

1 **IM Cannabis (IMCC) First Quarter 2023 Earnings Call Script**

2 **Operator**

3 Good day and welcome to IM Cannabis' First Quarter 2023 Earnings
4 Conference Call. Today's conference call is being recorded. At this time, I would
5 like to turn the conference over to Anna Taranko, Director of Investor & Public
6 Relations

7 **Anna Taranko**

8 Thank you, Operator. Joining me today are IM Cannabis' Chief Executive
9 Officer, Oren Shuster, and Chief Financial Officer, Itay Vago.

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

12 Today's call will include estimates and other forward-looking information and
13 statements, including statements concerning future revenues, results from
14 operations, financial positions, markets, economic conditions, product releases,
15 partnerships and any other statements that may be construed as a prediction
16 of future performance.

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

23 Furthermore, certain non-IFRS measures will be referred to during this call. The
24 Company believes that the presentation of this non-IFRS information provides
25 useful supplementary data concerning the Company's ongoing operations and
26 is provided for informational purposes only. Any estimates or forward-looking
27 information or statements provided are accurate only as of the date of this call
28 and the Company undertakes no obligation to publicly update any forward-
29 looking information or statements or supply new information regarding the
30 circumstances after the date of this call. Please also note that all references on
31 this call reflect currency in Canadian dollars.

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

3 Oren, please go ahead.

4 **Oren Shuster – Opening Remarks**

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

6 In March, while presenting the fourth quarter and full year 2022 results, I told
7 you that 2022 was a transformational year for us in our process towards
8 sustainable profitability. We reworked our strategy, shifting to focus on
9 meeting patients' and pharmacies' needs. In Q1 of this year, we have
10 continued this transition. IM Cannabis is becoming a lean and agile company
11 with a clear focus on building brands that consumers love, driven by consumer
12 insight.

13 The strategic shift is underpinned by the two growth pillars we believe will
14 drive accelerated growth.

- 15 1. Premium brands: we anticipate the growing demand for premium
16 products and have further built our competitive advantage through
17 sourcing and import capabilities fueled by strategic alliances with top-of-
18 the-line Canadian suppliers.
- 19 2. Israel and Germany: the two highest value markets. We are focusing our
20 resources where they have maximum impact.

21 Shifting our business model and priorities has made us more flexible, more able
22 to adjust quickly to market dynamics. It also gave us a clear focus, driving
23 further strategic choices.

24 We are already seeing the results of our shift in strategy in our Q1 results. As
25 Itay will explain while presenting the financial results, our gross profit increased
26 46% vs Q1 2022, while our revenue stayed stable. We expect our gross profit
27 to continue to increase as we move into Q2 and Q3.

28 In Q1 2023, we announced additional restructuring initiatives, designed to
29 drive sustainable profitability while reducing costs. We reorganized the
30 company's management and operations to better suit the current market

1 environment and our short- to mid-term objectives. This allowed us to
2 strengthen our focus on core activities as well as drive efficiencies to realize
3 sustainable profitability. To achieve this goal, the Company reduced its
4 workforce in Israel by 21% across all functions, reducing annualized costs by
5 CAD\$3.6 million from mid-2023, while maintaining our anticipated revenue.
6 We expect to start seeing the results of the restructuring as Q2 progresses into
7 Q3, as the additional savings drive gross profit. At the same time we will be
8 shifting our focus from transition to delivery and performance.

9 We believe that the steps we have taken will return value to our investors. We
10 also anticipate that we will further optimize, driving synergies between our
11 existing operations in Israel and Germany, concentrating our resources where
12 we see the most potential.

13 Before going into an overview of each of our market segments, Israel and
14 Germany, I would like to provide you with an update on the Canadian business.
15 As you know we commenced our exit of the Canadian market during Q4 2022
16 to focus on achieving profitability. Pursuant to an order of the Court made on
17 April 6, 2023, in the CCAA Proceedings, the Court approved a share purchase
18 agreement with a party that is not related to the Company. Following the
19 transaction, the Company has exited operations in Canada and considers these
20 operations discontinued. I will now provide an overview of each of our market
21 segments. After this overview, Itay will review our financial results before we
22 open the call up for questions.

