



INITIATING COVERAGE October 26, 2017

ICC INTERNATIONAL CANNABIS CORP
(V-ICC) \$1.02

RATING: BUY
(initiating)

TARGET: \$2.75
(initiating)

Capitalizing on the Global Trend of Medicinal Cannabis

- ▶ **International exposure.** ICC International Cannabis Corp. is a fully licensed cannabis producer in Uruguay. Its license allows for domestic sales of recreational cannabis and the export of medicinal cannabis.
- ▶ **Superior regulatory environment.** Uruguay was the first country to legalize recreational cannabis use. In addition, the government has licensed ICC to grow high-CBD hemp for the export of concentrated CBD products. While many countries are allowing the use of medicinal cannabis very few are authorizing domestic production.
- ▶ **Significant addressable CBD market.** Located in South America, ICC is well positioned to supply medical cannabis to South / Latin America. Brazil, Mexico, Colombia and Argentina have all taken steps to legalize medical cannabis and more are expected to follow suit. Over 625M people reside in South / Latin America.
- ▶ **Low cost of production.** We believe ICC can produce cannabis and extracts at less than half the cost of the lowest cost producers in Canada. ICC benefits from favourable regulations, outdoor growing, less restrictions on hemp, ample sunlight and a low-cost skilled workforce.
- ▶ **One of only two licenses in Uruguay.** The government of Uruguay has only awarded two production licenses in Uruguay. Not only is ICC the dominant producer for the domestic market but the Company is the only producer for medicinal cannabis exports.
- ▶ **Initial supply agreement signed.** ICC has entered into a presales agreement with a Mexican trade partner. This initial arrangement outlines the sale of CBD oil which will be distributed through a large network of Mexican pharmacies.
- ▶ **FORECAST/OUTLOOK:** We expect the majority of future sales will be through global exports of medicinal cannabis. We expect additional supply agreements with international partners to pre-sell its CBD products that will be available in early 2018. We are forecasting sales of \$0.6M, \$15.6M, \$88.9M, and \$166.5M for FY17, FY18, FY19, and FY20 (December year-end). Our EBITDA forecast for the same period is (\$4.8M), (\$5.4M), \$23.0M and \$45.4M.
- ▶ **VALUATION/RECOMMENDATION:** We believe ICC International Cannabis Corp. represents a pure play on the growing acceptance of medicinal cannabis globally and believe it has a significant advantage within South / Latin America.
- ▶ **We are initiating coverage of ICC International Cannabis Corp.** (V-ICC) with a **BUY** rating (Risk rating: **SPECULATIVE**) with a **12-month target of \$2.75**. This represents an EV/EBITDA multiple of 5.3x based on our FY20 EBITDA.

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Company Statistics

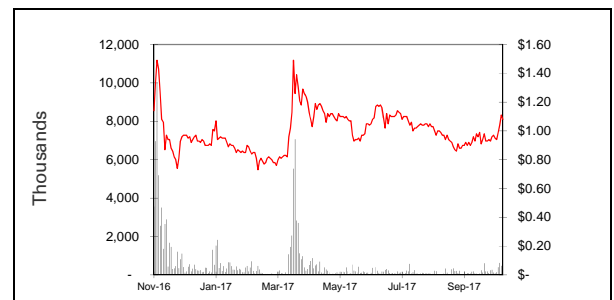
Risk:	SPECULATIVE
52-week High/Low:	\$1.76 / \$0.69
Shares o/s ('000):	114,101
Shares o/s (fd) ('000):	122,273
Market Cap (fd) ('000):	\$124,718
Average Trading Volume	199,504
Cash ('000):	\$2,663
Debt ('000):	\$0
CEO:	Alejandro Antalich
CFO:	Oscar León
Shareholders:	Mgmt/Insiders 37%
	Institutional 3%

Financial Summary

(YE Dec 31)

\$USD	FY17e	FY18e	FY19e	FY20e
Revenue (\$K)	574	15,638	88,908	166,513
EBITDA (\$K)	(4,789)	(5,380)	22,956	45,396
EBITDA (%)	na	-34.4%	25.8%	27.3%
Net income (\$K)	(6,276)	(6,864)	16,148	33,020
EPS (\$)	(0.05)	(0.06)	0.13	0.27
EV/EBITDA	na	na	3.8x	1.9x
P/E	na	na	6.0x	3.0x

Quarterly EPS (\$)	Q1	Q2	Q3	Q4
FY17	(0.01)a	(0.01)a	(0.02)e	(0.02)e
FY18	(0.02)e	(0.02)e	(0.01)e	(0.01)e



Corporate Information

International Cannabis Corp. (ICC) is the first licensed integrated cannabis corporation in South America – producing, researching and marketing cannabis for medical and recreational uses.

A Disclosure fact sheet is available on Pages 22-23 of this report.



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Investment Thesis

Fully Licensed Producer in Uruguay

International Cannabis Corp. is a fully licensed cannabis producer in Uruguay. Uruguay is the first country to legalize recreational cannabis and ICC is one of two licensed producers in the country. In addition to producing and selling cannabis into its domestic market, the Company has government approval to export medical cannabis products globally.

Uruguay First to Legalize Recreational Cannabis Sales

In June 2012, Uruguayan President Mujica announced plans to legalize cannabis within Uruguay. Within 18 months Uruguayan Law 19,172 was passed to create a legal marketplace for recreational-use cannabis. Uruguay commenced sales of recreational use cannabis in July 2017. The market is tightly controlled by government agencies including specific strains (only two available) and personal consumption (10 grams maximum per week / 40 grams maximum per month).

Significant Capacity to Produce Cannabis and High-CBD Hemp

ICC has two greenhouse facilities currently growing cannabis / hemp

- ICC completed construction of a 70,565 sf greenhouse that has the capacity to harvest 10,000kg of recreational cannabis per year.
- The Company has a 21,528 sf greenhouse that has the capacity to grow 450kg of high-CBD hemp

ICC also has two outdoor fields that will grow high-CBD hemp

- Canelones site has 67 acres of land which is expected to produce 27,000kg of hemp flower
- The Flores site has 333 acres of land (potential to reach 500 acres) which is expected to produce 130,000kg of hemp flower

Significant Market Opportunity

The global medical cannabis market is expected to reach \$55.8B (USD) or \$70B-\$75B (CAD) by 2025 (Grandview Research). This market size is approximately 10x the size of our Canadian cannabis market estimate of \$7B in 2024.

