

1 **IM Cannabis (IMCC) Second Quarter 2024 Earnings Call Script**

2 **Operator**

3 Good morning and welcome to IM Cannabis' Second Quarter 2024 Earnings
4 Conference Call. Today's conference call is being recorded. At this time, I would like
5 to turn the conference over to Anna Taranko, Director of Investor & Public Relations

6 **Anna Taranko**

7 Good morning and thank you, Operator. Joining me for today's call are IM Cannabis'
8 Chief Executive Officer, Oren Shuster, and Chief Financial Officer, Uri Birenberg.

9 The earnings press release that accompanies this call is available on the Investor
10 Relations section of our website at investors.imcannabis.com.

11 Today's call will include estimates and other forward-looking information and
12 statements, including statements concerning future results of operations, economic
13 conditions and anticipated courses of actions and are based on assumptions,
14 expectations, estimates and projections as the date hereof.

15 This information may involve known and unknown risks, uncertainties and other
16 factors that may cause actual results to differ materially from those expressed or
17 implied by such statements. Factors that could cause or contribute to such
18 differences are described in detail in the company's most recent filings available on
19 SEDAR+ at www.sedarplus.ca and EDGAR at www.sec.gov.

20 Furthermore, certain non-IFRS measures will be referred to during this call, and the
21 term "Non-IFRS Adjusted EBITDA Loss" will hereafter be referred to as "Adjusted
22 EBITDA Loss."

23 Any estimates or forward-looking information or statements provided are accurate
24 only as of the date of this call and the Company undertakes no obligation to publicly
25 update any forward-looking information or statements or supply new information
26 regarding the circumstances after the date of this call. Please also note that all
27 references on this call reflect currency in Canadian dollars unless otherwise stated.

28 With that, it is my pleasure to turn the call over to Oren Shuster, CEO of IM Cannabis.

29 Oren, please go ahead.

30

1 **Oren Shuster – Opening Remarks**

2 Thank you, Anna. Good morning, everyone, and thank you for joining us today.

3 As I had already mentioned during our last call, the entire cannabis industry is
4 changing, it is literally being pulled out of the shadows. In the US, a proposal is on the
5 table to reschedule Cannabis on a federal level. Israel rescheduled cannabis to
6 facilitate access to patients suffering from many new indications. But most
7 importantly for us, Germany, the largest economy in the EU, legalized cannabis on
8 April 1st, 2024.

9 Since we are the sixth largest cannabis distributor in Germany, I'd like to go into more
10 detail on the impact the legalization had on the German cannabis industry. I don't
11 think that many anticipated the tremendous impact the legalization would have,
12 specifically the speed with which the legislation has affected the market.

13 While there are many estimates of how the German market will develop, what they
14 all agree on, is that the German market is poised to deliver significant growth. As an
15 example, Zuanic and Associates is projecting a market with a run rate of about USD\$
16 2 billion by the end of 2025. According to BDSA estimates, the German cannabis
17 industry is expected to reach approximately USD\$1.5 billion in total sales in 2024 and
18 is estimated to grow to about USD\$3.7 billion by 2027.

19 I'd like to put this growth into perspective by taking you through the details of our
20 internal sales in Germany over the last 5 months. In March we sold CAD\$ 307K, in
21 April we sold CAD\$ 830K an increase of 170% vs March. In May we sold CAD\$ 1,120K,
22 an increase of 35% vs April. In June we sold CAD\$ 1,630K an increase of 46% vs May.
23 Overall, we sold 200% more in Q2 than we did in Q1 2024, before legalization. While
24 the numbers are still small, they speak for themselves.

25 With out a doubt the results of the legalization have had a tremendous impact on our
26 business in Germany. It is clear that we will be focusing our resources where we
27 expect to see the biggest growth opportunities and the best return of investment. At
28 this point in time, this is the German market.

29 To ensure our accelerated growth in Germany continues in future quarters, we need
30 to make sure that we are set up to deliver this growth. To achieve this, we have two
31 clear targets. One, we need to have the right team in place and two, keep our focus
32 on building a consistent, stable supply chain.

