unpaid fees, charges, and disbursements for legal services rendered to the Company in previous periods in total amount of \$190 will be settled to a number of 52,380 common shares at a deemed price per share equal to 10-day volume weighted average price of the shares ending on the date prior to issuance of the common shares. The common shares have been issued on June 18, 2025.

The above transaction was accounted for as a settlement of financial liability under which the instruments issued are eligible for equity classification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

B. Change in issued and outstanding share capital (Cont.):

On July 30, 2025 (the "Closing Date"), the Company closed a Private Placement Offering (the "Offering") through issuance of 2,050,000 units (each a "Unit") for gross cash proceeds of US\$ 4,100 thousand (approximately \$5,622). Each Unit was sold at a price of C\$2.74 per Unit and consisted of (i) one common share or one common share pre-funded warrant in lieu thereof (the "Pre-Funded Warrants") and (ii) one common share purchase warrant (the "Warrant Shares").

8. Each Warrant Share entitles its holder to purchase one common share at an exercise price of \$3.43 per Warrant Share over a period of 60 months from its issuance. Each Pre-Funded Warrant entitles its holder to purchase one common share at an exercise price of \$0.00001 per Pre-Funded Share at any time until exercised in full.

In connection with the Offering, on July 31, 2025, the Company entered into a consulting agreement with Pure Equity Ltd. ("Pure Equity"), under which Pure Equity provided the Company with consulting services related to the Offering for total consideration that includes issuance of warrant (the "Finder's Warrant") to purchase up to 140,000 common shares of the Company (the "Finder's Warrant Shares") at an exercise price of US\$2.50 per Finder's Warrant Share over a period of 60 months following its issuance and one-time cash payment of US\$260 thousand, plus VAT.

Upon Closing Date, management by using the assistance of an external appraiser allocated the gross cash proceeds received based on the relative fair value of the common shares, Pre-Funded Warrants and Warrant Shares in total amount of \$2,070, \$1,460 and \$2,092, respectively. The fair value of the Warrant Shares was determined by using Black-Scholes pricing model taking into account, inter alia, expected stock price volatility of 66% and risk-free interest rate of 3.15%. The amount allocated to Pre-Funded Warrants and the Warrant Shares was classified as a component of permanent equity as their terms permit the holders to receive a fixed number of shares of common stock upon exercise for a fixed exercise price.

Direct and incremental costs incurred related to the Offering amounted to \$868 of which \$557 in cash and \$311 in share-based payment to Pure equity (the Finders Warrant). Such costs were allocated to common shares, Pre-Funded Warrants and Warrant Shares based on the same proportion as the allocation of the gross proceeds.

As the Finder's Warrant was granted to Pure Equity as compensation for its services rendered in respect to the Offering, the Finder's Warrant was accounted for under IFRS 2 "Share-based Payment" in total amount of \$311. These expenses were estimated at fair value by using Black-Scholes pricing model taking into account, inter alia, expected stock price volatility of 66.1% and risk-free interest rate of 3.96%. These expenses were included in the issuance costs incurred through the Offering.

Pursuant to the subscription agreement, the Company has agreed to file a resale registration statement on Form F-3 (the "Registration Statement") providing for the resale by the purchasers of the common shares, the Warrant Shares, the Pre-Funded Shares and the Finder's Warrant Shares within 30 calendar days of the Closing Date. The Company also agreed to use commercially reasonable efforts to cause such Registration Statement to become effective as soon as practicable, but in no event later than the date, which shall be either: (i) in the event that the SEC does not review the Registration Statement, 60 calendar days after the Closing Date, or (ii) in the event that the SEC reviews the Registration Statement, 90 days after the Closing Date. On August 27, 2025, a Registration Statement was declared effective by the SEC.

During the period commencing Closing Date through December 31, 2025, aggregate 648,000 Pre-Funded Warrants have been exercised into the same number of common shares of the Company at an exercise price of \$0.00001 per Pre-Funded Warrant. Thus, the amount of \$944 was classified from "amount received on account of financial instruments and others" into "share capital and premium".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

C. Capital reserve from transaction with main shareholder

During the year ended December 31, 2025, IMC Holdings entered in a loan agreement with the Company's then chairman of the Board, Chief Executive Officer and main shareholder (the "Main Shareholder"), in the amount of NIS 1,750 thousand (approximately \$751) which bear fixed annual interest at the rate prescribed by the Income Tax Regulations for determining the interest rate under Section 3(i) of the Income Tax Ordinance and shall be repaid up to April 30, 2026.