Recreational Cannabis outlook - Government officials estimate that the initial Uruguayan domestic market will be 2,000kg per year reaching 26,000kg within a few years. We have taken a more conservative stance but still believe there is 16,000kg – 17,000kg of demand for recreational cannabis in Uruguay by 2020.

We believe ICC is an investment bet on the growing acceptance of medical cannabis globally

ICC's global strategy is to sell medicinal cannabis to nations that have adopted a medical cannabis policy. In most countries, the restrictions for a specific cannabinoid within cannabis called cannabidiol or CBD has been eased.

There have been 12 countries that have introduced new medical cannabis laws in the last three years. There has been a significant movement in many parts of the world that resulted into changing the legal status of cannabis to recognize its effective treatment of many medical conditions.



Forecast / Outlook

When we combine our recreational and CBD export revenue estimates together we believe that ICC can generate \$15.6M in revenue in FY18, \$88.9M in revenue by FY19 and \$166.5M in revenue by FY20.

One of ICC's advantages is its low-cost environment in Uruguay due to the ample sunlight and low-cost highly skilled workforce. That said there is expected to be relatively high initial costs until operations are streamlined. We are assuming a cost per gram of recreational cannabis to be \$0.50 per gram while we assume the cost per gram of CBD-rich hemp flower to be sub- \$0.50.

Valuation and Recommendation

We believe ICC International Cannabis Corp. shares provide investors with a target return of 170% based on our target price. We are initiating coverage with a **BUY** rating (risk: **SPECULATIVE**) and a **12-month target of \$2.75**. Our target represents an EV/EBITDA of 5.3x based on our FY20 estimates.

The biggest risk to our valuation is the business execution risk associated with a company that has not completed a full-scale harvest, processed CBD extracts or fulfilled a sales agreement.



Overview

International Cannabis Corp. is a fully licensed cannabis producer in Uruguay. Uruguay is the first country to legalize recreational cannabis and ICC is one of two licensed producers in the country. In addition to producing and selling cannabis into its domestic market, the Company also intends to export medical cannabis products globally.

History

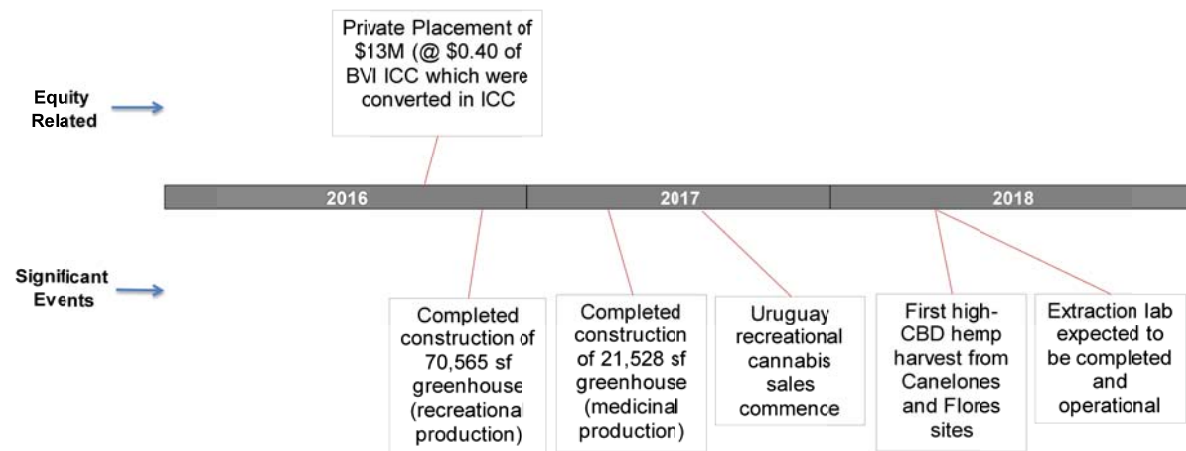
In December 2013, the Uruguayan government passed Uruguayan Law 19,172 which legalized recreational cannabis within the country. The law imposed strict government oversight on the production and sale of cannabis in order to minimize cannabis-related crime.

In September 2016, ICC completed a private placement for gross proceeds of \$13M. In November 2016, ICC completed a qualifying transaction with a capital pool company called Shogun Capital Corp. after which the private placement proceeds were converted into 26M common shares.

In December 2016, ICC completed construction of a large 70,565sf greenhouse facility which has the capacity to produce up to 10,000kg of cannabis per year. This facility replaced a smaller greenhouse which was located on the same government owned land in Montevideo, Uruguay.

In April 2017, ICC completed a second greenhouse facility which has a 21,528sf footprint. This facility is used for the production of cannabis plants which are CBD dominant. These plants are used for the production of CBD extracts. We estimate that the production capacity for this greenhouse is between 200kg – 500kg of dried flower per annum.

Figure 1 - Timeline



Source: ICC International Cannabis Corp, SEDAR filings

Uruguayan Legal Cannabis Framework

In June 2012, Uruguayan President Mujica announced plans to legalize cannabis within Uruguay. Within 18 months Uruguayan Law 19,172 was passed to create a legal marketplace for recreational-use cannabis. Under this law the Government of Uruguay controls all activity relating to the production and sale of cannabis including importing, exporting, planting, cultivation, harvesting, storage and distribution of cannabis and cannabis derivate products.



Further Uruguayan decrees regulated the personal consumption of cannabis including setting the legal age of 18 years old, maximum weekly purchase limits (10 grams per week), personal cultivation limits (six plants) and cooperative cultivation clubs (similar consumption limits).

The government granted cultivation licenses to two companies (ICC and one other company) and provided each license holders with the specific authorized strains. These two strains were called Alpha strain and Beta strain and the genetics of these strains can be used to authenticate legal cannabis versus illicit cannabis.