23 Usually I start with Israel, but this time I will start with **Germany** and the steps
24 it is taking toward legalization. Mid-April, the German Health Minister unveiled

1 what he described as a “two-prong” model to gradually legalize possession of
2 cannabis in Germany.

3 The first step, for which the bill is expected to be presented before the summer
4 recess, allows for:

- 5 • Decriminalization: possession of up to 25 grams of cannabis will be
6 decriminalized.
- 7 • Adults will be allowed to form not for profit clubs for community
8 cultivation with up to 500 members. Clubs can provide members up to
9 50 grams of cannabis per month and no more than 25 grams at once.
- 10 • Private cultivation of up to three flowering plants will be allowed.

11 In the second step, expected after the summer, sales through licensed
12 specialist stores will be tested in pilot regions over the next five years.

13 While this is a big step forward, it falls short of the initial legalization
14 expectations. Until the final legislation is presented, it is too soon to predict
15 with any certainty how the market will develop. None the less, we believe it
16 will drive market growth, by reducing the stigma attached to cannabis and
17 lowering the entry barriers to medical cannabis market.

18 In addition to the political news, we launched two new high THC strains in
19 Germany in Q1.

20 In March, our extracts were listed by one of the largest German pharmaceutical
21 wholesalers. We are now one a handful of cannabis brands to be listed there.
22 This step was important for us, because the classic pharmaceutical wholesalers
23 provide pharmacies with faster, same day delivery. Cannabis wholesalers
24 cannot compete with the classic, established wholesalers when it comes to this
25 type of service. As a result of this collaboration, we have already seen an
26 increase in our number of customers. In Q2 we are looking to expand our listing
27 to include our flowers.

28 In **Israel**, our sales were driven by the four new high THC strains we launched in
29 Q1, further expanding our portfolio of premium brands. Roma, our legacy high
30 THC strain, came back in stock during Q1, to high patient and customer
31 demand. The BLKMKT launch in Q4 2022 was well received, which was seen in
32 the sales generated in Q1. We also doubled down on our strategy to provide
33 better service. In this case, we focused on our patients, completely overhauling
34 our delivery service from the bottom up. Our goal is not only to provide Israeli

1 patients best in class delivery service but also to take advantage of synergies
2 and efficiencies to generate savings. Additionally, we finetuned our BI system
3 to be more efficient in sales while providing better service to our customers.

4 In our view, the Israeli and German cannabis markets have much in common,
5 from patient or consumer demand for premium cannabis to the distribution
6 through pharmacies. Both companies operate in countries with stringent GMP
7 and EU-GMP standards and regulatory hurdles. These common points, plus our
8 strong sourcing infrastructure, give us key competitive advantages in Germany.
9 We are confident that our success in Israel can be replicated in Germany. We
10 will be allocating the needed capital and efforts to further establish our
11 presence in Israel and Germany and to achieve profitability.

12 I will now turn the call over to our Chief Financial Officer, Itay Vago, who will
13 review our first quarter 2023 financial results.

14 Itay?

15 **Itay Vago – Review of Financials**

16 Thank you, Oren.

17 I will now provide an overview of Q1 2023 financial results for the Company's
18 continuing operations.

19 **Revenues for the first quarter of 2023** were \$13.2 million compared to \$13
20 million in the first quarter of 2022, an increase of 1%.

21 **Total Dried Flower sold in** the first quarter of 2023 was approximately 1,842kg
22 with an average selling price of \$6.59 per gram compared to approximately
23 1,415kg in the first quarter of 2022 with an average selling price of \$8.13 per
24 gram. The decrease in average selling price was caused by increased
25 competitiveness within the retail segment.

26 **Gross profit** for the first quarter of 2023 was \$3.5 million, compared to \$2.4
27 million in the first quarter of 2022, an increase of 46%. The increase attributed
28 mainly to increased high margin sales of imported premium cannabis products,
29 and reduction of costs of sales.

1 **Gross Margin**, before fair value adjustments, in **the first quarter of 2023** was
2 30%, compared to 24% in the first quarter of 2023.

