



Consolidated Interim Financial Statements (Unaudited)
For the three-month periods ended March 31, 2018 and 2017

(In United States dollars, unless otherwise noted)

Note to Reader

The accompanying unaudited consolidated interim financial statements of ICC Labs Inc. (formerly ICC International Cannabis Corporation) (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

ICC Labs Inc. (formerly ICC International Cannabis Corporation)

Consolidated statements of financial position (unaudited)

As at March 31, 2018 and December 31, 2017, (In United States Dollars)

	Notes	March 31, 2018	December 31, 2017
		US\$	US\$
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	8,947,547	8,191,121
Licenses and Permits	12	3,386,821	3,676,805
Total non-current assets		12,334,368	11,867,926
CURRENT ASSETS			
Biological assets	10	14,719,862	200,707
Inventories	9	318,419	280,754
Other receivables	8	1,980,289	1,540,804
Cash and cash equivalents	7	11,651,994	14,802,141
Total current assets		28,670,564	16,824,406
TOTAL ASSETS		41,004,932	28,692,332
SHAREHOLDERS' EQUITY			
Share capital	20	56,836,799	56,572,920
Warrants	21	2,639,495	2,622,167
Share-based payment reserve	22	9,086,065	2,751,680
Conversion result		-	497,463
Deficit		(28,532,330)	(35,003,178)
Total equity		40,030,029	27,441,052
LIABILITIES AND EQUITY			
NON-CURRENT LIABILITIES			
Accounts payable	13	-	-
Total non-current liabilities		-	-
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	13	974,903	1,251,280
Total current liabilities		974,903	1,251,280
TOTAL LIABILITIES		974,903	1,251,280
TOTAL LIABILITIES AND EQUITY		41,004,932	28,692,332

Approved by the Board of Directors

Signed: "Ravi Sood" Director

Signed: "Michael Galego" Director

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

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	<u>Notes</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
		<u>US\$</u>	<u>US\$</u>
Sales		164,126	-
Cost of sales	9	(163,619)	-
Cost of production		(539,838)	(175,257)
Gross (loss) before fair value adjustment		(539,331)	(175,257)
Initial recognition and changes in fair value of biological assets and agricultural produce		14,720,439	109,264
Gross profit(loss)		14,181,108	(65,993)
Expenses:			
General and administrative	16	(1,445,810)	(641,508)
Share-based compensation	21	(6,414,386)	(20,622)
		(7,860,196)	(662,130)
Profit/(Loss) from Operations		6,320,912	(728,123)
Financial results, net:			
Listing costs	6	-	-
Loss on debt settlement	15	-	-
Other financial expenses		(8,803)	(2,018)
Financial income		4,336	3,211
Exchange difference, net		(392,669)	76,942
		(397,136)	78,135
Profit/(Loss) before income taxes		5,923,776	(649,988)
Income tax benefit / (expense)	14	-	-
Comprehensive Income/(Loss)		5,923,776	(649,988)
Gain (Loss) per share during the period:			
Basic and diluted		0.043	(0.006)
Weighted average number of shares outstanding			
Basic and diluted		138,033,772	

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Note s	Number of common shares	Share capital	Warrants	Share-based payments reserve	Accumulated other comprehen- sive income	Deficit	Total
Balances as of January 1, 2017	112,565,010	41,909,414	269,918	1,942,528		(30,551,406)	13,570,454
Issuance of capital							-
Warrants exercised							-
Stock options exercised							-
Share-based payments		-	-	20,622		(20,622)	-
Conversion result					-		-
Net loss for the period	-					(629,366)	(629,366)
Balances as of March 31, 2017	112,565,010	41,909,414	269,918	1,963,150	-	(31,201,394)	12,941,088
Balances as of January 1, 2018	137,600,910	56,572,920	2,622,167	2,751,680	497,463	(35,003,178)	27,441,052
Warrants exercised	364,000	200,239		(53,984)			146,255
Compensation Options Exercised	68,862	63,640	17,328	(26,017)			54,951
Share-based payments				6,414,387			6,414,387
Conversion result							-
Net Income/Loss of the period					(497,463)	6,470,848	5,973,385
Balance at March 31, 2018	138,033,772	56,836,799	2,639,495	9,086,066	-	(28,532,330)	40,030,030

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

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Notes	March 31, 2018 US\$	March 31, 2017 US\$
Cash flows from operating activities:		
Loss for the period:	5,923,776	(649,988)
<i>Adjustments for:</i>		
Amortizations and depreciations	11,12 445,488	285,698
Loss on debt settlement	15 -	-
Share-based compensation	22 6,414,386	20,622
Non-cash listing costs	6 -	-
Changes in operating assets and liabilities:		
(Increase) / decrease in inventories and biological assets	10 (14,556,820)	(109,264)
(Increase) / decrease in other receivables	(389,876)	(1,244,908)
Increase / (decrease) in accounts payable and accrued liabilities	(276,377)	(485,114)
Net cash used in operating activities	(2,439,423)	(2,182,954)
Cash flows from investing activities:		
Purchases of property, plant and equipment	11 (931,930)	(151,297)
Purchases of licenses and permits	12 20,000	(20,000)
Net cash used in investing activities	(911,930)	(171,297)
Cash flows from financing activities:		
Financing facilities draw-downs	15 -	-
Payments on behalf of ICC and other expenses	15 -	-
Settlement	15 -	-
Share capital issued, net of cash issuance costs	15,20 201,206	-
Net cash generated from financing activities	201,206	-
Effect of exchange rate in cash	0	
Net decrease in cash and cash equivalents	(3,150,147)	(2,354,251)
Cash and cash equivalents at beginning of the period	14,802,142	5,897,620
Cash and cash equivalents at end of the period	7 11,651,995	3,543,369

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1. NATURE OF OPERATIONS

ICC Labs Inc. (formerly ICC International Cannabis Corporation) (the “Company” or “ICC”) was incorporated on October 19, 2010 under the Business Corporations Act (British Columbia) as Shogun Capital Corp.

ICC, through its subsidiaries, is engaged in producing and selling cannabis and its derivatives in Uruguay for recreational, industrial and medicinal use, pursuant to the provisions in Law N° 19,172 ‘*Cannabis and its derivatives: state control and regulation of the importation, production, acquisition, storage, marketing and distribution*’ of the República Oriental del Uruguay. As at March 31, 2018, the Company is operative in the “recreational cannabis” segment and in a pre-operative stage in the “cannabinoids extraction” and “medicinal cannabis” segments.

The Company’s common shares are listed under the symbol “ICC” on the TSX Venture Exchange (“TSX-V”).

On November 23, 2016, the Company closed its qualifying transaction with ICC International Corp. The Company was a capital pool company prior to the transaction. The transaction was accounted for as a reverse acquisition (Note 6).

These consolidated interim financial statements were approved by the Company’s Board of Directors on May 30, 2018.

2. BASIS OF PREPARATION

2.1. Statement of compliance

The policies applied in this consolidated interim financial statement is based on International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”). The interim financial statements have been prepared by management in accordance with IAS 34 for Interim Financial Reporting

2.2. Basis of measurement

These consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments and biological assets that are measured at fair value, as detailed in the Company’s accounting policies.