The sale of recreational cannabis is only through licensed pharmacies in Uruguay. A customer must register with the government in order to purchase cannabis including providing a finger print that will be used to identify them when purchasing in the future.

Recreational sales commenced on July 19th, 2017 and are sold in 5 gram sealed packages priced at USD\$6.50 (\$1.30 per gram).

Facilities

Recreational Cannabis Facilities

The initial greenhouse facility that ICC constructed was a 10,000sf structure that had the capacity to produce approximately 2.0 tonnes of cannabis. Late in 2016, the Company completed construction of a larger 70,565sf greenhouse that has the capacity to harvest 10.0 tonnes of cannabis per year.

All recreational cannabis grown by ICC must follow strict regulatory supervision including site conditions production methods, product traceability and quality standards overseen by IRCCA.

Figure 2 – Recreational Greenhouse Facility



Source: ICC website



Medicinal Cannabis Production

Canelones Site. ICC purchased 102 acres of land outside of Montevideo, Uruguay in an area dedicated to organic agricultural. This land, which was previously a blueberry farm, was purchased for \$3.3M (\$2.3M in cash and \$1.0M in debt). Of the total land area, 67 acres is useable for hemp cultivation.

There is also a 21,528sf greenhouse at the Canelones Site which was built post acquisition. This greenhouse can handle 5,000 plants per harvest and complete three harvests per year.

Figure 3 – Medicinal 21,528sf Greenhouse



Source: ICC press release

Flores Site. The Company also has a 494 acre land parcel for further hemp cultivation. This land is leased and sits 236km northwest of Montevideo. This is the largest hemp cultivation site in South America.

The Canelones Site is expected to produce 450kg of dried flower from its greenhouse operations (150kg x 3 harvests per year) and 27,000kg from its 67 acre outdoor crop (one harvest per year). The Flores Site will initially seed 333 acres of the 494 acre property and is expected to yield 130,000kg of dried flower.

Extraction Lab

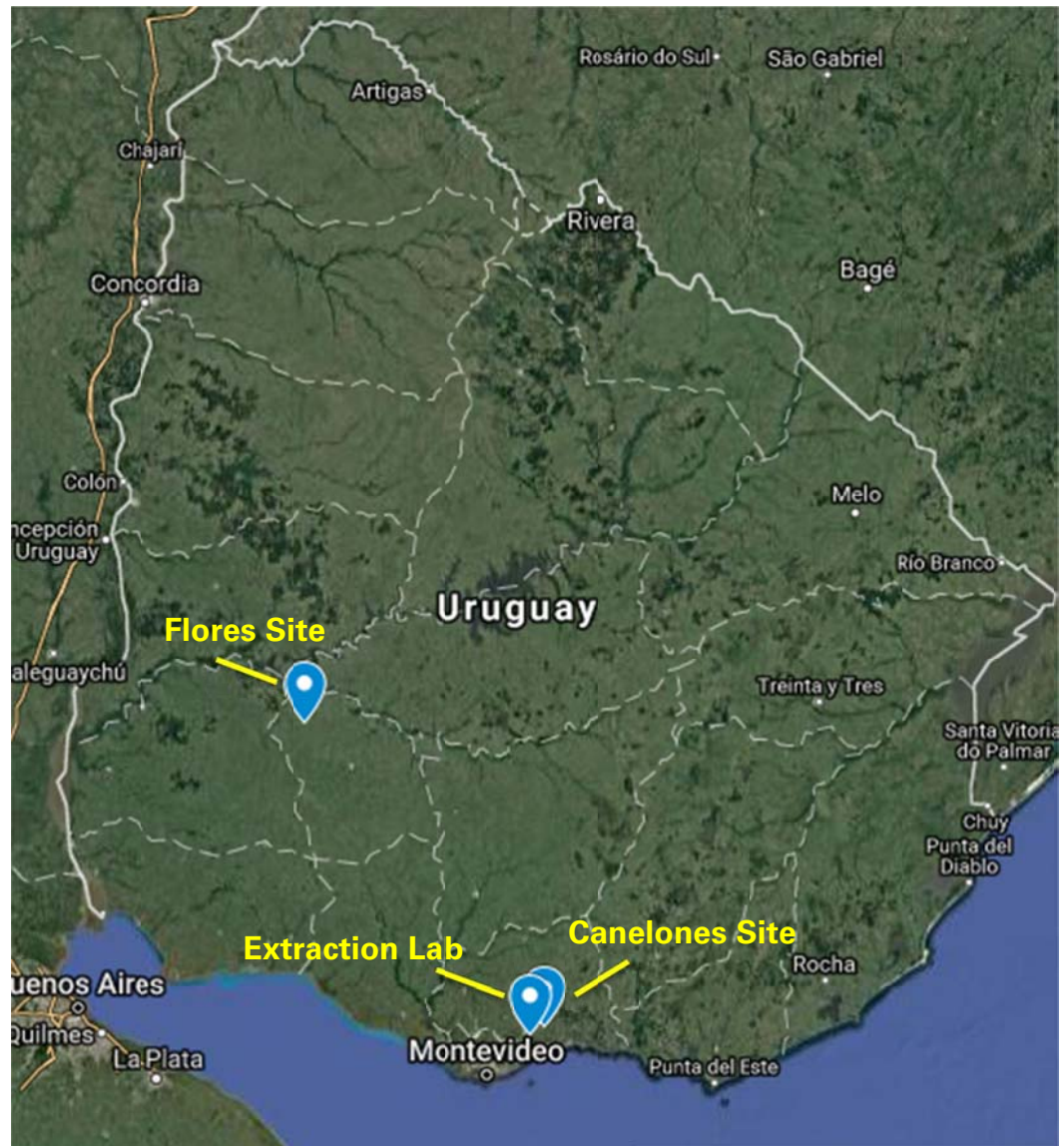
ICC is constructing an extraction lab in Uruguay’s “Science Park Free Trade Zone”. This free trade zone enables the Company to operate its lab without paying certain taxes.