Since the loan received from the Main Shareholder includes an interest which did not represent the applicable rate of risk for the Company, the aforesaid transaction was accounted for as a capital contribution from main shareholder. Thus, the liability towards the Main Shareholder was measured at fair value based on future cash payments discounted using an interest rate of 17% which represented the Company's applicable rate of risk, as determined by management using the assistance of third-party appraiser. As a result, the Company recorded a discount on the balance of liability towards the Main Shareholder in total amount of NIS 85 thousand (approximately \$33) against capital reserve from transaction with main shareholder. Discount expenses are recorded over the economic life of the loan based on an effective interest rate method.

D. Share-based payment

1. Share option plan

Effective March 31, 2025, the Company adopted the omnibus equity incentive plan (the "Equity Incentive Plan"), which was ratified and approved by disinterested shareholders at the annual general and special meeting of the Company held on May 26, 2025. The 2025 Plan replaced previous stock option plan of the Company (the "Stock Option Plan") and the restricted share unit award plan of the Company (the "RSU Plan" and together with the Stock Option Plan, the "Predecessor Plans"). As of December 31, 2025, there are 28,768 common shares reserved for issuance pursuant to stock options ("Options") issued under the Stock Option Plan (the "Predecessor Options") and there are no common shares reserved for issuance pursuant to restricted share units ("RSUs") issued under the RSU Plan. No further awards will be granted under the Predecessor Plans. The Stock Option Plan continues to exist but only for the purpose of governing the terms of Predecessor Options that were granted under the Stock Option Plan prior to the adoption of the Equity Incentive Plan.

Awards may be granted under the Equity Incentive Plan until the Equity Incentive Plan terminates in accordance with its terms.

Pursuant to the Equity Incentive Plan, the Company may grant Awards (as such term defined in the Equity Incentive Plan) to eligible persons as determined by the Equity Incentive Plan. Awards under the Equity Incentive Plan include Options, Stock Awards (as such term is defined in the Equity Incentive Plan) and RSUs. Award holders who are resident in Israel are subject to the Sub-Plan for Award Holders in Israel (as such terms are defined in the Equity Incentive Plan).

The aggregate number of common shares which may be made available for issuance under the Equity Incentive Plan will not exceed with respect to the number of common shares issuable pursuant to all Awards, 20% of the total number of issued and outstanding Common Shares from time to time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

D. Share option plan (Cont.)

2. The following table presents the Company's options activity under the Stock Option Plan for the periods reported:

	Year ended December 31, 2025	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the year	41,410	227.9
Options forfeited during the year	(12,642)	729.38
Options outstanding at the end of year	28,768	7.60
Options exercisable at the end of year	28,766	7.60

	Year ended December 31, 2024	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the year	54,242	172.3
Options granted during the year	31,305	3.0
Options forfeited during the year	(44,137)	210.13
Options outstanding at the end of year	41,410	227.9
Options exercisable at the end of year	20,641	183.3

	Year ended December 31, 2023	
	Number of options	Weighted average exercise price in CAD
Options outstanding at the beginning of the year	86,528	225.6
Options granted during the year	500	6.6
Options forfeited during the year	(32,786)	310.7
Options outstanding at the end of year	54,242	172.3
Options exercisable at the end of year	49,907	170.3

The weighted average remaining contractual life for the options outstanding as of December 31, 2025 was 0.84 years (2024 - 1.78 years and 2023 - 3.76 years).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 18 - SHAREHOLDERS' EQUITY (DEFICIT) (Cont.)

D. Share option plan (Cont.)

3. The following table presents the assumptions used to estimate the fair values of the options granted in the periods reported:

	Year ended December 31,	
	2024	2023
Share price (in CAD)	\$ 3.0	\$ 6.6
Exercise price (in CAD)	\$ 3.0	\$ 6.6
Expected life (years)	1.25	5
Volatility (%)	68.6-69.6	104.4-109.35
Annual risk-free rate (%)	3.23	3.55-3.65
Dividend yield (%)	-	-

During the years ended December 31, 2024 and 2023, the weighted average fair value of each option on grant date was \$1.24 and \$4.7, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 19 - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

A. Additional information on revenue:

	Year ended December 31,		
	2025	2024	2023
Cannabis products	\$ 53,186	\$ 51,335	\$ 44,246
Other products	1,545	2,696	4,558
	<u>\$ 54,731</u>	<u>\$ 54,031</u>	<u>\$ 48,804</u>

(*) All products are sold through one reporting unit. See also Note 21 below.