2.3. Functional and presentation currency

The consolidated interim financial statements are presented in United States dollars (“\$”), unless otherwise stated. References to CAD\$ are to Canadian dollars.

The functional currency of the Company is the Canadian dollar. The functional currency of all of the Company’s subsidiaries are the United States dollar.

2.4. Basis of consolidation

These consolidated interim financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Subsidiaries are included in the consolidated interim financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. The principal wholly owned subsidiaries of ICC are as follows:

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Subsidiaries	Jurisdiction of incorporation
ICC International Corp and its Uruguayan Branch	British Virgin Islands
Tersum S.A.	Uruguay
Salesol S.A.	Uruguay
Plomfin S.A.	Uruguay
ICC Labs Inc Colombia, S.A.S (*)	Colombia

(*) Formerly ICC International Cannabis Corp Colombia, S.A.S.

All transactions and balances between companies are eliminated on consolidation. Each entity within the consolidated group determines its own functional currency and items included in the consolidated interim financial statements of each entity are measured using the functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenue

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are shipped to customers.

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.2. Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

3.3. Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially valued at cost.

3.4. Biological assets

Biological assets are living plants managed by the Company for sale, as agricultural produce, or as biological assets. Biological assets of ICC include recreational cannabis crops, which are to be harvested as agricultural produce.

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Expenses relating to the agricultural activity include planting, harvesting, weeding, seedlings, irrigation, agrochemicals, fertilizers and others. The Company elected to expense all such costs when incurred and include them within 'Cost of production' in the statement of profit or loss and other comprehensive income. Therefore, 'Cost of production' represents the costs expensed whilst the biological assets are growing.

Biological assets are measured at fair value less costs to sell on initial recognition and at each statement of financial position date, except where fair value cannot be reliably measured.

Expected future sale prices for all biological assets are determined by reference to set pricing by the Regulation and Control of Cannabis ("Instituto de Regulación y Control del Cannabis" or "IRCCA"). Costs expected to arise throughout the life of the biological assets are estimated based on statistical data.

The gain or loss arising from initial recognition of a biological asset at fair value less costs of disposal and from a change in fair value less costs of disposal of a biological asset is recognized in profit or loss in the period in which they are incurred.

3.5. Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and impairment losses, if any. Historical cost comprises the purchase price and any costs directly attributable to the acquisition.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. These costs may include the cost of replacing parts that are eligible for capitalization when the costs of replacing the parts are incurred. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is based on the estimated useful life of the asset using the straight-line method as follows:

- Machinery 5 – 10 years
- Furniture and equipment 5 years
- Information systems 5 years
- Facilities 10 years
- Construction in progress Not depreciated until ready for use and complete

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other operating income and expenses, net' in the statement of profit or loss and other comprehensive income.

3.6. Intangible assets – licenses and permits costs

Intangible assets are recognized as such if it is probable that future economic benefits attributable to the asset will flow to the Company and their cost can be reasonably measured.

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and impairment losses. These intangible assets are comprised of license costs and cost related to obtaining the licenses and permits for the recreational and hemp projects, which are amortized in profit or loss on a straight-line basis over their estimated useful lives estimated to be five years and ten years respectively from the beginning of operations.

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3.7. Impairment of non-financial assets

The Company reviews and evaluates impairment of its non-financial assets subject to depreciation and amortization whenever events or changes in circumstances occur that indicate that the carrying amount of the asset will not be recovered from its use or sale. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds the higher of its fair value and value in use. Fair value is the amount that can be obtained from the sale of an asset in an open market. The value in use corresponds to the present value of the estimated future cash flows expected to be obtained from the continuing use of the asset and from its sale at the end of its useful life. Impairment losses recognized in previous years are reversed if there is a change in the estimates used on the last time an impairment loss was recognized.

3.8. Financial instruments

Financial assets are classified into one of four categories:

- fair value through profit or loss (“FVTPL”);
- held-to-maturity (“HTM”);
- available for sale (“AFS”); and
- loans and receivables.

(i) *FVTPL financial assets*

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income and comprehensive income. Transaction costs are expensed as incurred.

(ii) *HTM investments*

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) *AFS financial assets*

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income.

(iv) *Loans and receivables*

Loans and receivables are financial assets having fixed or determinable payments that are not quoted in an active market. They are initially recognized at the transaction value and subsequently carried at amortized cost less, when material, a discount to reduce the loans and receivables to fair value.

(v) *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent

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recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income and comprehensive income. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through the consolidated statements of income and comprehensive income. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

(vi) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income and comprehensive income. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(vii) Classification of financial instruments

Cash and cash equivalents – FVTPL

Trade and other receivables – loans and receivables

Accounts payable and other payables – other financial liabilities

(viii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

3.9. Provisions

Provisions are recognized when (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate of the amount of the obligation can be made. The Company bases its accruals on up-to-date developments, estimates of the outcomes of the matters and legal counsel experience in contesting, litigating and settling matters. As the scope of the liabilities becomes better defined or more information is available, the Company may be required to change its estimates of future costs, which could have a material effect on its results of operations and financial condition or liquidity.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations.

3.10. Contingent liabilities

Contingent liabilities are not recognized in the consolidated interim financial statements; they are only disclosed in a note to the financial statements. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Items previously treated as contingent liabilities will be recognized in the consolidated interim financial statements in the period in which a change of probabilities occurs, that is, when it is determined that it is probable that an outflow of resources will take place to cover such liabilities.

3.11. Segment reporting

IFRS 8 'Operating Segments' requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet

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specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker ('CODM', Company's management) in deciding how to allocate resources and in assessing performance. The CODM evaluates the business based on the differences in the nature of its products, operations and risks. The amount reported for each segment item is the measure reported to the chief operating decision maker for these purposes.

3.12. Share-based payments

The Company approved an equity incentive plan by which directors, executive officers and consultants may be entitled to receive share-based payments. Equity settled awards are measured at fair value at the date of grant. The Company measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award. Methods used may include Black-Scholes calculations or other models as appropriate. The valuations take into account factors such as non-transferability, exercise restrictions and behavioral considerations.

For equity settled share-based payments granted to directors and executive officers as part of their remuneration package, an expense is recognized in profit or loss to spread the fair value of each award over the vesting period on a straight-line basis, after allowing for an estimate of the awards that will eventually vest.

The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognized immediately. For equity settled share-based payments granted to selling agents (including directors acting as selling agents), the charge is deducted from equity as part of the transaction costs directly attributable to the capital issuance.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

When equity settled share-based payments granted to directors and executive officers as part of their remuneration package expired, the charge is credited against accumulated deficit.

3.13. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the period attributable to the equity holders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the profit or loss for the period by the weighted average number of common shares outstanding, and when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, on an as-if converted basis.

For the periods presented, all options and warrants were anti-dilutive.

