

大成 DENTONS

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Please direct any questions you may have to the Q/A box.

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Navigating the Emerging Market Landscape

Medical Cannabis Kentucky
Legalization Webinar

June 8, 2023

Grow | Protect | Operate | Finance

Agenda

- An Overview of Federal and State Laws Nationally
- An Overview of SB 47, An act regarding medicinal marijuana
- Timelines for Licensing
- Action Items
- Local Control
 - Permissible Regulation
 - Petition Process



**LEGAL, POLITICAL AND
ECONOMIC TRENDS**

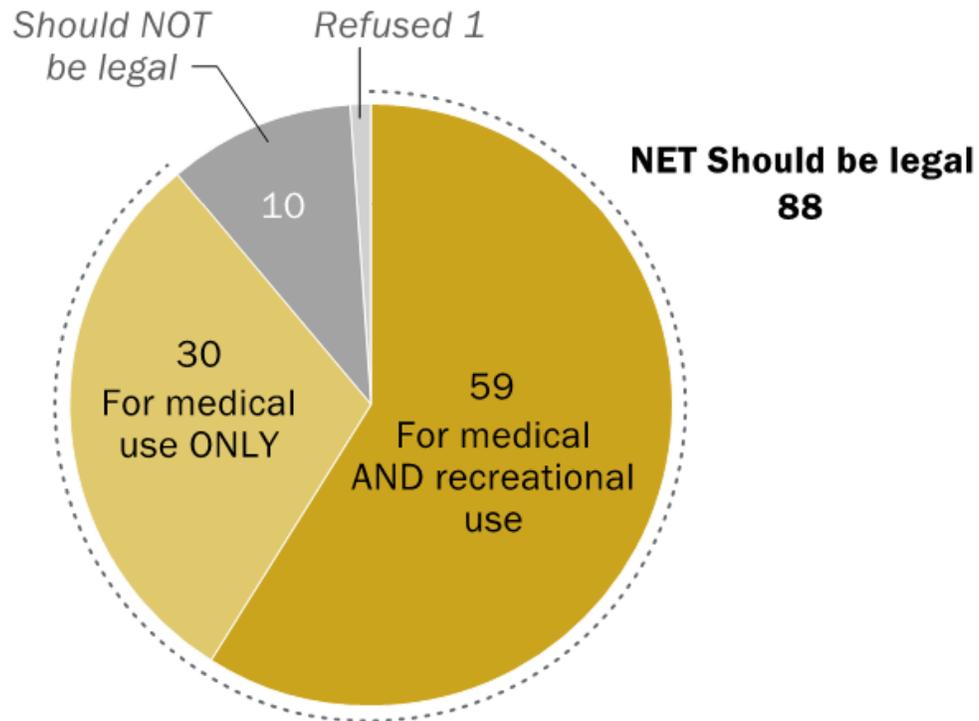
Federal Law

- Production, processing and sale of marijuana is completely illegal under federal law; everyone producing, processing and selling marijuana – even in a state where it's legal for medical or recreational purposes – is committing a federal crime
- Marijuana is a Schedule I substance under the U.S. Controlled Substances Act, grouped with the most dangerous drugs, including LSD and heroin
- Some bi-partisan bills to change legal status, but so far, no changes to federal law

Support for Legal Cannabis in the US

Just one-in-ten U.S. adults say marijuana should not be legal at all

% of U.S. adults who say marijuana ...



Source: Survey of U.S. adults conducted Oct. 10-16, 2022.

PEW RESEARCH CENTER

- 88% cannabis should be legal for medical or recreational use by adults
- Just one-in-ten (10%) say marijuana use should not be legal