B. Cost of revenue:

	Year ended December 31,		
	2025	2024	2023
Salaries and related expenses	\$ 536	\$ 453	\$ 457
Materials	43,351	40,517	36,265
Write-off	-	3,878	-
Professional fees	754	519	418
Depreciation	7	7	7
Miscellaneous	397	206	827
	<u>\$ 45,045</u>	<u>\$ 45,580</u>	<u>\$ 37,974</u>

C. Selling and marketing expenses:

	Year ended December 31,		
	2025	2024	2023
Salaries and related expenses	\$ 2,604	\$ 3,455	\$ 5,677
Advertising	326	832	1,568
Professional fees	28	13	36
Depreciation	1,426	1,627	2,320
Miscellaneous	972	1,142	1,187
	<u>\$ 5,356</u>	<u>\$ 7,069</u>	<u>\$ 10,788</u>

D. General and administrative expenses:

	Year ended December 31,		
	2025	2024	2023
Salaries and related expenses	\$ 2,438	\$ 2,218	\$ 2,314
Insurance	1,030	1,321	1,847
Professional fees, net (*)	3,471	2,022	4,095
Depreciation	523	550	669
Miscellaneous	2,054	1,907	2,083
	<u>\$ 9,516</u>	<u>\$ 8,018</u>	<u>\$ 11,008</u>

(*) Includes management fee incurred indirectly through an entity controlled by the main shareholder. See Note 22B below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 19 - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

E. Restructuring expenses:

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 the mid of 2023, subject to applicable Israeli law. Thus, the Company recorded restructuring expenses for the year ended December 31, 2023 related mainly to salaries to employees in the amount of \$617.

F. Other expenses:

- On April 15, 2024, the Company and the former shareholder of Oranim Plus Pharm Ltd. ("Oranim") mutually agreed to terminate previous arrangements between them for purchasing 51% of the rights in Oranim by the Company. Consequently, the Company's obligations for the remaining consideration were derecognized, the Company's "Call" option and the seller "Put" option were expired, the Company transferred its rights in Oranim back to the seller and the Company recorded loss amounted to \$2,734 as a result of deconsolidation of the financial results of Oranim. The assets and liabilities of Oranim (including related liabilities) immediately prior to deconsolidation date were as follows:

CURRENT ASSETS:	
Cash	\$ 346
Trade receivables	1,324
Other current assets	759
Inventory	837
	<u>3,266</u>
NON-CURRENT ASSETS:	
Property, plant and equipment, net	783
Right-of-use assets, net	533
Intangible assets, net	1,414
Goodwill	3,499
	<u>6,229</u>
Total assets	\$ <u>9,495</u>
CURRENT LIABILITIES:	
Trade payables	\$ 1,597
Other current liabilities	166
Current maturities of operating lease liabilities	155
	<u>1,918</u>
NON-CURRENT LIABILITIES:	
Operating lease liabilities	372
Deferred tax liability, net	326
	<u>698</u>
Total liabilities	\$ <u>2,616</u>
Purchase consideration payable	\$ 2,172
Put option liability	\$ <u>1,973</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 19 - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

F. Other expenses (Cont.):

2. On June 30, 2023, an 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. During the year ended December 31, 2024, the Company recorded a goodwill impairment of \$495 related to Panaxia activity.
3. For more information regarding impairment of intangible assets and goodwill allocated to Israeli CGU and German CGU, see Note 10 above.