3.14. Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current tax

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated interim financial statements and the corresponding tax bases used in the computation of

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taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income (loss) or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

3.15. New standards and interpretations issued but not yet adopted

The International Accounting Standards Board has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which the Company reasonably expects to be applicable at a future date. The Company intended to adopt those standards when they become effective. The impact on the Company is currently being assessed.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 (2014) as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This Standard will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not expect this standard to have a significant impact on the Company's financial statements at this time.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the International Accounting Standard Board ("IASB") issued a new International Financial Reporting Standard ("IFRS") on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company does not expect this standard to have a significant impact on the Company's financial statements at this time.

IFRS 16 Leases ("IFRS 16")

IFRS 16 was issued by the IASB on January 13, 2016. The Company will be required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 16 will have on the Company's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

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4.1. Biological assets and inventory

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

Market prices are determined by reference to the agreements with the Government. Harvesting costs and other costs are estimated based on historical and statistical data. Yields are estimated based on several factors including the location, soil type, environmental conditions, infrastructure and other restrictions and growth at the time of measurement. Yields are subject to a high degree of uncertainty and may be affected by several factors out of the Company's control including but not limited to extreme or unusual weather conditions, plagues and other diseases.

Generally, the estimation of the fair value of biological assets is based on models or inputs that are not observable in the market and the use of unobservable inputs is significant to the overall valuation of the assets. Unobservable inputs are determined based on the best information available, for example by reference to historical information of past practices and results, statistical and agronomical information, and other analytical techniques. Unobservable inputs include yields at the point of harvest, estimated production cycle and estimated costs to complete.

The key assumptions discussed above are highly sensitive. Reasonable shifts in assumptions including but not limited to increases or decreases in prices and costs used may result in a significant increase or decrease to the fair value of biological assets recognized at any given time. Cash flows are projected based on estimated production. Estimates of production in themselves are dependent on various assumptions, in addition to those described above, including but not limited to several factors such as location, environmental conditions and other restrictions. Changes in these estimates could materially impact on estimated production and could therefore affect estimates of future cash flows used in the assessment of fair value. The valuation models and their assumptions are reviewed annually, or quarterly if warranted, and, if necessary, adjusted.

See Note 10 for details of methods and assumptions used in determining fair values.

4.2. Share-based compensation and warrant valuation

The fair value of share-based compensation expenses is estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture of options granted.

In calculating the value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the Company's common shares, and the risk-free interest rate

4.3. Estimated useful lives and depreciation of property, plant and equipment and intangible assets

Depreciation of property, plant and equipment and intangible assets is dependent upon estimates of useful lives based on management's judgment.

4.4. Impairment testing

At the date of each statement of financial position, the Company reviews the carrying amounts of its finite-life intangible assets carried at cost to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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4.5. Valuation of deferred income tax assets

The Company assesses the probability of taxable profits being available in the future based on its budget forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When a forecast shows a net profit, the Company considers that the use of deferred income taxes is probable and recognizes the benefit. When management believes that the benefits will not be realized, the deferred income tax asset is not recognized.

4.6. Functional currency determination

In determining the functional currency of the Company and its subsidiary companies, management considered the currency that mainly influences sales and the cost of providing goods and services in each jurisdiction in which each of the companies operates. The Company also considered secondary indicators including the currency in which each fund from financing activities are denominated, the currency in which funds are retained and whether the activities of the subsidiaries are carried out as an extension of the Company or if they are carried out with a degree of autonomy.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1. Financial instruments

The Company has classified its cash and cash equivalents as fair value through the consolidated statements of loss and comprehensive income loss and trade and other receivables as loans and receivables, and accounts payable and other payables as other financial liabilities.

The carrying values of accounts payable and other payables approximate their fair values due to their short periods to maturity.

5.2. Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively.

The principal financial risks arising from financial instruments are liquidity risk, credit risk, and capital risk.

a) *Liquidity risk*

As at March 31, 2018, the Company's financial liabilities consist of accounts payable and other payables, which have contractual maturity dates within one year, with the exception of the long-term portion of accounts payable and other payables. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at March 31, 2018, management regards liquidity risk to be low.

b) *Credit risk*

Credit risk arises from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions and related party receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Counterparties in cash transactions are limited to first-rate financial credit institutions.

As at March 31, 2018, there are no amounts past due.

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c) Capital risk management

The capital of the Company includes shareholders' equity of \$40,030,029 (December 31, 2017 – \$27,441,052), which is comprised of issued share capital, warrants, share-based payments reserve, accumulated other comprehensive income, and deficit. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. The Company is not subject to externally imposed capital requirements.

6. REVERSE ACQUISITION

In November 2016, the Company completed its qualifying transaction (the "Qualifying Transaction") with ICC International Corp. (formerly International Cannabis Corp). ICC International Corp. merged with a newly formed and direct, wholly-owned subsidiary of Shogun Capital Corp. to become a direct, wholly-owned subsidiary of Shogun Capital Corp. Shogun Capital Corp. changed its name to ICC International Cannabis Corporation (subsequently renamed as ICC Labs Inc.) and remained as the resulting issuer. The Qualifying Transaction constituted the qualifying transaction of Shogun Capital Corp. under the policies of the TSX-V.

By way of a three-cornered amalgamation, Shogun Capital Corp. acquired all of the issued and outstanding shares of ICC International Corp. by issuing 0.8 common shares for each outstanding ICC International Corp. common share. Each of the warrants to purchase common shares of ICC International Corp. thereafter was exercisable for 0.8 common shares of ICC.

The Qualifying Transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, ICC International Corp., has been treated as the acquirer and Shogun Capital Corp., the legal parent, has been treated as the acquiree.

Consideration transferred	<u>\$</u> <u>2,498,157</u>
(6,200,010 common shares at a price of \$ 0.3846 (CAD\$ 0.50) per share and 365,000 options to purchase common shares at a fair value of \$0.3111(CAD\$ 0.4054) per share option)	
Net assets acquired	<u>-</u>
Excess attributed to cost of listing	<u>2,498,157</u>
Listing cost:	<u>\$</u>
Excess attributed to cost of listing	2,498,157
Legal	365,734
	<u>2,863,891</u>

For accounting purposes, these consolidated interim financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, ICC International Corp.

7. CASH AND CASH EQUIVALENTS

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	<u>US\$</u>	<u>US\$</u>
Cash in hand	1,937	2,339
Trust bank account	1,190,361	14,799,802
Bank	10,459,696	-
	<u>11,651,994</u>	<u>14,802,141</u>

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8. OTHER RECEIVABLES

This account comprises:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	<u>US\$</u>	<u>US\$</u>
Receivables from related parties (Note 15)	898,652	695,881
Trade receivables	186,433	129,403
Deposit in guarantee - IRCCA (Note 17)	50,000	50,000
Tax credit certificates (\$U)	59,615	43,112
Prepaid VAT (\$U)	122,017	128,521
Prepayments and advances	661,844	492,455
Other	1,728	1,432
	<u>1,980,289</u>	<u>1,540,804</u>

9. INVENTORIES

As of March 31, 2018, inventories were comprised of approximately 1,123 kilograms of harvested recreational cannabis (December 31, 2017: 419 kilograms of harvested recreational cannabis).

As at March 31, 2018, the Company had 106 kilograms of harvested hemp (December 31, 2017: 106 kilograms of harvested hemp). The hemp has not been valued, as the Company currently does not have the ability to sell the hemp in Uruguay on a standalone basis and is in the process of finalizing its extraction facilities from where it intends to formulate medicinal extracts.