The lab will be just over 16,000sf and will utilize supercritical fluid CO2 extraction equipment. Completion is expected to occur in April 2018 – in sync with the outdoor harvests at the Canelones and Flores Sites. The initial capacity will be 50 tonnes of dried flower extraction per annum.

This facility has been designed to meet Good Manufacturing Practices (GMP) which is critical for meeting standards necessary for some export agreements. GMP is a standards system for ensuring that products are consistently produced and controlled according to strict and high quality standards.



Figure 4 – Locations of ICC Medical Cannabis Sites



Source: Google Maps

Products / Brands

Dried Cannabis (Uruguayan recreational market)

The IRCCA provided ICC with two specific cannabis strains that were hand picked for the recreational market – these were labelled Alpha strain and Beta strain. ICC initially received 1,600 Alpha strain plants and 1,000 Beta strain plants. Since then, the Company has created clones and currently had 13,877 plants in cultivation at the end of Q3 with numerous mother plants. These two specific strains cannot be modified or cross-bred as the genetics of these two plants are needed to identify legal versus illegal product.

The approved strains have a very low 2% THC content and the THC to CBD ratio is 1:3.5 for the Alpha strain and 1:3 for the Beta strain. This profile would create a very low psychotropic effect for users and may not dissuade the consumption of illicit products. We expect this nascent market to evolve over time as government authorities get more comfortable with cannabis.



Figure 5 – Recreational Packaging – Alpha & Beta Strains



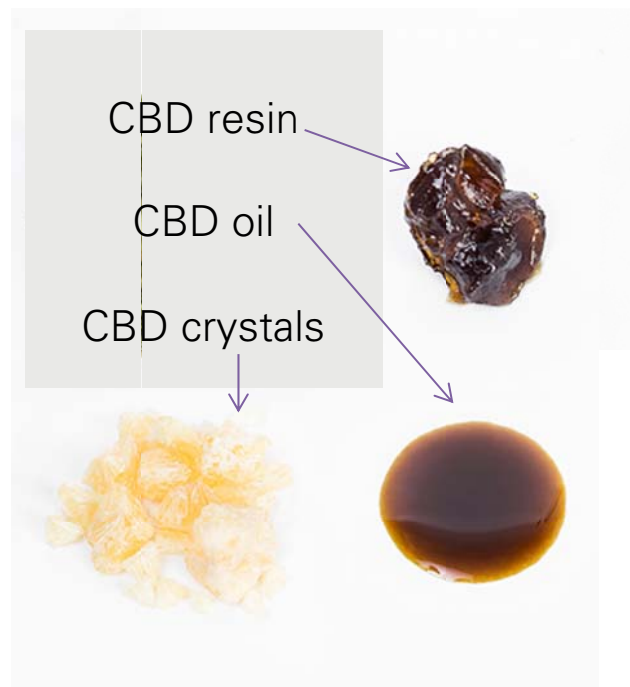
Source: ICC press release

CBD Extracts (Global medicinal market)

ICC imported a specific strain of hemp from Serbia. This strain, named Helena, is high in CBD and low in THC. Subsequently, the Company has received government approval to import two more CBD dominant strains which both have CBD concentrations exceeding 10%. This level of CBD in a hemp plant is considered very high compared to the hemp grown in North America which peaks at 3%-4% due to more restrictive rules on hemp crops in Canada and the US.

ICC intends to grow this high-CBD hemp and extract only the CBD cannabinoid for CBD oil, high concentrated resin and CBD crystals. These CBD products will be exported globally to countries with medical cannabis programs. ICC recently signed a pre-sale agreement with a company in Mexico for bottled CBD oil.

Figure 6 – CBD Product Formats



Source: Image from Consciouslifestylemag.com



Uruguayan Recreational Market

Uruguay commenced sales of recreational use cannabis in July 2017. The market is tightly controlled by government agencies including specific strains (only two available) and personal consumption (10 grams maximum per week / 40 grams maximum per month).

Cannabis is sold through licensed pharmacies for 187 Uruguayan pesos (\$6.50 USD) for a 5 gram sealed pouch. The THC content of both available strains is only 2% which is extremely low relative to North American standards which average 15% - 20% and in some cases strains can exceed 30%.

Anyone that wishes to purchase MJ in Uruguay must register themselves on a government database in which a proof of citizenship and a finger print is required. This system ensures that Uruguay does not become a cannabis tourism destination.

The government of Uruguay estimates that there is potential demand within Uruguay for 26,000kg of cannabis sales per year or US\$33.8M (using the US\$6.50 per 5 gram pricing model). This market size isn't significant compared to Canada's potential recreational market but we believe that it is meaningful to ICC as it is one of only two market participants and provides the experience to grow under a legalized setting and establish some expertise for the larger global export markets.

Figure 7 – Recreational Cannabis Sold through Pharmacies in Uruguay



Source: NYTimes.com

Cannabidiol (CBD)

ICC's global strategy is to sell medicinal cannabis to nations that have adopted a medical cannabis policy. In most countries, the restrictions for a specific cannabinoid within cannabis called cannabidiol or CBD has been eased. CBD has many medical benefits but does not create a psychotropic effect on users (users will not get "high" on CBD).

CBD is present in marijuana as well as hemp. There are several distinguishing factors to differentiate between a hemp plant and a marijuana plant including the main purpose for how it



has been bred – hemp is grown for its stalks and seeds for fibre and oils / protein whereas marijuana is grown for its flower for the psychoactive properties.

In fact the psychoactive properties have largely defined the difference between marijuana and hemp as the presence of the psychoactive cannabinoid called tetrahydrocannabinol or THC is used to classify the plants. In Canada, hemp is defined as having THC content less than 0.3% - otherwise the plant is distinguished as marijuana while in Uruguay, the THC maximum is 1.0% to be considered hemp. The higher allowable THC content in Uruguay is important as it means that there are a wider variety of potential strains that can be grown as hemp. This means ICC can grow a larger variety of strains including those strains while avoiding the restrictive regulations around marijuana production. As mentioned there are only two marijuana strains that are allowed to be grown under Uruguay's regulations but under the hemp definition in Uruguay there is potentially hundreds of more hemp strain available to grow compared to other countries including Canada.