G. Finance expenses (income) net:

	Year ended December 31,		
	2025	2024	2023
Finance income:			
Revaluation of loans receivables	\$ -	\$ (177)	\$ -
Change in fair value of derivative warrants liabilities (Note 16)	(286)	(305)	(6,955)
Change in fair value of derivative pre-funded warrants liabilities (Note 18B4)	(124)	-	-
Exchange rate differences and other finance income	(3,021)	(1,729)	(51)
	<u>\$ (3,431)</u>	<u>\$ (2,211)</u>	<u>\$ (7,006)</u>
Finance expenses:			
Compensation expenses in respect to guarantees granted by main shareholder	\$ -	\$ 758	\$ -
Change in fair value of derivative pre-funded warrants liabilities (Note 18B4)	-	56	-
Issuance costs allocated to derivative warrants liability (Notes 18B1, 18B3)	-	48	-
Extension fee and discount amortization expenses in respect to convertible debentures (Note 15)	413	363	-
Revaluation of investment in affiliate (Note 8)	-	837	-
Interest and discount amortization expenses on credit from bank institution and others (Note 14)	2,756	2,507	1,711
Impairment of loans receivables	-	-	601
Exchange rate differences and other finance income	333	202	1,359
	<u>\$ 3,502</u>	<u>\$ 4,771</u>	<u>\$ 3,671</u>
	<u>71</u>	<u>\$ 2,560</u>	<u>\$ (3,335)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20 - 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 is 26.5%.
2. The Israeli subsidiaries are subject to Israeli corporate income tax rate of 23%.
3. The German subsidiary is subject to weighted tax rate of approximately 29.1% (composed of Federal and Municipal tax) for the reported periods.

B. Carryforward net operating losses for tax purposes:

1. As of December 31, 2025, the carryforward net operating tax losses of the Israeli subsidiaries amounted to approximately \$40,472, which can be carried forward to future years and offset against taxable income in the future without any time limitation.
2. As of December 31, 2025, the carryforward net operating tax losses of the German subsidiary amounted to approximately \$16,938 which can be carried forward without time limitation. Under the restrictions of the so-called minimum taxation, only 60% (from 2024 to 2027: 70%) of annual taxable profits in excess of EUR 1,000 thousand can be offset by loss carryforwards. This tax loss carryforward rule applies for both corporate income tax purposes and trade tax purposes (the increase within the minimum taxation to 70% applies for corporate income tax purposes but not for trade tax purposes). For corporate income tax (not trade tax) purposes, an optional loss carryback is permitted for two years up to a maximum amount of EUR 1,000 thousand.

Deferred tax assets were not recorded since the entities in the Group do not anticipate utilizing the net operating losses in the foreseeable future.

C. Income tax expense (tax benefit):

	Year ended December 31,		
	2025	2024	2023
Current taxes	\$ 186	\$ 28	\$ 182
Deferred taxes, net	(165)	(150)	394
Taxes on income from previous years	71	(901)	195
	<u>\$ 92</u>	<u>\$ (1,023)</u>	<u>\$ 771</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 20 - TAXES ON INCOME (Cont.)

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

	Year ended December 31,		
	2025	2024	2023
Loss before income tax	\$ (11,658)	\$ (12,794)	\$ (9,457)
Statutory tax rate in Canada 26.5%	(3,089)	(3,390)	(2,506)
Increase (decrease) in income tax due to:			
Non-deductible expenses (non-taxable income), net for tax purposes	1,699	(223)	(122)
Effect of different tax rates of subsidiaries	(113)	232	169
Adjustments in respect of current income tax of previous years	71	(708)	195
Recognition of tax benefits in respect of losses incurred in previous years	317	1,078	1,565
Unrecognized tax benefit in respect of losses incurred for the year	640	1,059	1,432
Other adjustments	567	929	38
Income tax expense (benefit)	\$ 92	\$ (1,023)	\$ 771

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 21 - OPERATING SEGMENTS

A. General information:

Since inception date, the operation of the Group has been conducted through one operating segment, (i.e., sales of medical cannabis products and other products) to customers through certain geographical areas (i.e. Israel and Germany).

	Israel	Germany	Adjustments	Total
Year ended December 31, 2025				
Revenue	\$ 18,383	\$ 36,348	\$ -	\$ 54,731
Segment loss	\$ (6,839)	\$ (1,674)	\$ -	\$ (8,513)
Unallocated corporate expenses			\$ (3,074)	\$ (3,074)
Total operating loss				\$ (11,587)
Depreciation, amortization and impairment	\$ 7,175	\$ 1,168	\$ -	\$ 8,343
Year ended December 31, 2024				
Revenue	\$ 38,523	\$ 15,508	\$ -	\$ 54,031
Segment loss (income)	\$ (9,314)	\$ 942	\$ -	\$ (8,372)
Unallocated corporate expenses			\$ (1,862)	\$ (1,862)
Total operating loss				\$ (10,234)
Depreciation, amortization and impairment	\$ 2,509	\$ 170	\$ -	\$ 2,679
Year ended December 31, 2023				
Revenue	\$ 43,316	\$ 5,488	\$ -	\$ 48,804
Segment loss	\$ (6,627)	\$ (1,615)	\$ -	\$ (8,242)
Unallocated corporate expenses			\$ (4,550)	\$ (4,550)
Total operating loss				\$ (12,792)
Depreciation, amortization and impairment	\$ 2,823	\$ 173	\$ -	\$ 2,996