Inventory recognized as an expense in cost of sales was \$163,619 for the period ended March 31, 2018 (December 31, 2017).

10. BIOLOGICAL ASSETS

Biological assets, comprised entirely of live plants, are as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	<u>US\$</u>	<u>US\$</u>
Beginning of the period	200,707	85,883
Initial recognition and changes in fair value of biological assets	14,720,439	510,191
Decrease due to harvest	(201,284)	(395,367)
End of the period	<u>14,719,862</u>	<u>200,707</u>

As at March 31, 2018, the Company managed approximately 22,618 recreational cannabis plants in production and 5,520,000 hemp plants.

In determining the fair value of biological assets, management is required to make a number of estimates, including the expected cost required to grow the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, and expected yields for the cannabis plant. These estimates are subject to a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future years.

The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- (a) The cost to compete the cannabis and hemp post-harvest and cost to sell;
- (b) The stage of plant growth; and
- (c) Expected yields by cannabis and hemp plant.

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A 10% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by \$16,000. Additionally, an increase or decrease of 10% in the costs of production would increase or decrease the fair value of biological assets by \$9,500. Net effect of changes in fair value of biological assets and inventory include:

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Facilities	Furniture and Equipment	Machinery	Total
	US\$		US\$	US\$	US\$
Cost					
Balance December 31, 2016	3,300,000	3,039,736	135,979	44,446	6,520,161
Additions	1,500,000	604,797	219,640	19,190	2,343,627
Balance December 31, 2017	4,800,000	3,644,533	355,619	63,636	8,863,788
Accumulated depreciation					
Balance December 31, 2016	-	(19,194)	(11,261)	(459)	(30,914)
Depreciation	-	(558,024)	(81,458)	(2,271)	(641,753)
Balance December 31, 2017	-	(577,218)	(92,719)	(2,730)	(672,667)
Net book value December 31, 2016	3,300,000	3,020,542	124,718	43,987	6,489,247
Net book value December 31, 2017	4,800,000	3,067,315	262,900	60,906	8,191,121

	Land	Facilities	Furniture and Equipment	Machinery	Total
	US\$		US\$	US\$	US\$
Cost					
Balance December 31, 2017	4,800,000	3,644,533	355,619	63,636	8,863,788
Additions		794,290	14,309	123,332	931,930
Balance March 31, 2018	4,800,000	4,438,823	369,928	186,967	9,795,718
Accumulated depreciation					
Balance December 31, 2017	-	(577,218)	(92,719)	(2,730)	(672,667)
Depreciation	-	(151,628)	(22,781)	(1,095)	(175,504)
Balance March 31, 2018	-	(728,846)	(115,500)	(3,825)	(848,171)
Net book value December 31, 2017	4,800,000	3,067,315	262,900	60,906	8,191,121
Net book value March 31, 2018	4,800,000	3,709,977	254,428	183,142	8,947,547

12. INTANGIBLE ASSETS

As of March 31, 2018, and December 31, 2017, this account was comprised of costs for technical advisory, procedures for permits and license costs related to the recreational cannabis and hemp projects.

	Hemp	Recreational	Seed License	Total
Three month period ended March 31, 2017				
Opening net book amount	1,480,000	1,936,000		3,416,000
Additions	-	20,000		20,000
Amortization charge	(80,000)	(120,000)		(200,000)

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Closing net book amount	1,400,000	1,836,000	-	3,236,000
At March 31, 2017				
Cost	1,600,000	2,440,000		4,040,000
Accumulated amortization	(200,000)	(604,000)		(804,000)
Net book amount	1,400,000	1,836,000	-	3,236,000
Three month period ended March 31, 2018				
Opening net book amount	1,320,000	1,460,000	896,805	3,676,805
Additions		(20,000)		(20,000)
Amortization charge	(74,000)	(120,000)	(75,984)	(269,984)
Closing net book amount	1,246,000	1,320,000	820,821	3,386,821
At March 31, 2018				
Cost	1,600,000	2,400,000	911,805	4,911,805
Accumulated amortization	(354,000)	(1,080,000)	(90,984)	(1,524,984)
Net book amount	1,246,000	1,320,000	820,821	3,386,821

13. ACCOUNTS PAYABLE AND OTHER PAYABLES

This account comprises:

	March 31, 2018	December 31, 2017
	US\$	US\$
Non-current		
Greenhouse acquisition debt (Note 19.5)	-	-
Current		
Greenhouse acquisition debt (Note 19.5)	-	-
Due to related parties (Note 15)	-	-
Trade payables	685,428	996,690
Accrued liabilities	81,351	26,072
Tax liabilities	41,420	31,173
Payroll and social security liabilities	166,704	170,131
Other	-	27,214
	974,903	1,251,280
	974,903	1,251,280

14. TAXATION

One of the subsidiaries is incorporated under the International Business Companies Act of the British Virgin Islands and accordingly, is exempted from payment of British Virgin Island's income taxes. Accordingly, the Group's tax expense comprises the charge for tax currently payable or deferred attributable to its registered branch in other foreign jurisdiction, which is limited to Uruguay as of the date of these financial statements.

The Company is subject to net worth tax in Uruguay. The tax is calculated at a standard rate of 1.5% on its net worth, calculated on the difference between taxable property and deductible liabilities.

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15. RELATED-PARTIES TRANSACTIONS

Prior to the completion of the Qualifying Transaction, the Company funded operations through the support and management services provided by companies associated with a shareholding company of ICC. The amounts due at year end are owing to several entities of this group of companies.

Prior to the completion of the Qualifying Transaction, the Company's controlling shareholder was Union Group International Holdings Limited (Union Group). Union Group continues to be an existing shareholder of the Company.

On August 20, 2014, ICC entered in a "Services and Financing Agreement" with Union Group pursuant to which:

- (a) Union Group granted a \$4,000,000 financing facility (the "UG Facility"). Each draw down on the facility bears interest at an annual rate of 10%.
- (b) Union Group provides professional services (consisting of management, accounting, tax and legal services) to ICC related to the execution of the recreational cannabis and cannabinoids extraction projects.

The following transactions were carried out with related entities:

		<u>March 31, 2018</u>	<u>March 31, 2017</u>
		<u>US\$</u>	<u>US\$</u>
Opening balances		695,881	(387,269)
Financing facility draw-downs	(a)		97,602
Payments on behalf of ICC	(b)	(1,514,197)	-
Office leases charged		(11,700)	11,700
Accrued interest			-
Repayments		11,700	(819,436)
			1,827
Settlement	(c)	1,716,969	469,895
			-
Closing balances	(d)	<u>898,652</u>	<u>(625,682)</u>

Notes:

- (a) During the three month period ended March 31, 2018, no amount was drawn down on the UG Facility.
- (b) Included payments made by Union Group on behalf of ICC and other expenses.
- (c) Included the cash sent to Union Group accounts for paying capital expenses and other expenses.
- (d) As of March 31, 2018, the Company maintained an account receivable from Union Capital Group S.A., a subsidiary of Union Group, of \$36,764 (December 31, 2017: \$59,515), an account receivable from Union Capital Group International Holding, a subsidiary of Union Group, of \$765,317 (December 31, 2017: \$539,794) and an account receivable from Union Group of \$96,572 (December 31, 2017: \$96,572).