3 **General and Administrative Expenses in Q1 2023** were \$3.2 million, compared
4 to \$3.9 million in Q1 2022, a decrease of 18%. The decrease in the general and
5 administrative expense is attributable mainly to salaries to employees derived
6 from restructuring plan in Israel announced in Q1 2023 and presented
7 separately in the interim financial statement for the first quarter. This
8 restructuring's main goal is to drive efficiencies and realize sustainable
9 profitability.

10 **Selling and Marketing Expenses in Q1 2023** were \$2.8 million, compared to
11 \$2.5 million in Q1 2022, an increase of 12%. The increase was due mainly to the
12 Company's increased marketing efforts in Israel, and to the increase in cost is
13 attributed to the rising distribution costs of the Company's products.

14 **Total operating expenses in the first quarter of 2023** were \$6.5 million
15 compared to \$11.3 million in the first quarter of 2022, a decrease of 42%. Most
16 of the decline can be attributed to restructuring that took place in Q1 2022.

17 **Operating Loss in the first quarter of 2023** was \$3 million, compared to \$8.9
18 million in the first quarter of 2022, a decrease of 66%.

19 **Non-IFRS Adjusted EBITDA loss in the first quarter of 2023** was \$1.3 million,
20 compared to an Adjusted EBITDA loss of \$2.9 million in the first quarter of
21 2022, a decrease of 55%. The decrease is mainly attributable to improved
22 performance of the Company's gross margin and general and administrative
23 expenses such as cost reduction, cost efficiencies and other corporate expenses
24 reduction.

25 **Net Gain from continuing operations in the first quarter of 2023** was \$0.04
26 million, compared to a Net Loss of \$7.1 million in the first quarter of 2022, a
27 decrease of 100% driven mostly by the restructuring and the higher gross
28 margin.

29 **Basic and Diluted Gain per Share from continuing operations in the first**
30 **quarter of 2023** was \$0.03, compared to a loss per share of \$0.08 per Share in
31 in the first quarter of 2022.

1 **Cash and Cash Equivalents** as of March 31, 2023, were \$1.4 million compared
2 to \$2.9 million in December 31, 2022.

3 **Total assets** as of March 31, 2023, were \$56.8 million, compared to \$60.7
4 million in December 31, 2022, a decrease of 6%. The decrease is mainly
5 attributed to cash and cash equivalents and to trade receivables.

6 **Total Liabilities** as of March 31, 2023 were \$32.2 million, compared to \$36.9 in
7 December 31, 2022, a decrease of approximately 13%. The decrease was
8 mainly due to the reduction in trade payables.

9 During January and February 2023, the Company completed two private
10 placements offering, for aggregate gross proceeds of \$6.5 million US Dollars.
11 The Company is planning to finance its operations from its existing and future
12 working capital resources as well as from its available credit facilities and will
13 continue to evaluate additional sources of capital and financing as needed.

14 As you can see, we improved several key parameters during Q1. We improved
15 our gross margin by 46% and decreasing the operating expenses by 42%,
16 leading to a 100% decrease in the net loss. We will continue to improve on
17 these parameters, along with others, in the next quarters as the effects of the
18 restructuring become apparent.

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

20

21 **Oren Shuster – Closing Remarks**

22 Thank you, Itay.

23 As I have said, IMC is a new company, with a sharper focus which can be clearly
24 seen in the increase in gross profit. Q1 2023 marked the last big step in our
25 strategic shift. We are currently still in the transition period designed to lead us
26 to stronger results. As Q2 progresses into Q3, we will shift our focus from
27 transition to delivery and performance.

28 I'd also like to take this opportunity to thank my team for delivering these
29 results during this time of transition.

1 With that, I hand the call over to the operator to begin our question-and-
2 answer session. Operator?

3 **Operator**

4 Q&A session prompts, Q&A Session

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

6 Thank you, Operator, and thank you all for joining our call today. Please follow
7 along as we shift our focus from transition to delivery and performance in the
8 coming quarters. I look forward to speaking with you in the coming quarterly
9 reports.