B. Major customers

During the years ended December 31, 2025 and 2024, the Company had major customers which accounted for approximately 13% and 32% of the Group's total revenue, respectively. During the year ended December 31, 2023, the Company had no customers that exceeded 10% of the Group's total revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 22 - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

A. Balances and transactions:

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

	December 31,	
	2025	2024
Other current assets - main shareholders (Note 6)	\$ 129	\$ 134
Other current liabilities - subleasing income received in advance from an entity controlled by main shareholders (None 13)	\$ 35	\$ 30
Other current liabilities - management fee payable to an entity controlled by main shareholder (Note 13)	\$ 698	\$ 427
Loans and accrued expenses from main shareholder (Note 14)	\$ 752	-
Convertible debentures issued to main shareholders (Note 15)	\$ 487	\$ 446
Derivative warrants liabilities and prefunded warrants issued to main shareholders (Note 16)	\$ 314	\$ 914

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,		
	2025	2024	2023
General and administrative expenses - management fee (1)	\$ 536	\$ 498	\$ 641
Selling and marketing expenses - management fee (2)	\$ 68	\$ 62	\$ 10
General and administrative expenses - sublease income (3)	\$ 133	\$ 40	-
Finance income (expense) - Interest in income (expenses) and discount amortization expenses on loans granted to (received from) main shareholders	\$ (46)	\$ (53)	\$ 45
Finance income - Revaluation of derivative warrants liabilities granted to main shareholders	\$ 103	\$ 155	\$ 1,450
Finance (income) expenses - Revaluation of prefunded warrants granted to main shareholder	\$ (124)	\$ 56	-
Finance expenses - Extension fee and discount amortization expenses in respect of convertible debentures granted to main shareholders	\$ 123	\$ 87	-
Finance expenses - Compensation expenses in respect of guarantees granted by main shareholder	\$ -	\$ 758	-

(1) Includes compensation for management services incurred indirectly by an entity controlled by the main shareholder.

(2) On November 1, 2023, IMC Holdings signed a service agreement with a relative of one of the Company's main shareholders (the "Relative") according to which the Relative provides IMC Holdings with strategy and marketing services within a defined hourly cap as set in the agreement, in return for a fixed monthly amount of NIS 14,000 plus VAT over a period commencing on the aforementioned date through March 31, 2026 unless the Company determines to terminate the agreement in early written notice of 15 days.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 22 - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

A. Balances and transactions:

- (3) Includes income from subleasing of portion of premises to an entity controlled by the main shareholder based on sublease agreement executed on August 15, 2024, pursuant to IMC Holdings entitles to receive a monthly lease fee over the Initial Lease Period and the Option Period was determined at a fixed amount of NIS 17 thousand linked to Israeli Consumer Price Index (ICPI) plus VAT over a lease period commenced on August 18, 2024 through August 18, 2025 (the "Initial Lease Period") which may be extended through August 18, 2026 (the "Option Period"). To fulfill its obligations under the sublease agreement, the lessor has invented a bank guarantee, autonomous, unconditional, prepared for the benefit of IMC Holdings, in total amount equal to four monthly lease fee which will be expired 60 days following the Initial Lease Period or the Option Period.

For more information regarding the first amendment of the sublease agreement, see Note 24D below.

- (4) For more information regarding execution of Note Purchase Agreement with certain investor, pursuant to which the Company issued a convertible note in aggregate principal amount of approximately US\$1,710 thousand (approximately \$2,341) and 321,821 warrants, see Note 24B below.

B. Compensation of key management personnel of the Group:

The Company's key management personnel are directors, senior executives and management entity controlled by the main shareholder, which provides the Company with key management personnel services.