Key management personnel

For the three-month period ended March 31, 2018, the Company granted \$57,018 in remuneration to senior management and directors (March 31, 2017: \$39,215). At March 31, 2018, the Company included \$34,700 in accounts payable and other accrued liabilities for amounts due to senior management and directors (December 31, 2017: \$26,151).

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For the three month period ended March 31, 2018, the Company granted \$2,227,818 of share-based compensation to senior management, directors and consultants (March 31, 2017: \$20,622).

16. GENERAL AND ADMINISTRATIVE EXPENSES

	March 31, 2018	March 31, 2017
	US\$	US\$
Professional fees	793,050	138,807
Amortization of licenses and permits costs	272,454	200,000
Payroll and social security expenses	109,286	60,021
Security and surveillance	20,863	18,630
Office expenses	49,756	27,954
Transportation	13,529	17,383
Marketing expenses	83,580	3,842
Office rental	11,700	11,700
Other	91,591	163,171
	<u>1,445,810</u>	<u>641,508</u>

17. CONTINGENCIES AND GUARANTEES

17.1 Contingencies

Management of the Group considers there to be no contingent liabilities or legal commitments that have to be recognized in the consolidated interim financial statements as of March 31, 2018.

17.2 Guarantees

As a performance bond of the license granted by Regulation and Control of Cannabis ("Instituto de Regulación y Control del Cannabis" or "IRCCA"), ICC has pledged in guarantee a deposit of \$50,000 (as of March 31, 2018: \$50,000). This deposit is included in "Other receivables".

18. CONTRACTS AND LICENSES

18.1. Recreational Cannabis – License

On October 1, 2015, the Institute for IRCCA in its resolution N° 57/2015 granted to ICC International Corp. a license to produce and distribute psychoactive cannabis for non-medical use to be dispensed in pharmacies, pursuant to the provisions in Law N° 19.172, the respective regulations and what is established in the specifications set out during the tender processes N° 1/2014 and N° 2/2014 of IRCCA.

On January 14, 2016, the "Contract for the production and distribution of psychoactive cannabis for non-medical use for dispensing in pharmacies" between the IRCCA and ICC International Corp. was signed. The contract establishes that, among other things:

- ICC International Corp. is permitted to produce and distribute up to 2 tons annually of psychoactive cannabis for non-medical use for dispensing in pharmacies;

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- ICC International Corp. must pay IRCCA as follows: a) a fixed cost of \$20,000 annually and b) a variable cost of 10% of its sales to pharmacies;
- the term of the license is 5 years from January 14, 2016, subject to revocation for non-compliance;
- production of recreational cannabis must be done on government owned land;
- ICC International Corp. must only trade product with third-parties authorized by IRCCA;
- IRCCA determines the varieties of recreational cannabis to be produced, provides ICC International Corp. with the initial genetic material for the first multiplication, and reserves the right to introduce and define changes in the varieties to be produced at any time during the validity of the license; and
- recreational cannabis will be sold to pharmacies at a price of \$0.90 per gram during the first year of production, adjustable thereafter according to the conditions appearing in the specifications of the tender process N° 2/2014. In January 2018, the price of cannabis was increased by 6.5% and since then it has sold to pharmacies at a price of \$0.9585.

On February 1, 2018, ICC's Uruguayan subsidiary applied to the Government of Uruguay for approval to commence the assembly of a one million square foot greenhouse on government land located in San José, Uruguay. Once fully operational, the greenhouse is expected to allow the Company to produce high-THC varieties of cannabis for medicinal purposes.

18.2. Compensation agreement with recreational cannabis business' developers

On August 4, 2014, ICC International Corp. signed a "Compensation Agreement" with the original developers of the recreational cannabis project for the initiation, promotion and support of the project, which included technical advisory, surveying and studies. As compensation, subject to the obtention of the recreational cannabis license, ICC International Corp. paid in April 2016 to those developers \$1,200,000 in cash through a related party's finance facility and \$1,200,000 of ICC International Corp.'s common shares.

18.3. Compensation agreement with hemp business' developers

On January 20, 2015, ICC International Corp. signed a "Compensation Agreement" with the original hemp business developers for technical advice and support related to the cannabinoids extraction project. As compensation, subject to the obtention of a hemp authorization, ICC International Corp. paid in April 2016 to those developers \$800,000 in cash through a related party's finance facility and \$800,000 of ICC International Corp.'s common shares.

18.4. Farmland acquisition for the cannabinoids extraction project

On February 10, 2015, ICC International Corp. signed an agreement to acquire a farmland for the cannabinoids extraction project for a total amount of \$3,300,000. This agreement is enforceable since ICC International Corp. obtained a hemp license. In April 2016, the initial amount of \$2,300,000 was paid through a related party's financing facility and \$1,000,000 was paid in December 2016.

18.5. Greenhouse acquisition for the recreational project

On March 1, 2016, ICC International Corp. signed the "Greenhouse Purchase Agreement" in which ICC International Corp. acquired a greenhouse to be assembled on IRCCA's premises to grow recreational cannabis. The purchase price is \$2,770,000 payable to the supplier after the completion of the assemblage in four consecutive semi-annual installments of \$692,500 beginning December 2016. The amount due bears interest at an annual rate of Libor 6 months + 3%. The balance was fully paid off as at December 31, 2017.

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18.6. Hemp authorization

On December 20, 2016, Tersum received an authorization from the Agricultural Services General Directorate of the Ministry of Livestock, Agriculture and Fishery of Uruguay (the “2016 Authorization”) that permits Tersum to, among other things: (i) plant up to approximately 100 acres of land at its Canelones production site with certain cannabis sativa seeds; (ii) harvest the seeds, stems and flowers of the planted crop; (iii) process the fibre and extract oil from the harvested seed; (iv) sell the processed fibre and harvested seeds in the domestic market to certain authorized buyers; and (v) export the processed fibre and extracted oil, upon receipt of further required authorizations. The 2016 Authorization expired 360 days after issuance and was not renewed by Tersum as it no longer used the strain of cannabis included in the 2016 Authorization.

On May 5, 2017, Tersum was granted an authorization (the “May 5, 2017 Authorization”) that permits Tersum to, among other things: (i) plant up to approximately 100 acres of land at its Canelones production site with certain cannabis sativa seeds; (ii) harvest the seeds, stems and flowers of the planted crop; (iii) process the fibre, extract oil from the harvested grain and extract cannabinoids from the harvested flowers, in accordance with certain specified methods and directives; (iv) sell the processed fibre and harvested seeds in the domestic market to certain authorized buyers; and (v) export the processed fibre, extracted oil and extractions from the flowers after fulfilling certain stipulated requirements. The May 5, 2017 Authorization expired 360 days after issuance and was not renewed by Tersum as it no longer used the strain of cannabis included in the May 5, 2017 Authorization.