Hemp is naturally higher in CBD than most marijuana plants (although breeding techniques can create very high CBD marijuana plants). The higher upper limit of 1.0% THC hemp allowed in Uruguay also means that these hemp strains can reach higher levels of CBD. Most hemp strains using a North American standard would peak at 2%-4% but with Uruguay's definition there is the potential to reach 8%+ for CBD content. Again, this is an advantage for ICC as it can produce more CBD and extract it within a field of hemp than a comparable hemp farm in other areas of the world.

Export Markets

We believe ICC's upside is directly tied to their success exporting medical cannabis extracts (CBD) globally. We feel the lowest hanging fruit is exporting within the South / Latin American region but we do believe there is export potential to Europe, Australian and even Canada (ICC signed an MOU with Emblem Cannabis – a Canadian licensed producer).

Currently there are 29 countries which recognize medical cannabis although only a handful export product. The Netherlands and Canada are the two main countries that sell medical cannabis internationally and only a handful of companies within those two countries have exported product. Uruguay will join that list soon as ICC (the only authorized company within Uruguay to export) has signed some pre-sales agreements but has not yet exported.

The global medical cannabis market is expected to reach \$55.8B (USD) or \$70B-\$75B (CAD) by 2025 (Grandview Research). This market size is approximately 10x the size of our Canadian cannabis market estimate of \$7B in 2024.

There have been 12 countries that have introduced new medical cannabis laws in the last three years. There has been a significant movement in many parts of the world that resulted into changing the legal status of cannabis to recognize its effective treatment of many medical conditions. Figure 8 illustrates the 12 countries that have changed its laws to allow cannabis to be used as medicine.



Figure 8 – Countries with New Medical Cannabis Law Since 2015

Country	Year
Columbia	2015
Croatia	2015
Jamaica	2015
Australia	2016
Ireland	2016
Macedonia	2016
Mexico	2016
Paraguay (CBD only)	2016
Poland	2016
Argentina	2017
Germany	2017
Peru	2017

Source: Government reports

South American countries have been among the more active regions to recognize medical cannabis. It is interesting to note that very few, if any, of these countries have any plans to create a local cannabis production market. This plays well for Uruguay which is viewed as a trusted trade partner within the continent and has taken a very progressive view on cannabis. ICC is currently alone in its plan to export to this market as the second license holder in Uruguay has only focused on the local Uruguayan market.



Figure 9 – South / Latin American Countries with Legal Medical Cannabis



Source: Various government websites, PI Financial

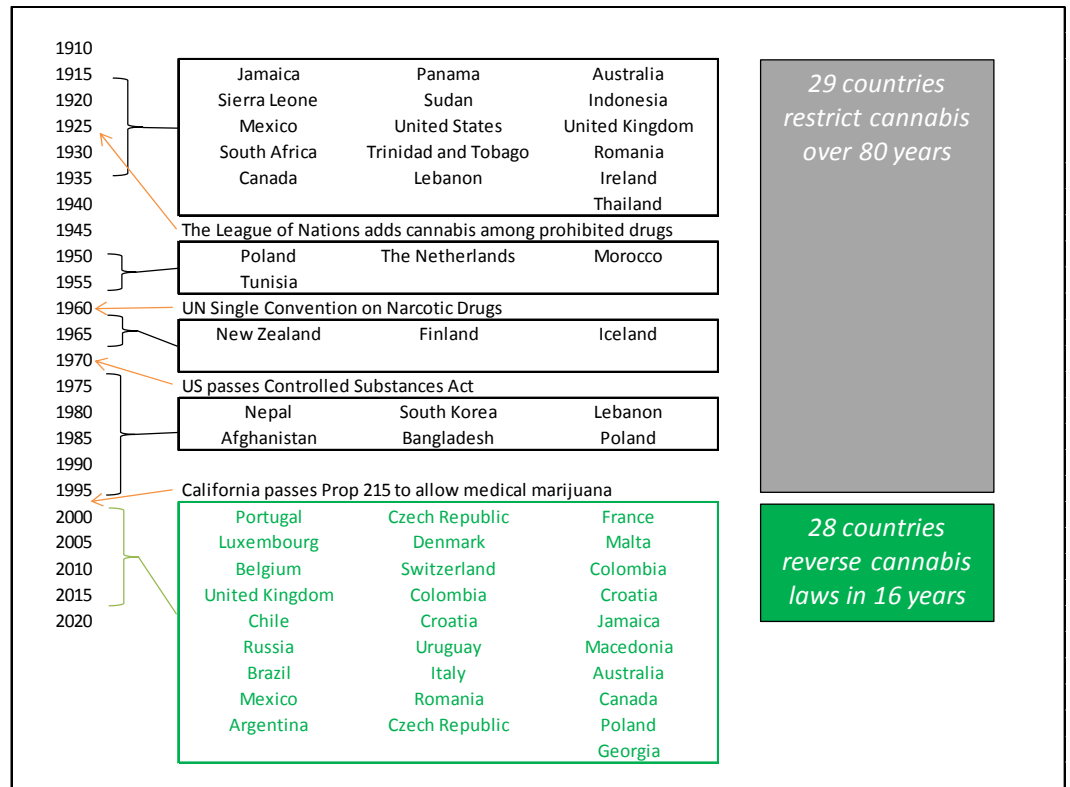
Larger Global Trend to Legalize Cannabis

The recent acceptance of medical cannabis is part of a larger trend that has been developing over the last 20 years. It began after California passed Prop 215 in the late 1990's which allowed medical marijuana within the State. This change began to unravel several decades of cannabis prohibition across the globe.

It is interesting to note that after years of restricting access to cannabis a reversal has happened rapidly. From 1913 to 1995, 29 countries created marijuana laws that restricted its use, including making the substance illegal to possess, sell or cultivate. In the last 16 years, there have been 28 countries that have reversed these laws – whether the country created new medical laws or simply decriminalizing the possession. Figure 10 illustrates this reversal in international attitudes.