	Year ended December 31,		
	2025	2024	2023
Payroll and related expenses	\$ 1,293	\$ 1,094	\$ 704
Share-based compensation	\$ 10	\$ 63	\$ 513
Professional fees (*)	\$ 912	\$ 724	\$ 852

(*) Includes management fees charges during the years ended December 31, 2025, 2024 and 2023 of \$526, \$481 and \$475, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 23 - FINANCIAL INSTRUMENTS

A. Financial risk management

1. General

The Company's activity exposes it to a variety of financial risks which include market risks, credit risks and liquidity risks. At each period, the Group examines the aforesaid financial risks and makes decisions accordingly.

Risk management is carried out by the Company's management, which identifies, evaluates and defines the risks as much as possible.

For more information regarding balance of financial assets and liabilities that are denominated or linked to foreign currency, see Note 23E below.

2. Financial risk factors

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

A. Unquoted equity instruments risk

Investment in unquoted equity instruments is sensitive to market price risk arising from uncertainties about future value of this investment. The Company's Board reviews and approves all decisions related to investment in unquoted equity instruments. As of December 31, 2025 and 2024, exposure to investment in one unquoted equity instrument measured at fair value was \$1,776 and \$1,631, respectively. See also Note 8 above.

B. Price risks of Company's common share

As of the reported dates, the Company is exposed to risks arising from changes in the price of its warrants and/or prefunded warrants measured at fair value through profit or loss as resulted from issuance of warrants to investors through private placement offering transaction and/or settlement agreements and issuance of the prefunded warrants as compensation to related party due to personal guarantees provided (see also Note 16 above). The fair value of such derivative liabilities is subject the Company to recognize losses in case there will be change in the price of the Company's ordinary share. However, the settlement of these liabilities will be through the exercise of the Company's common shares.

C. Liquidity risk

Since its inception date, the Company has financed its business activities through raising capital, inter alia, through public offering, non-brokered private placement transactions and credits from bank institution and others.

As of December 31, 2025 and 2024, the Company's negative working capital amounted to \$10,169 and \$11,554, respectively. Based on the Group's working capital position as of December 31, 2025 and 2024, management considers liquidity risk to be high. As of the reported dates, almost entire credit and loans from bank institution and others is classified as current liability.

The Company's policy is to manage its liquidity by examining current forecasts to manage the cash for operational needs in the normal course of business. Depending on current needs, the Company periodically carries out additional raising of capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

A. Financial risk management (Cont.)

2. Financial risk factors (Cont.)

D. Credit risks

1. As of the reported dates, the cash is mostly deposited in various bank institutions in Israel and Germany. The management regularly evaluates the financial strength of the financial institutions with which the Company engages. Accordingly, the Company's management believes that the credit risk to these balances is low.

The Group is exposed to credit risks resulting from its operating activities (mainly from outstanding trade receivables). Upon the preparation of forecasted credit losses, the Company uses its previous experience and information accrued from different financial resources. Based on that, the Company segregates its customers to classes according to the different risk levels in a manner in which it can estimate the probability of a credit default.

2. Below is the breakdown of the Company's financial assets subject to credit risks:

	December 31,	
	2025	2024
Cash	\$ 2,727	\$ 863
Restricted cash	\$ 582	\$ 64
Trade receivables	\$ 10,848	\$ 13,803

E. Currency rate risk:

As of December 31, 2024, a portion of the Group's financial assets and liabilities denominated in EUR, NIS and USD currency consist of cash and restricted cash in the amount of EUR 196 thousand (approximately \$293), NIS 1,397 thousand (approximately \$551), USD nil thousand (approximately \$nil), respectively. As of December 31, 2025, a portion of the Group's financial assets and liabilities denominated in EUR, NIS and USD currency consist of cash and restricted cash in the amount of EUR 1,411 thousand (approximately \$2,271), NIS 998 thousand (approximately \$429), USD \$nil thousand (approximately \$nil), 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 to its foreign currency cash flows as management has determined that this risk is not significant at this point in time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

B. Fair value of financial instruments

The Company's financial instruments that are included in the working capital include cash, restricted cash deposit, trade receivables, other current assets, trade payables, other current liabilities and credits from bank institutions and others. The balances of the financial instruments as stated in the balance sheet as of reported dates, constitute an approximation to their fair value.