On May 31, 2017, Tersum was granted an authorization (the “May 31, 2017 Authorization”) that permits Tersum to, among other things: (i) plant up to approximately 495 acres of land at its Flores production site with certain cannabis sativa seeds; (ii) harvest the seeds, stems and flowers of the planted crop, in accordance with certain specified methods and directives; (iii) process the fibre, extract oil from the harvested grain and extract cannabinoids from the harvested flowers; (iv) sell the processed fibre in the domestic market for certain specified uses; and (v) export the processed fibre, extracted oil and extractions from the flowers after fulfilling certain stipulated requirements. The May 31, 2017 Authorization expires 360 days after issuance and Tersum has applied to the Ministry of Livestock, Agriculture and Fishery of Uruguay to renew the authorization.

On July 25, 2017, Tersum was granted an authorization (the “July 2017 Authorization”) that permits Tersum to, among other things: (i) import certain approved varieties of cannabis seeds; (ii) plant up to approximately 100 acres of land at its Flores and/or its Canelones production sites with such varieties of cannabis seeds; (iii) harvest the seeds, stems and flowers of the planted crop; (iv) process the fibre, extract oil from the harvested grain and extract cannabinoids from the harvested flowers, in accordance with certain specified methods and directives; (v) sell the processed fibre and harvested seeds in the domestic market to certain authorized buyers, and subject to certain approvals, the extractions from the flowers; and (vi) export the processed fibre, extracted oil and extractions from the flowers after fulfilling certain stipulated requirements. The July 2017 Authorization expires 360 days after issuance, except for the importation activities, which are authorized for a period of 120 days after the issuance. Tersum is in the process of renewing the authorization.

18.7. Colombia licenses

On January 3, 2018, ICC obtained two licenses for its wholly-owned subsidiary in Colombia from the Ministry of Justice and Law of the Republic of Colombia. One license permits ICC to cultivate non-psychoactive cannabis plants to produce various medicinal cannabis-based products for domestic and international distribution. The second license permits ICC to obtain cannabis seeds under the Colombian regulatory regime and use such seeds for its operations. These licenses are each valid for a period of five years and are renewable upon request within three months of expiration.

On February 9, 2018 the Ministry of Justice and Law of the Republic of Colombia granted ICC’s Colombian subsidiary a license to cultivate psychoactive cannabis plants for medicinal purposes for domestic and international distribution. The Ministry of Health of the Republic of Colombia also granted the subsidiary a

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license to manufacture cannabis derivatives for medicinal purposes. Such licenses are each valid for a period of five years and are renewable upon request within three months of expiration.

18.8. Export Agreements

On January 22, 2018, ICC's Uruguayan subsidiary signed an agreement with ARA - Avanti Rx Analytics Inc. ("Avanti"), a subsidiary of Nuuvera Inc. ("Nuuvera") to export CBD crystal. Pursuant to the terms of the agreement, Avanti has agreed to purchase 150 kilograms of CBD in 2018, subject to ICC completing its Good Manufacturing Practices ("GMP") certified laboratory.

18.9. Kalapa Agreement

On March 28, 2018, the Company announced the acquisition of Global Group Kalapa S.L. (Kalapa) in Spain. The Company will acquire an initial 25% equity stake in Kalapa at an agreed upon valuation of €3,500,000 to be paid with a combination of cash, pure CBD produced by ICC, and common shares of ICC valued at an agreed upon price per common share of CAD\$1.40. In addition, ICC will be granted an option to acquire the remaining 75% of Kalapa at the same valuation prior to the end of 2018 in a combination of cash and securities of ICC. See "Subsequent Events".

19. SEGMENT INFORMATION

As of March 31, 2018, the Company's principal businesses are recreational cannabis and hemp. Based on the Company's managerial business structure, the Company operates in the following reportable segments as of March 31, 2018:

- The 'Recreational' Segment consists of planting, harvesting and sale of psychoactive cannabis pursuant to the licenses granted by the Uruguayan government. Management is focused on the long-term performance of the productive land, and to that extent, the performance is assessed considering the aggregated combination, if any, of crops planted in the land. A single manager is responsible for the management of operating activity of all crops.
- The 'Hemp' Segment consists of planting, harvesting and sale of industrial hemp and medicinal cannabis pursuant to the authorizations granted by the Uruguayan government.

The following table presents information with respect to the Company's reportable segments.

Segment analysis is as follows for the year ended December 31, 2017:

	<u>Recreational</u>	<u>Cannabinoids Extraction</u>	<u>Total Segments</u>
	\$	\$	\$
Year ended December 31, 2017			
Sales	218,040	-	218,040
Cost of sales	(214,075)	-	(214,075)
Initial recognition and changes in fair value of biological assets and agricultural produce	510,191	-	510,191
Cost of production and direct selling expenses	(1,299,480)	(165,273)	(1,464,753)
Gross loss	(785,324)	(165,273)	(950,597)
Depreciation and amortization	(1,109,915)	(182,838)	(1,292,753)

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Assets at December 31, 2017

Property, plant and equipment, net	3,816,908	4,374,213	8,191,121
Intangible assets	1,460,000	2,216,805	3,676,805
Biological assets	200,707	-	200,707
Inventories	280,754	-	280,754
Trade receivables and other receivables	1,072,385	468,419	1,540,804
Total segment assets	6,830,754	7,059,437	13,890,191

Segment analysis is as follows for the three-month period ended March 31, 2018:

	Recreational	Hemp	Total Segments
	US\$	US\$	US\$
Three month period ended March 31, 2018			
Sales	164,126		164,126
Cost of sales	(163,619)		(163,619)
Initial recognition and changes in fair value of biological assets and agricultural produce Cost of production and direct selling expenses	167,429	14,553,010	14,720,439
	<u>(468,490)</u>	<u>(71,349)</u>	<u>(539,838)</u>
Gross loss	<u>(300,553)</u>	<u>14,481,661</u>	<u>14,181,108</u>
Depreciation and amortization	<u>(290,701)</u>	<u>(154,787)</u>	<u>(445,488)</u>
Assets at March 31, 2018			
Property, plant and equipment, net	2,578,999	6,368,548	8,947,547
Intangible assets	1,320,000	2,066,821	3,386,821
Biological assets	166,852	14,553,010	14,719,862
Inventories	318,419	-	318,419
Trade receivables & other receivables	<u>369,957</u>	<u>711,679</u>	<u>1,081,636</u>
Total segment assets	<u>4,754,227</u>	<u>23,700,059</u>	<u>28,454,286</u>

Total segment assets are measured in a manner consistent with that of the consolidated financial statements.

These assets are allocated based on the operations of the segment and the physical location of the asset.

Total reportable segments' assets are reconciled to total assets as per the statement of financial position as follows:

	March 31, 2018 US\$
Total reportable assets as per Segment Information	28,454,286
Other receivables, net	898,653
Cash and cash equivalents	<u>11,651,994</u>
Total assets as per the Consolidated Statement of Financial Position	<u>41,004,933</u>

ICC Labs Inc. (formerly ICC International Cannabis Corporation)

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20. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. As at March 31, 2018, the Company has issued 138,033,772 common shares (March 31, 2017 112,565,010 common shares).