Figure 10 – Reversing Decades of Cannabis Restrictions



Source: Various governments



Management & Directors

Alejandro Antalich, Chief Executive Officer

Mr. Alejandro Antalich was promoted to Chief Executive Officer of the Company on June 26, 2017. Mr. Antalich joined the Company in March 2017 as Senior Operations Manager overseeing all research and development team initiatives. Mr. Antalich is a seasoned executive with 25 years of experience in the pharmacy and pharmaceutical industries.

Oscar León, Chief Financial Officer

Mr. Oscar Leon has served as the Chief Financial Officer at ICC International Cannabis Corporation since November 23, 2016. Mr. Leon has over 25 years of experience in financial management and accounting and is a CPA from the Universidad de la República Uruguay. In April, 2013, Mr. Leon was appointed as a director of Union Agriculture Group Corp, the largest agribusiness in Uruguay.

Diego Taranto, Senior Financial Controller

Mr. Diego Taranto was appointed to Senior Financial Controller in June 2017, and will assist Chief Financial Officer, Oscar Leon, with overall responsibility for financial reporting and planning, treasury, and taxation. Mr. Taranto is a Certified Public Accountant with over 20 years of finance and accounting experience in private companies, with particular expertise in the pharmaceutical and manufacturing sectors.

Ravi Sood, Director

Mr. Ravi Sood is a principal investor on several emerging markets businesses and currently serves as a director and chairman of Feronia, Galane Gold and Transeastern Power Trust. Previous founder and CEO of Navina Asset Management, a global asset management firm headquartered in Toronto, Canada. Mr. Sood was educated at the University of Waterloo (B. Mathematics) where he was a Descartes Fellow and the recipient of numerous national awards.

Michael Galego, Director

Mr. Michael Galego is a Lawyer with extensive M&A and corporate finance experience including leading multi-billion dollar transactions in South America. Mr. Galego has significant public company experience as a senior officer and/or director of several companies, including Pacific Exploration & Production, CGX Energy Inc., Woulife Mining Corp. Mr. Galego is a graduate of York University (Hons. B.A.) and the University of Windsor (LL.B).

Michael Young, Director

Mr. Michael Young has extensive senior level executive management and trading experience in the Canadian and U.S. capital markets. Throughout his career in finance and banking, he has built a strong network of Canadian, American and international investors. Most recently he held the position of Managing Director and Co-Head of Trading for GMP Securities in Toronto.

Source: International Cannabis Corp.

Share structure

Before ICC went public in 2016, the predecessor company issued 50,000,000 predecessor shares to certain advisors in lieu of a \$2M obligation owed to these individuals. In addition, 49,950,000 predecessor shares were issued to settle a \$5,302,247 debt to the Union Group. Just prior to ICC qualifying transaction, 32,500,000 predecessor shares were issued at \$0.40 to raise \$13.0M. All these shares were converted into 0.8 shares of the current ICC shares.



International Cannabis Corp. has 114.1M shares outstanding and on a fully diluted basis 122.3M shares. The dilution is from 7.8M options issued and 0.4M warrants outstanding. Insiders, including Strategic Entities hold ~37% of the total shares outstanding with Union Group International Holdings Ltd. (controlling shareholder prior to Qualifying Transaction) holding ~36%. The figures below illustrate the common share ownership and dilution.

Figure 11 – Common share ownership

	Common stock	% of Total	Market value (@ \$0.95 Price)
Mgmt. & Employees	1M	1%	\$1M
Strategic Entities (*Union Group)	40M	36%	\$38M
Institutions	3M	3%	\$3M
Other	78M	60%	\$74M
Total	122M	100%	\$116M

*Union Group is a privately owned, multi-billion dollar conglomerate that holds various strategic interests in Latin American agriculture, forestry, infrastructure, minerals, oil & gas, and real estate sectors

Source: PI Financial estimates

Figure 12 – Individual/Insider Holdings

Individual	Common stock	% of Total
Union Group, Strategic Entity	40.0M	36%
Michael Galego, Director	0.4M	<1%
Ravi Sood, Director	0.3M	<1%
Trent S Hunter	0.3M	<1%
Richard Michael Kimel	0.1M	<1%
Michael Young, Director	0.1M	<1%
Total	41M	37%

Source: Company filings

Figure 13 – Timeline for Share Structure

Options Outstanding		Warrants Outstanding	
# of Options Outstanding	Weighted average exercise price per share	# of Warrants Outstanding	Weighted average exercise price per share
7,808,100	\$0.56	364,000	\$0.50

Source: Company filings



Financials / Outlook

Uruguayan Recreational Business

The five year contract ICC signed with the IRCCA stipulates a fixed sales price for ICC's dried cannabis at \$US0.90 per gram (subject to inflation). ICC must pay an annual payment of \$US20,000 to the IRCCA along with a 10% variable fee on cannabis sales to pharmacies.

The recreational market commenced in July 2017 and sold 69kg of dried flower in the first month. At this point, 16 pharmacies were approved to sell and 12,460 people were registered to purchase recreational cannabis.

The Uruguayan government estimate for recreational cannabis demand is 26.5 tonnes per year (26,500kg per year). This estimate is based on 55,200 estimated registered users consuming the maximum 40 grams per month ($55,200 * 40 \text{ grams} * 12 \text{ months} = 26,496\text{kg}$). At \$US0.90 wholesale price per gram, the total market estimate would be \$US24M or roughly \$CD30M per annum.

The 55,200 users represent 1.6% of the population in Uruguay whereas a survey conducted in 2014 indicated that 2.7% of the population had consumed cannabis regularly (a few times per month or year). We believe this estimate may be a bit too conservative.

We would expect the overall demand estimate of 26.5 tonnes to be too high under the current regulations. This is due to our belief that the regulated strains allowed initially in the program are likely to be too weak - 2% THC with a 1:3 THC:CBD ratio is unlikely to satisfy consumer desires. That said, we would expect the system to evolve over time.

For our model we assume a total market size of \$US15M by 2020 based on 100,000 users consuming 14 grams per month. We anticipate that ICC will capture 66% of this market as we believe the second license holder is unlikely to keep pace with ICC (this company is already behind ICC in terms of output and capacity).