In addition, the Company has operating lease liabilities and convertible debentures that are measured at the initial recognition date at fair value and in subsequent periods at the amortized cost using the effective interest method (see also Note 11 and Note 15 above, respectively). Taking into consideration the balance of such liabilities and the fact that there has not been a significant change in the discount rate used for recognition of the liabilities and the current discount rate, the carrying amount constitutes an approximation of fair value.

C. A summary of financial instruments broken down by group:

	December 31,	
	2025	2024
Financial assets measured at depreciated cost		
Cash	\$ 2,727	\$ 863
Restricted cash	582	64
Trade receivables	10,848	13,803
Other current assets	2,120	2,876
	<u>16,277</u>	<u>17,606</u>
Financial liabilities measured at fair value		
Investments in affiliate	1,776	1,631
Financial liabilities measured at depreciated cost		
Operating leasing liabilities (including current maturity)	376	433
Credit from bank institution and others (including current maturity)	15,269	15,611
Convertible debentures	622	1,968
Trade payables	12,055	11,159
Other current liabilities	5,747	4,392
	<u>34,069</u>	<u>33,563</u>
Financial liabilities measured at fair value		
Derivative warrants liabilities and prefunded warrants	\$ 601	\$ 1,383

D. Company capital risk management policy

The objectives of the Group's capital risk management policy are to preserve its ability to continue operating as a going concern in order to provide shareholders with a return on their investment, and to maintain an optimal capital structure in order to reduce capital costs.

The Company may take various steps in order to preserve or adjust its capital structure, including the issuance of new shares and options by way of capital raising rounds in order to comply with obligations repayment and continue its activity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 24 - SUBSEQUENT EVENTS

A. Settlement agreements

1. Following to Note 17A3 above, on December 31, 2025, the Board approved the Company entering into settlement agreement pursuant to which the Company shall pay a total amount of \$90 to MYM Shareholder Plaintiffs as settlement of the motion to strike out several significant parts of the claim. Following prolonged discussions and negotiations, the MYM Shareholder Plaintiffs narrowed their claim and agreed to resolve the motion on consent. In January 2026, a settlement agreement has been executed and the settlement amount was paid.
2. On December 31, 2025, the Board approved the Company entering into settlement agreement under which the Company shall pay a total amount of \$420 to service provider for certain legal services rendered in previous periods as full and final payment of all outstanding accounts, fees, disbursements and interest. In January 2026, a settlement agreement has been executed and the payment amount was paid.

B. Convertible promissory notes offering

On January 7, 2026, the Company entered into a Note Purchase Agreement (the "Purchase Agreement") with an institutional investor (the "Investor"), pursuant to which the Company issued to the Investor (A) a convertible note (the "Note") in the principal amount of approximately US\$1,710 thousand (approximately \$2,341) (the "Subscription Amount"), which is convertible into the Company's common shares, no par value per share (the "Common Shares"), at a purchase price equal to 90% of the Subscription Amount and (B) a warrant to purchase up to 228,150 Common Shares (the "Warrant"), which is the number equal to 33⅓% of the Subscription Amount divided by an exercise price of \$3.45 per Common Share (the "First Transaction"). The First Transaction closed on January 26, 2026.

In addition, on January 20, 2026, the Company entered into an additional Note Purchase Agreement (the "Additional Purchase Agreement" and, together with the Purchase Agreement, the "Purchase Agreements") with the Investor, pursuant to which the Company issued to the Investor (A) a convertible note (the "Second Note" and, together with the Note, the "Notes") in the principal amount of approximately US\$704 thousand (approximately \$964) (the "Additional Subscription Amount" and, together with the Subscription Amount, the "Subscription Amounts") which is convertible into the Company's Common Shares at a purchase price equal to 90% of the Additional Subscription Amount and (B) a warrant to purchase up to 93,671 Common Shares (the "Additional Warrant" and, with the Warrant, the "Warrants"), which is the number equal to 33⅓% of the Additional Subscription Amount divided by an exercise price of \$3.45 per Common Share (the "Second Transaction" and, together with the First Transaction, the "Offerings"). The Second Transaction closed on January 21, 2026.

Each Note bears an interest rate of 8.0% per annum accruing from the closing date of the First Transaction and the Second Transaction, as applicable, (which shall increase to 14.0% upon the occurrence of an Event of Default, as defined in the Notes) (the "Interest" and, together with the Subscription Amounts, the "Conversion Amount"). The Conversion Amount is not repayable in cash and the Company's obligations thereunder will be satisfied solely through the issuance of the Company's Common Shares upon conversion of the Conversion Amount in accordance with their terms.