		Number of shares	US\$
COMMON SHARES			
Balance at January 1, 2015		40,000	50,000
Balance at December 31, 2015		40,000	50,000
Conversion of due to related parties	(a)	39,960,000	15,369,231
Share-based payments	Note 22	40,000,000	15,384,615
Shares issued for reverse acquisition	Note 6	6,200,010	2,384,619
Subscription receipts, net of issuance costs	(b)	26,000,000	8,570,911
Exercise of stock options	Note 22	365,000	150,038
Balance at December 31, 2016		112,565,010	41,909,414
Subscription receipts, net of issuance costs	(c) Note 21	23,000,000	13,522,261
Warrants exercised	(d)	1,456,000	755,375
Exercise of stock options	Note 21	579,900	385,870
Balance at December 31, 2017		137,600,910	56,572,920
Warrants exercised	Note 21 (e) Note 21	364,000	200,239
Compensation Options Exercised	(f)	68,862	63,640
Balance at March 31, 2018		138,033,772	56,836,799

Notes:

- (a) On April 28, 2016, ICC International Corp. issued 39,960,000 common shares at a fair value of \$0.3846 to settle the outstanding debt with Union Group. The excess between the fair value consideration paid and the carrying amount of the debt settled of \$10,066,984 was recognized in the consolidated Statement of Loss in "Loss on debt settlement" in the Company's annual audited financial statements for the year ended December 31, 2016.
- (b) Prior to the closing of the Qualifying Transaction, ICC International Corp. completed a private placement (the "Private Placement") of 32,500,000 subscription receipts ("Subscription Receipts") at a price of \$0.3076 (CAD\$0.40) per Subscription Receipt for gross proceeds of \$9,651,076 (CAD\$13,000,000). At the closing of the Qualifying Transaction, the holders of the Subscription Receipts received 26,000,000 common shares of the Company, being 0.8 common shares for each Subscription Receipt. The agents engaged by the Company in connection with the Private Placement, received a cash commission of \$675,575 (CAD\$910,000) and broker warrants to purchase 2,275,000 common shares of ICC International Corp. exercisable at a price of \$0.3076 (CAD\$0.40) per share until November 29, 2018, with such warrants being exchanged at the closing of the Qualifying Transaction for broker warrants to purchase 1,820,000 common shares of the Company exercisable at a price of \$0.3846 (CAD\$0.50) per common share until November 29, 2018. Warrants were valued at \$269,918 (CAD\$363,576) and have been recorded in equity under Warrants. The cost of issuing equity of \$134,673 (CAD\$181,405) has been applied against the fair value of the equity issued at the time of the acquisition.

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- (c) On November 22, 2017, ICC closed a bought deal offering of 23,000,000 units ("Units") at a price of CAD\$1.00 per Unit, including the full exercise of the over-allotment option, for aggregate gross proceeds of CAD\$23,000,000 (the "Offering"). The Offering was underwritten by a syndicate of underwriters led by GMP Securities L.P. and including Haywood Securities Inc., and PI Financial Corp. (collectively, the "Underwriters"). Each Unit issued pursuant to the Offering consisted of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD\$1.50 per common share until November 22, 2019, subject to customary anti-dilution adjustments. In consideration for the services provided by the Underwriters, the Company paid the Underwriters a cash commission and issued an aggregate of 1,380,000 non-transferable compensation options to the Underwriters (the "Compensation Options"). Each Compensation Option is exercisable into one Unit at a price of CAD\$1.00 until November 22, 2019, subject to customary anti-dilution adjustments.
- (d) On April 12, 2017, 1,456,000 common shares were issued on exercise of broker warrants for cash proceeds of \$539,441.
- (e) On January 22, 2018, 364,000 common shares were issued on exercised of broker warrants for cash proceeds of \$146,255.
- (f) On February 6, 2018, 68,862 common shares and 34,431 warrants were issued on exercise of 68,862 Compensation Options for cash proceeds of \$54,951. The warrants are exercisable at a price of CAD\$1.50 per share and valued at \$17,328.

21. WARRANTS AND COMPENSATION OPTIONS

Warrants

The details of the Company's warrants are as follows:

	March 31, 2018	Weighted Avg. Exercise Price (CAD\$)	March 31, 2017	Weighted Avg. Exercise Price (CAD\$)
Balance Beginning of three months ended March 31, 2018	11,864,000	1.47	1,820,000	0.50
Issued	34,431	1.50	-	0
Expired				
Exercised	(364,000)	0.50	-	0
Balance - End of three month period	11,534,431	1.50	1,820,000	0.50

The following table summarizes information about warrants outstanding as at March 31, 2018:

Date of issuance	Date of Expire	Exercise Price (CAD\$)	March 31, 2018 Outstanding	March 31, 2017 Outstanding
November 22, 2017	November 22, 2019	1.50	11,500,000	1,820,000
February 06, 2018	November 22, 2019	1.50	34,431	
			11,534,431	1,820,000

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As at March 31, 2018, warrants outstanding have a weighted average remaining life of 1.86 years.

The Company used Black Scholes pricing model to determine the fair value of warrants. The November 2017 warrants were valued using the following assumptions: 1.43% risk-free rate; expected life of 2 years; volatility of 90% based on comparable companies; forfeiture rate of nil; and, exercise price of the respective warrant. The total fair value of the warrants was calculated to be \$2,568,183.

The February 2018 warrants were valued using the following assumptions: 2.07% risk free rate; expected life 1.79 years; volatility of 84.72% based on the company history, and exercise price of 1.5. The fair value calculated for them is \$ 17,328.

Compensation Options

The Company issued an aggregate of 1,380,000 non-transferable Compensation Options relating to the November 2017 financing. Each Compensation Option is exercisable into one Unit at a price of CAD\$1.00 until November 22, 2019, subject to customary anti-dilution adjustments.

The Company used Black Scholes pricing model to determine the fair value of options. The November 2017 options were valued using the following assumptions: 1.43% risk-free rate; expected life of 2 years; volatility of 90% based on comparable companies; forfeiture rate of nil; and, exercise price of the respective option. The total fair value of the warrants was calculated to be \$521,386.

On February 6, 2018 and April 16, 2018, 68,862 and 12,420 Compensation Options were exercised, respectively.

22. SHARE-BASED PAYMENT ARRANGEMENTS

Stock option plan

In November 2016, the Company adopted a stock option plan under which it is authorized to grant options to officers, directors, employees, and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of stock options that may be granted under the plan is 10% of the issued and outstanding common shares of the Company. The options granted can be exercised for up to a maximum of 10 years and vest as determined by the Board of Directors. The exercise price of each option may not be less than the market price of the common shares on the date of grant.

Options to purchase 365,000 ICC common shares at an exercise price of CAD\$0.10 per share, vested and having an expiry date of September 4, 2018, were recognized in respect of the reverse acquisition (Note 6).

On November 23, 2016, the Company issued options to purchase up to 6,988,000 common shares at an exercise price of CAD\$0.50 per share, vesting immediately and having an expiry date of November 23, 2026, to certain directors, officers and consultants of the Company. The Company recognized a share-based compensation expense of \$1,942,528 during the year ended December 31, 2016.