Global CBD exports

Initially, ICC is expected to seed 400 acres of land for its first hemp crop to be harvested in early 2018. The 67 acre Canelones site is expected to yield 27,000kg of dried flower whereas the 333 acre Flores site is expected to yield 130,000kg. The yield per acre for the combined crops equals 392.5kg per acre (157,000kg of flower over 400 acres).

We are assuming the CBD concentration in the harvested flower to be around 10% and we expect ICC's extraction lab will extract CBD at a 75% efficiency rate (North American extraction technology can yield as high as 98% efficiency in marijuana but hemp can be more difficult to extract cannabinoids). These assumptions result in an estimated CBD extract figure of 11,775kg. The estimated value for a kilogram of CBD extract is approximately \$US20,000/kg which values the output of its initial hemp crop at \$US235.5M. This is only a theoretical value and not a revenue figure as there are two other important variables – ICC's extract lab is expected to only process 50,000kg of hemp flower per year (initially) and secondly, we don't expect ICC to be able to pre-sell its entire first harvest. The Mexican pre-sale contract announced on October 19th represents 10% of the estimated CBD production. We expect up to 50% of total CBD production will be pre-sold before the April 2018 harvest.

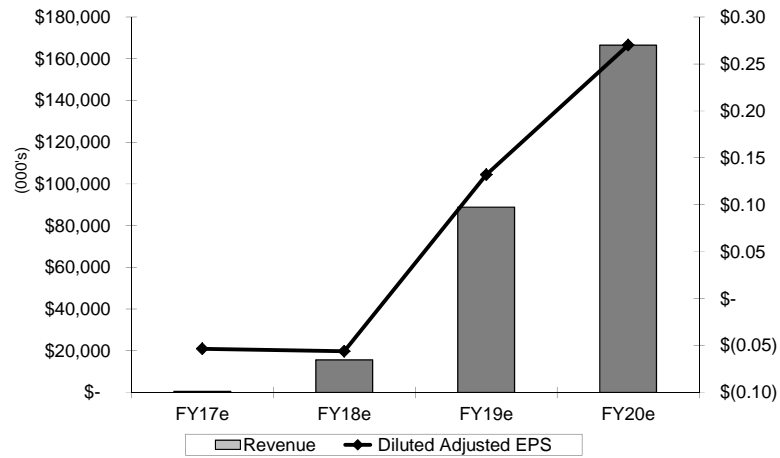
We expect ICC can generate initial demand for CBD products of \$13.1M in its first full year after production (FY18) while we expect revenues to reach \$157.5M by FY20.



Revenue Forecast

When we combine our recreational and CBD export revenue estimates together we believe that ICC can generate \$15.6M in revenue in FY18, \$88.9M in revenue by FY19 and \$166.5M in revenue by FY20. Figure 14 illustrates our forecast.

Figure 14 – Revenue Forecast

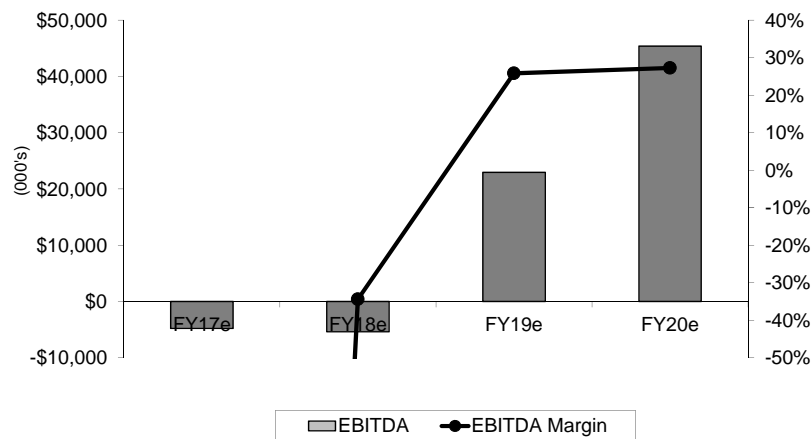


Source: PI Financial Corp.

EBITDA Forecast

One of ICC’s advantages is its low-cost environment in Uruguay due to the ample sunlight and low-cost highly skilled workforce. That said there is expected to be relatively high initial costs until operations are streamlined. We are assuming a cost per gram of recreational cannabis to be \$0.50 per gram while we assume the cost per gram of CBD-rich hemp flower to be sub-\$0.50. Figure 15 displays our EBITDA forecast for FY17 – FY20.

Figure 15 – EBITDA Forecast



Source: PI Financial Corp.



Valuation

We are projecting a 12-month target price of \$2.75 for ICC International Cannabis Corp (V-ICC) shares. Our target is based on peer target multiples and discounted cash flow analysis. While peer trading multiples are very high in our forecast period we have adjusted for this through our discount for foreign operations (see Figure 16). Although we feel the political risk to be insignificant, our analysis has demonstrated that operations in foreign countries outside of the G7 trade below comparable domestic operations. Finally, our DCF calculation uses an 8x terminal value multiple, 10% discount rate and 10 year time horizon. Our valuation calculation is shown in Figure 16.

Valuation Comps within the MMJ Market

Figure 16 outlines our valuation for ICC. We used our forecasted EBITDA and EPS out to FY20 and applied the current trading multiples using a blended average of MMJ producers. Our DCF valuation serves as a guide post to provide a valuation that does not incorporate the elevated trading multiples that reflect the enthusiasm surrounding the cannabis sector. Finally, we have discounted our valuation to reflect the perceived investment risk surrounding operations in non-G7 countries. Currently, ICC is trading at a 60%-70% discount to its Canadian peers whereas we believe the discount should be 30%. We want to repeat that we believe there is very little political / economic risk in Uruguay which is considered a very stable country but we recognize that investor perception is unlikely to narrow the valuation gap below our 30% assumption.