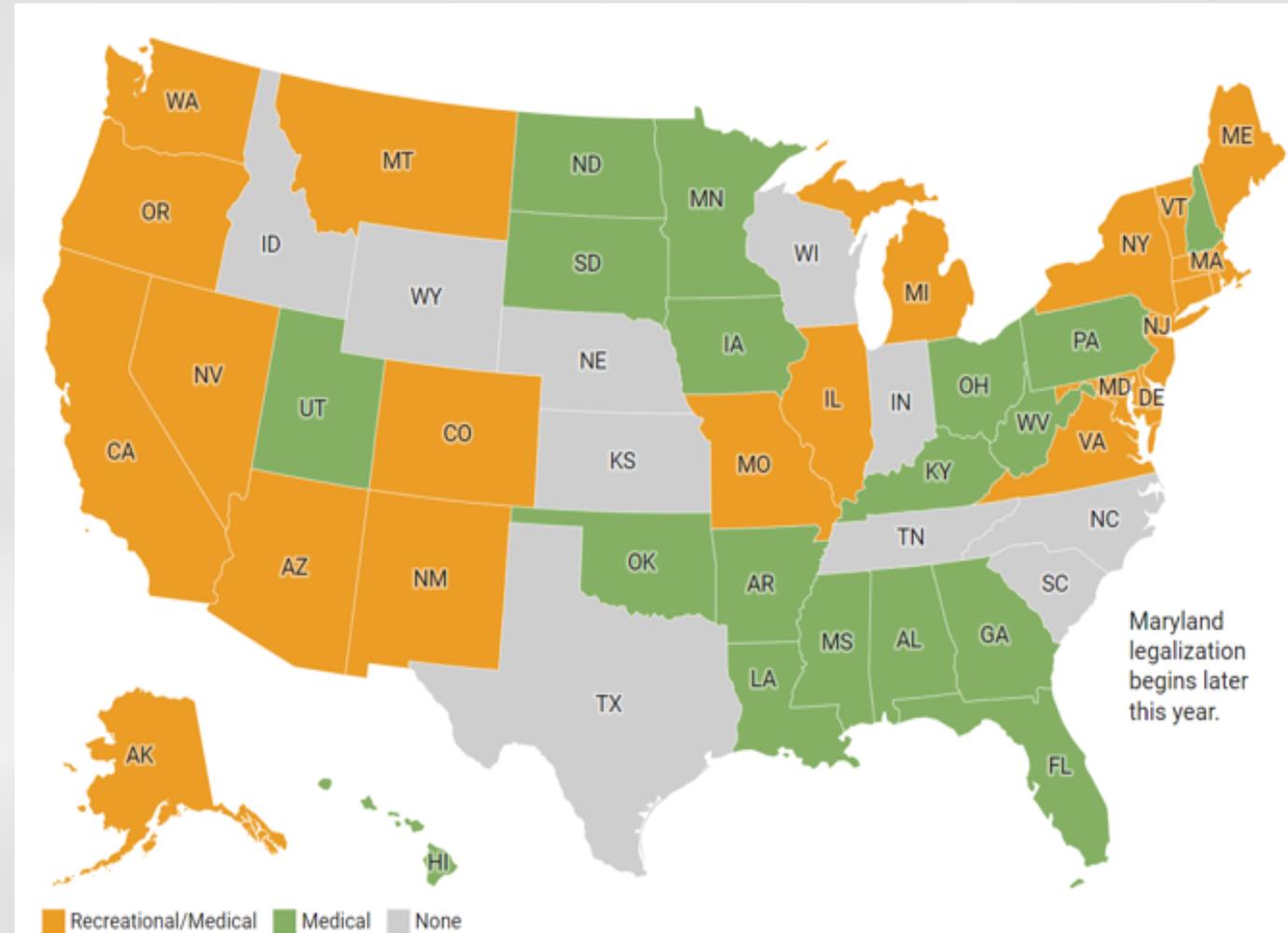


Support for Legal Cannabis in Kentucky

- 90 percent of Kentucky adults support legalizing medical cannabis
- 60 percent of Kentucky adults support legalizing cannabis under any circumstances

Trends in State Legalization

- **40 states** and the District of Columbia have legalized medical use of cannabis
- **22 states** and the District of Columbia have legalized adult use (recreational) cannabis



Department of Justice

- In 2013, Justice Department had issued a series of written policy memos instructing U.S. Attorneys not to interfere with state legalization efforts, unless certain enumerated federal enforcement priorities are implicated (Cole Memo)
- In 2018, DOJ rescinded the Cole Memo
- Instructed and permitted U.S. Attorneys to use their discretion in determining whether to move against operators in states with legal marijuana
- Current AG, Merrick Garland, has signaled that the DOJ will be releasing a “Cole-like” Memo this year
- At this time, views of local U.S. Attorneys on marijuana legalization are (and always have been) extremely critical, and now there is no longer a national standard for prosecutorial discretion