On March 9, 2017, the Company issued options to purchase up to 500,000 common shares at an exercise price of CAD\$0.86 per share and options to purchase up to 250,000 common shares at an exercise price of CAD\$1.50 per share, with all such options expiring on March 9, 2027.

On June 6, 2017, 79,900 common shares were issued at a price of CAD\$0.50 per share upon the exercise of options.

On June 26, 2017, the Company issued options to purchase up to 150,000 common shares at an exercise price of CAD\$1.40 per share, with all such options being cancelled and terminated in connection with the recipient ceasing to provide consulting services to the Company.

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On November 29, 2017, the Company issued options to purchase up to 250,000 common shares at an exercise price of CAD\$0.98 per share and options to purchase up to 200,000 common shares at an exercise price of CAD\$1.25 per share, with all such options expiring on November 29, 2027.

On January 10, 2018, the Company issued options to purchase up to 4,252,018 common shares at an exercise price of CAD\$1.42 per share, with all of such options expiring on January 10, 2028.

In 2016, the Company used the Black Scholes pricing model to determine the fair value of options granted using the following assumptions: 1.31% risk-free rate; expected life of 1.78 and 10 years; volatility of 70% based on comparable companies; forfeiture rate of nil; and, exercise price of the respective options.

In 2017, the Company used the Black Scholes pricing model to determine the fair value of options granted using the following assumptions: 1.12% - 1.64% risk-free rate; expected life of 5 to 10 years; volatility of 80% - 90% based on comparable companies; forfeiture rate of nil; and, exercise price of the respective options.

In 2018, the Company used the Black Scholes pricing model to determine the fair value options granted using the following assumptions: 2.07% risk-free rate; expected life 10 years; volatility of 84.72% based on the history of our company.

	Number of Options	Weighted average exercise price
		CAD
Three-month period ended March 31, 2018		
Outstanding, beginning of the period	7,608,100	0.59
Issued during the period	4,252,018	1.42
Exercised during the period	-	
Cancellation of options	-	
Outstanding, end of period	<u>11,860,118</u>	<u>0.89</u>
Exercisable, end of period	<u>11,860,118</u>	<u>0.89</u>

	Number of Options	Weighted average exercise price
		CAD
Three-month period ended March 31, 2017		
Outstanding, beginning of the period	6,988,000	0.50
Issued during the period	750,000	1.07
Exercised during the period		
Cancellation of options		
Outstanding, end of period	<u>7,738,000</u>	<u>0.56</u>
Exercisable, end of period	<u>7,738,000</u>	<u>0.56</u>

As at March 31, 2018, options outstanding have a weighted average remaining life of 9.35 years (31st March 2017 – 9.68 years).

Compensation agreements

In August 2014 and January 2015, the ICC International Corp entered into agreements in which subject to certain conditions ICC International Corp had to issue common shares equivalent to \$1,200,000 and \$800,000, respectively. The Company agreed to issue 50,000,000, common shares to satisfy this obligation.

On April 28, 2016, ICC International Corp issued 50,000,000 common shares at a fair value of \$0.3076 per share (40,000,000 post-consolidation common shares of ICC at a fair value of \$0.3846 per share). The excess between the fair value consideration paid and the carrying amount of the debt settled of \$13,384,615 was recognized in the Consolidated Statement of Loss in "Loss on debt settlement".

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23. SUBSEQUENT EVENTS

On April 2, 2018, ICC entered into a framework collaboration agreement with the Pasteur Institute of Montevideo, a Uruguayan foundation devoted to biomedical research. Over a period of two years, ICC will provide \$400,000 in funding and three Phyto cannabinoid extracts to the research program and the Pasteur Institute will conduct various scientific and medicinal research activities designed to ascertain potential effects of the Phyto cannabinoids on immune response, neuroprotection and intestinal microbiota. The direct results of the research program are expected to be owned solely by ICC.

On April 3, 2018, ICC's Uruguayan subsidiary entered into a term sheet with Canadian-based Sundial Growers Inc. ("Sundial"), a Health Canada ACMPR-approved licensed producer of medicinal cannabis. Pursuant to the term sheet, the parties agreed to negotiate definitive commercial agreements for the sale by ICC of up to 250,000 grams of CBD crystal per year for distribution by Sundial in the Canadian and international markets, subject to ICC completing its GMP certified laboratory and Sundial obtaining its sales license.

On April 3, 2018, ICC entered into a letter of intent with Eurofarma Uruguay S.A., a member of the Eurofarma group of companies. The Eurofarma group is a Brazilian-owned multinational pharmaceutical producer. Pursuant to the letter of intent, the parties have agreed to negotiate definitive commercial agreements pursuant to which Eurofarma will blend, bottle and package, in accordance with GMP, for sale by ICC, various products derived from ICC's CBD extractions that will be used for medicinal purposes.

On April 5, 2018, the Company agreed to provide a line of credit for up to €100,000 to Kalapa at 3.8% per annum payable 12 months after disbursement and convertible into shares towards the acquisition.

On April 16, 2018, 12,420 Compensation Options were exercised resulting in the issuance of 12,420 common shares and 6,210 Warrants.

On April 26, 2018, ICC announced that it had commenced construction of a 124,000 sq. ft. greenhouse in Colombia for the production of medicinal, high-THC strains of cannabis.

On April 30, 2018, ICC issued options to purchase up to 300,000 common shares at an exercise price of \$1.44 per share, with all such options expiring on April 30, 2023.

On May 9, 2018, ICC BVI signed a quotas purchase agreement with Kalapa for the acquisition by ICC of 788 quotas of Kalapa, representing a 25% equity stake in Kalapa at an agreed upon valuation of €3,500,000 to be paid with a combination of cash and common shares valued at an agreed upon price per common share of CAD\$1.40. ICC is also obliged to provide Kalapa with CBD raw material with a volume of €140,000. In addition, Kalapa has granted to ICC, subject to the terms and conditions of the agreement, an irrevocable option to purchase up to 75% of the quotas of Kalapa until October 31, 2018. Closing remains subject to TSX-V approval.

On May 11, 2018, Tersum S.A., obtained a 100% organic certificate for hemp (Cannabis Sativa) from the Organización Internacional Agropecuaria. The certification applies to hemp produced at the Company's Canelones site in Uruguay, where the Company is authorized by the Ministry of Agriculture to grow hemp on up to 101 acres. The organic certification was completed in accordance with the terms of the United States-Canada Organic Equivalence Arrangement. The certificate continues in effect until surrendered, suspended or revoked.

In the third week of May 2018, ICC commenced its first outdoor hemp harvest, which is expected to finish one month after commencement.

On May 22, 2018, ICC signed a letter of intent with CanPharma GmbH ("CanPharma"), a licensed importer and wholesaler of narcotics in the Federal Republic of Germany. Through its relationship with CanPharma, ICC intends to export to Germany CBD isolate, oils and other derivatives, as well as various medicinal THC cannabis products, including dried flowers and cannabis extracts from our facilities in Uruguay and Colombia. The export arrangement for (THC) cannabis products is subject to receipt of the requisite regulatory approvals and the negotiation of definitive agreements by the end of second quarter in 2018.



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