Figure 16 – Valuation Summary

Peer valuation			
EV/EBITDA	Multiple	Weighting	Weighting
MMJ Average	8.5x	100%	
FY20 EBITDA	45.4M		
<i>Valuation based on 8.5x multiple</i>	US\$3.40		40%
P/E			
MMJ Average	20.4x	100%	
FY20 EPS	0.27		
<i>Valuation based on 20.4x multiple</i>	US\$5.50		40%
Discounted cash flow			
<i>Valuation based on 10% discount rate and 8x terminal multiple</i>			
	US\$4.04		20%
<i>Overall forward valuation</i>	US\$4.37		100%
Discount valuation based on:			
Foreign Operations	30%		
Lack Of Operating History	20%		
	50%		
<i>Discounted forward valuation</i>	US\$2.18		
Price target (CAD)	C\$2.79		
	↓		
Price target (CAD)	C\$2.75	(rounded down)	

Source: PI Financial Corp. and Thompson EIKON



We believe ICC International Cannabis Corp. shares provide investors with a target return of 170% based on our target price. We are initiating coverage with a **BUY** rating (risk: **SPECULATIVE**) and a **12-month target of \$2.75**. Our target represents an EV/EBITDA of 5.3x based on our FY20 estimates.

The biggest risk to our valuation is the business execution risk associated with a company that has not completed a full-scale harvest, processed CBD extracts or fulfilled a sales agreement. See Appendix 1 for a full list of risks.

Appendix 1 – Key Risks

Reliance on the License. ICC’s ability to grow, store and sell medical marijuana in Uruguay or internationally is dependent on maintaining necessary licenses and authorizations by certain authorities in Uruguay and/or the importing jurisdiction. Failure to comply with license requirements could cause the LP to lose the license and having a material negative impact on the business, financial condition and operating results.

Legislative or Regulatory Reform. The commercial medical marijuana industry is a new industry with regulations that are subject to change. LP’s operations are subject to a variety of laws, regulations, and guidelines relating to the manufacture, import/export, packaging/labelling, advertising, sale, transportation, storage and disposal of medical marijuana and also laws and regulations relating to drugs and controlled substances. Any changes to such laws, regulations, and guidelines due to matters beyond the control of the Licensed Producers could cause a negative impact on operations.

Limited Operating History. The Licensed Producers are subject to many of the risks common to early-stage companies, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no guarantee that the LP’s will be successful in achieving a return on shareholder’s investment due to the early stage of operations.

Competition. There is the potential that the Licensed Producers will face intense competition from other companies that may have longer operating histories and more financial resources and manufacturing and marketing experience than the LP’s. Increased competition by larger and better financed competitors could negatively impact the LP’s.

Risks Inherent in an Agricultural Business. The medical marijuana industry will be subject to the risks inherent in the agricultural business, such as insects, plant diseases, and other agricultural risks. There can be no assurance that natural elements will not have a material negative effect on growing conditions and future production.

Product Recalls. Licensed Producers can face the risk of a recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects, interactions with other substances, packaging safety, and inadequate or inaccurate labeling disclosure. If any products are recalled due to an alleged product defect or for any other reason, unexpected expenses and reputational damage could occur.

Emerging Market Risks. All of ICC’s operations are in Uruguay. Uruguay has a history of economic instability or crises (such as inflation or recession). There is no current political instability, and historically there has been no change in laws and regulations, this can be different in the future and could adversely affect ICC’s business, financial condition and results of operations.

Inflation in Uruguay. According to the World Bank, inflation in Uruguay reached a high of 112.5% in 1990 and has remained relatively high at 8.1% in 2016, 9.4% in 2015 and 8.9% in 2014. A portion of ICC’s operating costs are denominated in Uruguayan pesos. Inflation in Uruguay, without a corresponding peso devaluation could result in an increase in ICC’s operating costs without a commensurate increase in ICC’s revenues, which could adversely affect ICC’s financial condition and its ability to pay its foreign denominated obligations.

Source: International Cannabis Corp. and PI Financial Corp.

Disclosure Fact Sheet

Ratings

BUY : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

NEUTRAL : recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

SELL : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

U/R : Under Review

N/R : No Rating

TENDER: Investors are guided to tender to the terms of the takeover offer.

Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

Price Volatility / Risk

SPECULATIVE : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

ABOVE AVERAGE : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

AVERAGE : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

Analyst Certification

I, Jason Zandberg, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

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9) Company has partially funded previous analyst visits to its projects.	9) No
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The attached summarizes PI's analysts review of the material operations of the attached company(s).

Analyst	Company	Type of Review	Operations / Project	Date
Jason Zandberg	ICC International Cannabis Corp.	Site visit	Montevideo, Uruguay	06/17

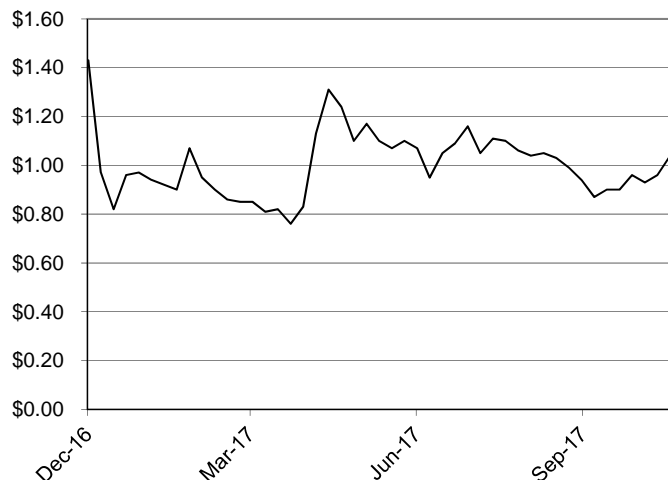
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Recommendations	Number of Recommendations	Percentage
BUY	74	92.50%
NEUTRAL	4	5.00%
SELL	1	1.25%
TENDER	1	1.25%
U/R	0	0.00%
N/R	0	0.00%
TOTAL	80	

Stock Rating and Target Changes

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ICC International Cannabis Corp. (Initiated Coverage: Oct 26 /17)

Date	Rating Change	Target Change	Share Price
Oct 26/17	Buy	\$2.75	\$1.02

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