Impact of Federal and State Disconnect on Business Planning and Operations

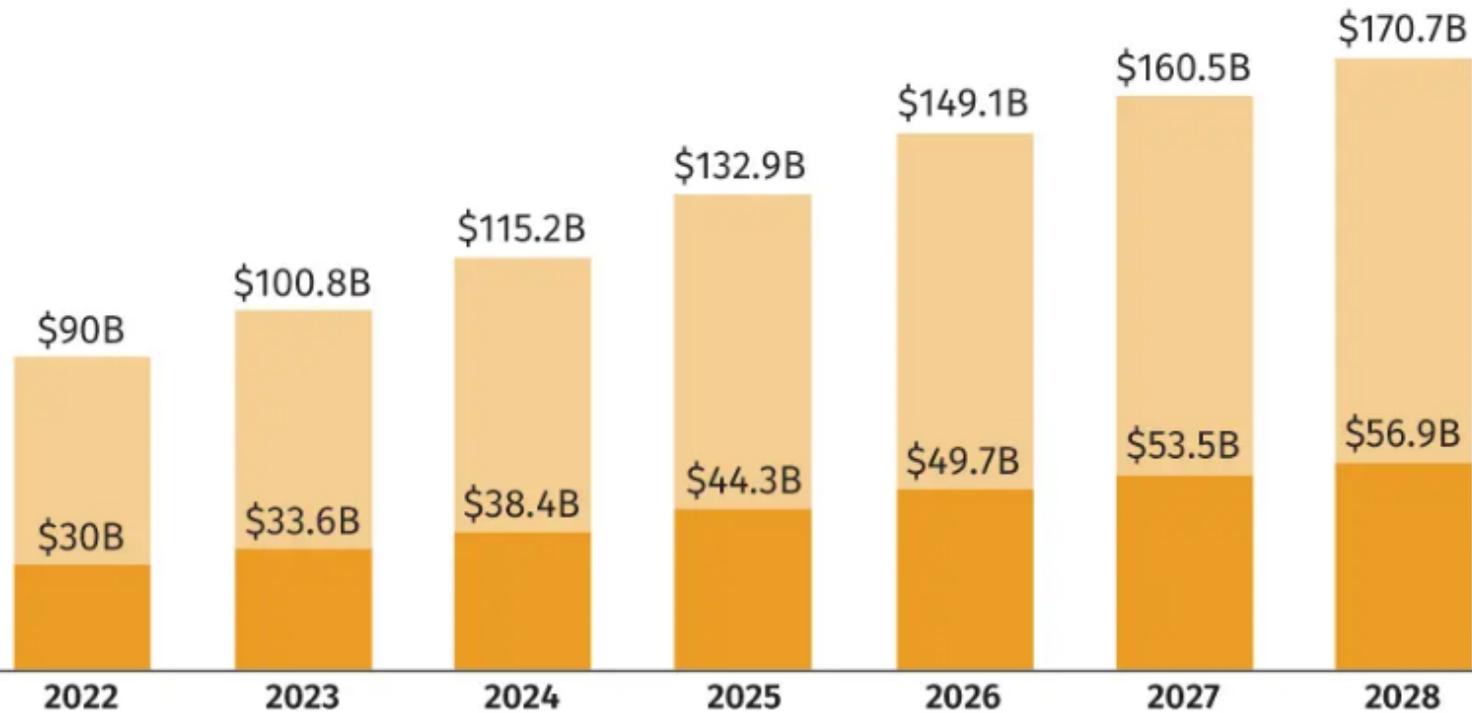
- The status of cannabis as a Schedule I drug under the federal Controlled Substances Act and highly regulated product in states that have legalized has an impact on all aspects of the business from funding, to corporate structure, to the force and effect of contracts
- Critical that any cannabis business work with a full-service law firm that understand these impacts and can provide cannabis business specific advice in all areas

Market Trends and Projections

U.S. Cannabis Economic Impact

For every \$10 consumers and patients spend at marijuana retail locations, an additional \$18 will be injected into the economy, much of it at the local level.