1 As a result, we are actively looking at our overall business to make sure that we are
2 allocating the resources to support the German business. For example, our Israeli
3 team is now working on building a new supply channel from Israel to Germany. At the
4 same time, we are taking a good look at our Israeli business to see how we can
5 maximize profitability. For our Israeli business, this translates into a clear focus on the
6 premium and ultra-premium markets, as well as active cost management to support
7 sustainable profitability.

8 Moving on to the operational side of our Israeli business, we strengthened our
9 position in the premium segment, by launching Flowr™, an Avant brand with 2
10 strains. We launched and/or re-launched an additional 10 strains under the following
11 premium and ultra-premium brands: BLKMKT™, Pico, and IMC Craft. Our goal is to
12 introduce our Israeli patients to a rotating portfolio of new and exciting strains.

13 As in the previous quarters, we are continuing to clean our slow-moving, non-
14 premium stock, clearing out old inventory for \$0.8 million. We also have an additional
15 accrual of approximately \$1.1 million for slow moving inventory, which is a
16 conservative estimate. The impact of this can be clearly seen in our cost of sales,
17 gross margin and in the gross profit. Uri will go into further detail when he takes you
18 through the numbers.

19 I'd also like to give you a short update on where we are with the reverse merger with
20 Kadimastem. On May 28, 2024, the Company announced the termination of the
21 preliminary term sheet signed on February 13, 2024, with Kadimastem. Due to recent
22 changes in the cannabis market, specifically in Germany where the Company operates
23 and other considerations not related to Kadimastem, the Company has decided to
24 cancel the planned reverse merger, and to remain an active public company with the
25 current cannabis operations.

26 Before turning the call over to our Chief Financial Officer, Uri Birenberg, I'd like to put
27 Q2 2024 into perspective. Q2 2024 was a game changer for us with the legalization in
28 Germany. I see tremendous potential for growth. We are actively looking at our
29 entire business to make sure that we are allocating the necessary resources to the
30 German market to support further accelerated growth.

31 I will now hand the call over to Uri, who will review our second quarter 2024 financial
32 results.

33 Uri?

34 Thank you, Oren.

1 Our Q2 results were mainly impacted by the following points. Our revenue in Q2
2 increased by 11.7% vs Q2 2023. This growth was driven in part by the 129% Germany
3 grew in Q2 2024 vs Q2 2023. Our selling price per gram of dried flower also increased
4 21% in this time period to \$6.09 per gram. In addition, as a result of last year's
5 restructuring, our operating expenses continued to decrease by 29% vs Q2 2023. On
6 the other hand, we cleared old raw material and accrued for slow moving stock for
7 about \$1.9 million, and the mid-April Oranim agreement revocation resulted in
8 reduced revenue and expenses vs previous periods.

9 I will now take you through the overview of the Q2 2024 financial results for the
10 Company's cannabis operations.

11 **Revenues for Q2 2024** were \$14.8 million compared to \$13.2 million in Q2 2023, an
12 increase of \$1.6 million or 11.7%. The increase is mainly attributed to accelerated
13 growth in Germany revenue of \$2 million net and decreased net Revenue in Israel of
14 \$0.4 million, which consists of Oranim deal cancellation effect in decreased Revenue
15 of \$2.4 million.

16 **Total Dried Flower sold in Q2 2024** was approximately 2,333 kg with an average
17 selling price of \$6.09 per gram, compared to approximately 2,128kg in Q2 2023, with
18 an average selling price of \$5.04 per gram, which is an increase of 21%.

19 **Cost of revenues for Q2 2024** were \$13.9 million compared to \$9.5 million in Q2
20 2023, an increase of \$4.4 million or 46.6%, mainly due to an increase in Company
21 revenue related costs of approximately \$2.5 million, clearing of old raw materials of
22 approximately \$0.8 million and accrued for slow inventory of approximately \$1.1
23 million.

24 **Gross profit for Q2 2024** was \$0.8 million, compared to \$3.5 million in Q2 2023, a
25 decrease of 75.6%. The downside is attributed mainly to the clearing of old inventory,
26 accrual for slow moving inventory of approximately \$1.9 million and slow-moving
27 stock that was moved out at a lower price. Company fair value adjustment was \$0
28 and \$0.3 million for the Q2 2024 and Q2 2023 respectively.