The number of Common Shares issuable upon any conversion of the Conversion Amount is determined by dividing the applicable conversion amount by the conversion price (the "Conversion Price"). The Conversion Price is equal to the lower of (i) the Fixed Price, as defined in each of the Notes, or (ii) 90% of the lowest daily volume-weighted average price of the Common Shares during the 20 consecutive trading days immediately preceding the conversion date, (the "Variable Price"), provided, however, that the Variable Price will not be lower than the Floor Price, as defined in each of the Notes. The Fixed Price in the Note and in the Second Note is \$0.29 and \$1.38, respectively. The Floor Price in the Note and in the Second Note are \$0.29 and \$0.275, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian Dollars in thousands, except share and per share data

NOTE 24 - SUBSEQUENT EVENTS (Cont.)

B. (Cont.)

The Notes include customary limitations on conversion, including a beneficial ownership cap of 4.99% of the outstanding Common Shares following the conversion.

The Warrants entitle their holder to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$3.45 per Warrant Share. The Warrants are exercisable immediately upon their issuance date, January 21, 2026, for a period of 5 years, until January 21, 2031. If the Warrants are not exercised by their applicable expiry date, the Warrants will expire and be of no further force or effect. The Warrants and the Warrant Shares may not be traded for a period of four months, unless permitted under applicable securities legislation.

The Purchase Agreements include customary representations, warranties and covenants of the Company and the Investor, including the Company's obligation to reserve sufficient Common Shares for issuance upon conversion of the Notes and to file a resale registration statement on Form F-3 (the "Registration Statement") with the SEC providing for the resale by the Investor of the Common Shares issuable upon conversion of the Notes no later than 30 trading days within the date of each of the Purchase Agreement and the Additional Purchase Agreement. The Company has also agreed to use commercially reasonable efforts to cause such Registration Statement to become effective as soon as possible, but in no event later than the date which shall be the earlier of: (x) (i) in the event that the Registration Statement is not subject to a full review by the SEC, 60 calendar days after the closing date of the First Transaction and the Second Transaction, as applicable, or (ii) in the event that the Registration Statement is subject to a full review by the SEC, 90 calendar days after the closing date of the First Transaction and the Second Transaction, as applicable, and (y) the 5th business day after the date on which the Company is notified (orally or in writing, whichever is earlier) by the SEC that such Registration Statement will not be reviewed or will not be subject to further review. On February 11, 2026, a Registration Statement was declared effective by the SEC.

C. Loan agreements

1. On January 12, 2026, IMC Holdings entered into a loan agreement with non-financial institution, to borrow a principal amount of NIS 500 thousand (approximately \$215) which bears an annual interest of 17%. The principal amount and accrued interest shall be paid on July 1, 2026
 2. On February 3, 2026, Focus entered into a loan agreement with non-financial institution, to borrow a principal amount of NIS 1,500 thousand (approximately \$644) which bears an annual interest of prime + 13.25%. The principal amount and accrued interest shall be paid on April 3, 2026.
 3. On February 26, 2026, IMC Holdings entered into a loan agreement with a non-financial institution in the amount of NIS 355 thousand (approximately \$152) which bears interest at an annual rate of 17% and shall be matured no later than September 1, 2026.
 4. On March 12, 2026, IMC Holdings entered into a loan agreement with a non-financial institution in the amount of NIS 3,300 thousand (approximately \$1,416) which bears interest at an annual rate of 17% and shall be matured no later than July 12, 2026.
- D. Following to Note 22B above, on February 15, 2026, IMC Holdings entered into first amendment to the sublease agreement with the Lessor, under which it was determined that the Lessor will sublease more spaces but the monthly lease fee will be remained on NIS 17 thousand linked to ICPI plus VAT.
- E. Following to Note 24B above, in March 2026, the Company issued 328,511 common shares to the Investor in respect of a conversion of a portion of the Notes in the amount of US\$181 thousand (approximately \$248) at an average exercise price of US\$0.55 per share.
- F. Following to Note 14B above, in March 2026, the Company extended the credit line received from Bank Mizrahi in total amount of NIS 1 million from March 12, 2026 to September 25, 2026.