■ Retail sales estimate ■ Additional economic impact



NOTE: Estimates are high end of scale.

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Market Trends and Projections

➤ Kentucky Medical Market Projections

- Year 1 – \$43,832,085
- Year 2 – \$146,454,701
- Year 3 – \$347,932,421

➤ Total sales in the first 3 years: \$538,219,198

An aerial photograph of turbulent, teal-colored water with white foam from waves. A large, semi-transparent purple shape with a pointed right edge is overlaid on the left side of the image. The text is centered within this purple shape.

**KENTUCKY SENATE
BILL 47**

Overview of SB 47 – An Act Relating to Medicinal Cannabis

- Signed into law by Governor Beshear on March 31, 2023
- Legalizes the medicinal use of cannabis in Kentucky with a certification from a qualified healthcare professional
- Authorizes the Cabinet for Health and Family Services to issue licenses for the testing, cultivation, manufacture, and sale of medicinal cannabis in the Commonwealth of Kentucky

Qualifying Conditions

- Patients must have one of the qualifying medical conditions for a cannabis practitioner to issue a certification for the medicinal use of cannabis. These “qualifying medical conditions” are:
- Any type or form of cancer regardless of stage
 - Chronic, severe, intractable, or debilitating pain
 - Epilepsy or any other intractable seizure disorder
 - Multiple sclerosis, muscle spasms, or spasticity
 - Chronic nausea or cyclical vomiting syndrome that has proven resistant to other conventional medical treatments
 - Post-traumatic stress disorder
 - Any other condition that the Kentucky Center for Cannabis determines to is likely to receive medical, therapeutic, or palliative benefits from the use of medicinal cannabis

General Limitations

- THC Limitations:
 - Raw plant material: THC content of no more than 35%
 - Edibles: THC content of no more than 10 milligrams per serving
 - Other products: THC content of no more than 70%
- Users are not permitted to use or consume marijuana by smoking
- Cannabis businesses cannot advertise medicinal cannabis sales, except for signs on the property of a licensed cannabis business, listings in business directories such as phone books, listings in trade or medical publications, or sponsorship of health or not-for-profit charity or advocacy events

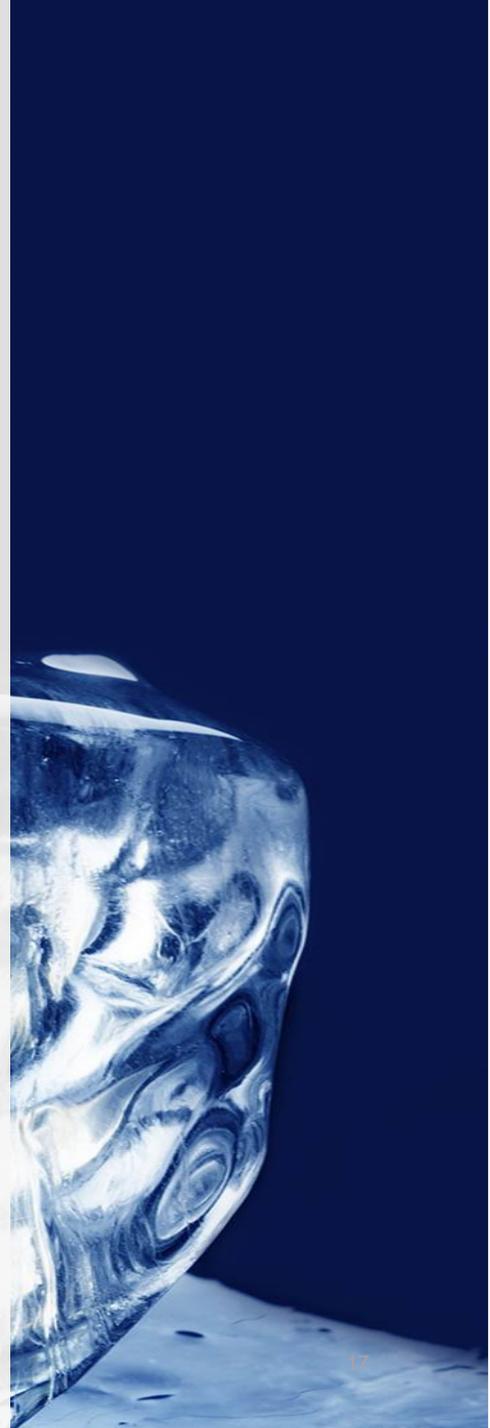
Licenses

➤ Licensee Qualifications include all the following:

- Must be 21
- Demonstrate financial capacity to open and operate the business
- Must not have any felony drug offenses
- Must not be a medicinal cannabis practitioner

➤ Types of Licenses:

- Cannabis Cultivator
 - Tier I – not to exceed 2,500 square feet of indoor growth area
 - Tier II – not to exceed 10,000 square feet of indoor growth area
 - Tier III – not to exceed 25,000 square feet of indoor growth area
 - Tier IV – not to exceed 50,000 square feet of indoor growth area

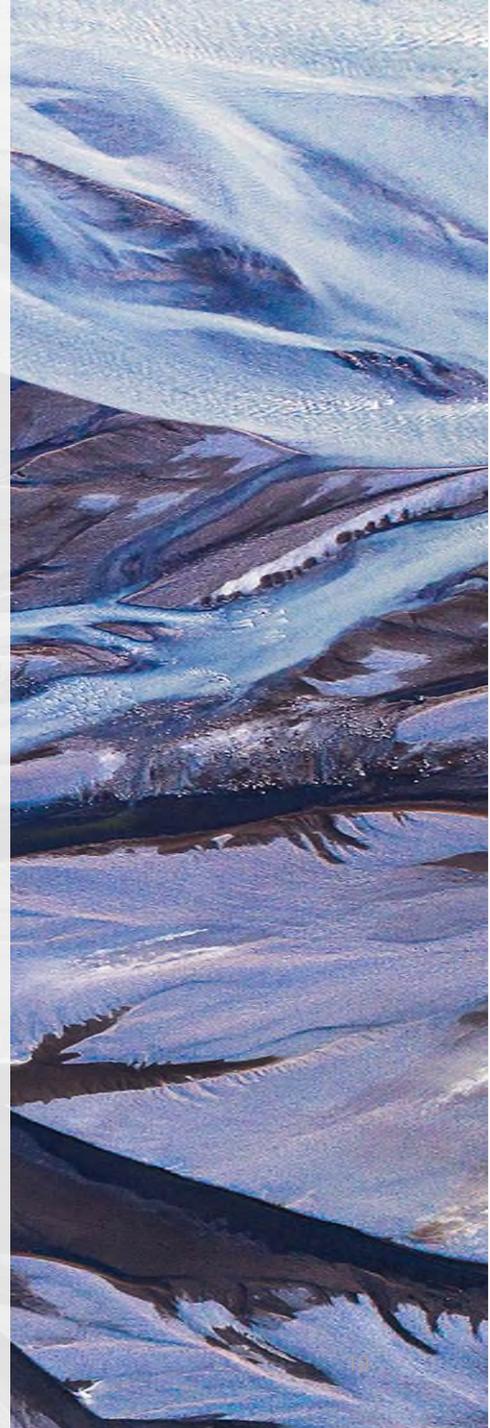


Licenses

- Cannabis Processor
 - Manufactures value added products (e.g., edibles, concentrates, vape cartridges, beverages, capsules, transdermal patches)
- Cannabis Producer
 - Cultivation and processor facility at the same location or different locations
- Cannabis Dispensary
 - Retail store
- Cannabis Safety Compliance Facility
 - Testing lab

License Limitations

- Separate licenses are required for each activity and location, except that the producer license also authorizes processing under the same license
- Licensees may not have an ownership interest in a cultivation, processor, producer, or dispensary license and also a safety compliance license
- Operations may not be within 1,000 feet of a school or daycare



The background consists of several overlapping brown leaves with prominent vein structures. A large, semi-transparent purple arrow shape points from the left towards the right, serving as a backdrop for the text.