29 **Gross Margin** after fair value adjustments in Q2 **2024** was 6%, compared to 26% in
30 Q2 2023.

31 **G&A Expenses in Q2 2024** were \$2.2 million, compared to \$2.4 million in Q2 2023, a
32 decrease of \$0.2 million or 9.5%. The decrease in the G&A expense is attributable
33 mainly to insurance of approximately \$0.2 million.

Selling and Marketing Expenses in Q2 2024 were \$1.5 million, compared to \$2.6 million in Q2 2023, a decrease of \$1.1 million or 44% mainly due to the revocation of Oranim agreement of \$0.6 million and decrease in salaries and professional services of \$0.4 million.

Total operating expenses in Q2 2024 were \$3.7 million compared to \$5.2 million in Q2 2023, a decrease of \$1.5 million or of 29% mainly due to decrease in salaries of approximately \$0.4 million, insurance of \$0.2 million, depreciation expenses of \$0.3 million and professional services of \$0.2 million.

Non-IFRS Adjusted EBITDA loss in Q2 2024 was \$2.3 million, compared to an Adjusted EBITDA loss of \$0.5 million in Q2 2023 a **decrease** of 357%.

Net Loss in Q2 2024 was \$3.5 million, compared to \$3.7 million in Q2 2023.

Diluted Loss per Share in Q2 2024 was \$0.23, compared to a loss of \$0.26 per Share in Q2 2023.

As of the balance sheet,

Cash and Cash Equivalents as of June 30, 2024, were \$0.7 million compared to \$1.8 million on December 31, 2023.

Total assets as of June 30, 2024, were \$40.2 million, compared to \$48.8 million on December 31, 2023, a decrease of \$8.6 million or 17.6%.

The decrease is mainly attributed to the Oranim agreement cancelation of \$9.5 million of which mainly attributed to; goodwill \$3.5 million, intangible asset \$1.4 million, inventory \$0.8 million, trade receivables \$1.3 million and property plant and equipment \$0.8 million and reduction of cash and cash equivalents of \$0.3 million.

In addition to the Oranim revocation agreement effect, there is a total asset increase of \$0.9 million mainly due to an increase of \$5.8 million in trade receivables offset by \$3.4 million reduction in Inventory, reduction of Cash and cash equivalents of \$0.8 million and reduction of \$0.7 million in intangible assets.

Total Liabilities as of June 30, 2024 were \$34.7 million, compared to \$35.1 million on December 31, 2023, a decrease of \$0.4 million or 1.1%. The decrease was mainly due to the Oranim agreement cancelation of \$6.8 million of which mainly attributed to a decrease in PUT option liability in the amount of \$2.0 million, a decrease in purchase consideration payable in the amount of \$2.2 million, a decrease of \$1.6 million in trade payables, a decrease of \$0.4 million in lease liabilities and a decrease of \$0.3 million in deferred tax liability.

1 In addition to the Oranim revocation agreement effect, there is a total liabilities
2 increase of \$6.4 million mainly due to an increase of \$6.2 million in trade payables
3 offset by a \$1.7 million reduction in other accounts payable.

4 The Company is planning to finance its operations from its existing and future
5 working capital resources, as well as from its available credit facilities and will
6 continue to evaluate additional sources of capital and financing as needed.

7 I would now like to turn the call back to Oren for closing remarks. Oren?

8
9 **Oren Shuster – Closing Remarks**

10 Thank you, Uri.

11 This quarter was impacted by the clearing of old raw material and the accrual for
12 slow moving stock. That said, we clearly see the impact the legalization has had on
13 our German business. We were well positioned to take advantage of the growing
14 market delivering a 200% increase in sales in Q2 vs Q1. We are actively making sure
15 that we are allocating the resources and support the German business needs to
16 deliver further accelerated growth. I will now hand the call over to the operator to
17 begin our question-and-answer session. Operator?

18 **Operator**

19 Q&A session prompts, Q&A Session

20 **Oren Shuster – Conclusion after Q&A - LIVE**

21 Thank you, Operator, and thank you all for joining our call today.