TIMELINES FOR LICENSING

Timelines

- The Cabinet is instructed to adopt rules by July 1, 2024
- Unlikely that applications for licenses will be available prior to Q3 or Q4 of 2024
- Regulators must approve or deny an application within 45 days of receiving a complete application



ACTION ITEMS

2023 Action Items for Cannabis Businesses

- Initiate discussions with localities in which the business wants to operate:
 - If the local government is not on board with the cannabis business, it can ban cannabis businesses from operating within the locality
 - Prepare a plan of action to proceed through the petition process if the locality seeks to prohibit cannabis business within its jurisdiction
- Develop a business plan
- Create a security plan to deter and prevent theft of medicinal cannabis and unauthorized entrance into areas containing medicinal cannabis
- Create a quality control and compliance plan
- Conduct initial research on potential or existing company officers, directors, agents, employees, and volunteers
 - These individuals (i) may not have been convicted of a disqualifying felony offense; and (ii) must be at least 21 years old

2023 Action Items for Cannabis Businesses

- Raise capital
- Connect with cannabis suppliers or sellers, as necessary for the applicable business
- Develop procedures for complying with license requirements, including:
 - Customer compliance, including confirming the permissibility of persons permitted onto the business's premises
 - For example, no person under 18 years old may enter or remain on the cannabis business's premises
 - Documentation requirements during transport
 - Record keeping and inventory control, including records regarding dispensed cannabis



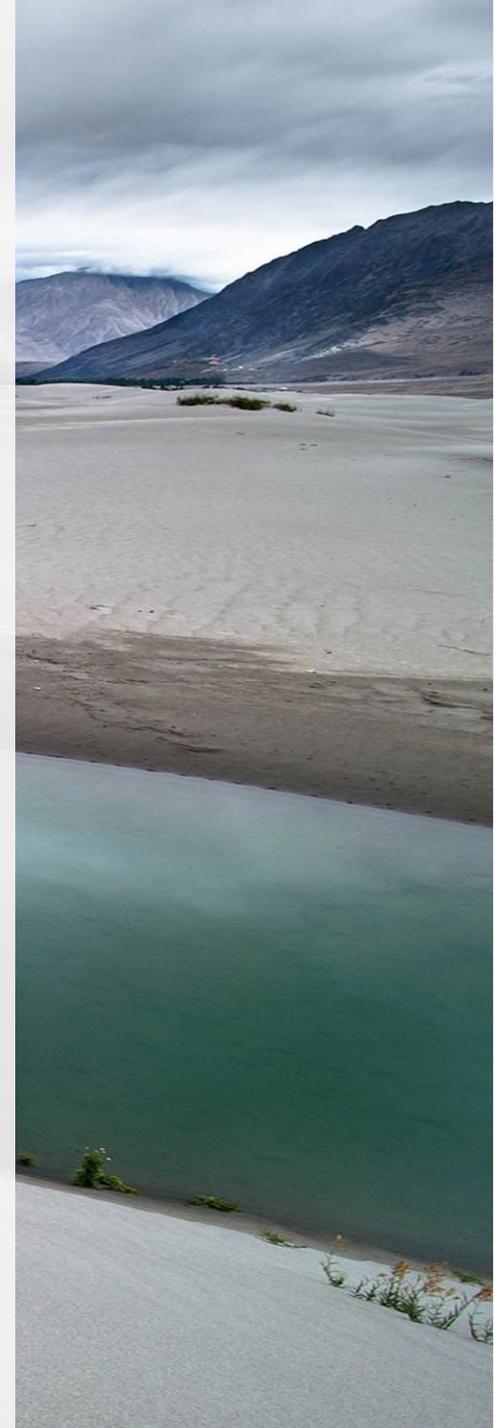
LOCAL APPROVAL

Local Approval

- “Local government” means a city, county, urban-county government, consolidated local government, charter county government, or unified local government
- Permissible Local Government Limitations. Local government may:
 - Regulate the time, place, and manner of cannabis business operations
 - Prohibit all cannabis business operations within the locality via passage of an ordinance
 - Enact resolutions directing that the question of prohibiting cannabis business from operating within the locality be submitted to the locality’s voters at the next regular election

Local Approval

- If a county, consolidated local government, charter county government, or unified local government prohibits cannabis business operations, the city located within the larger county may:
 - Approve cannabis business operations within city limits by ordinance
 - Enact resolutions directing the question of allowing cannabis business to operate within city limits be submitted to the city's voters at the next regular election



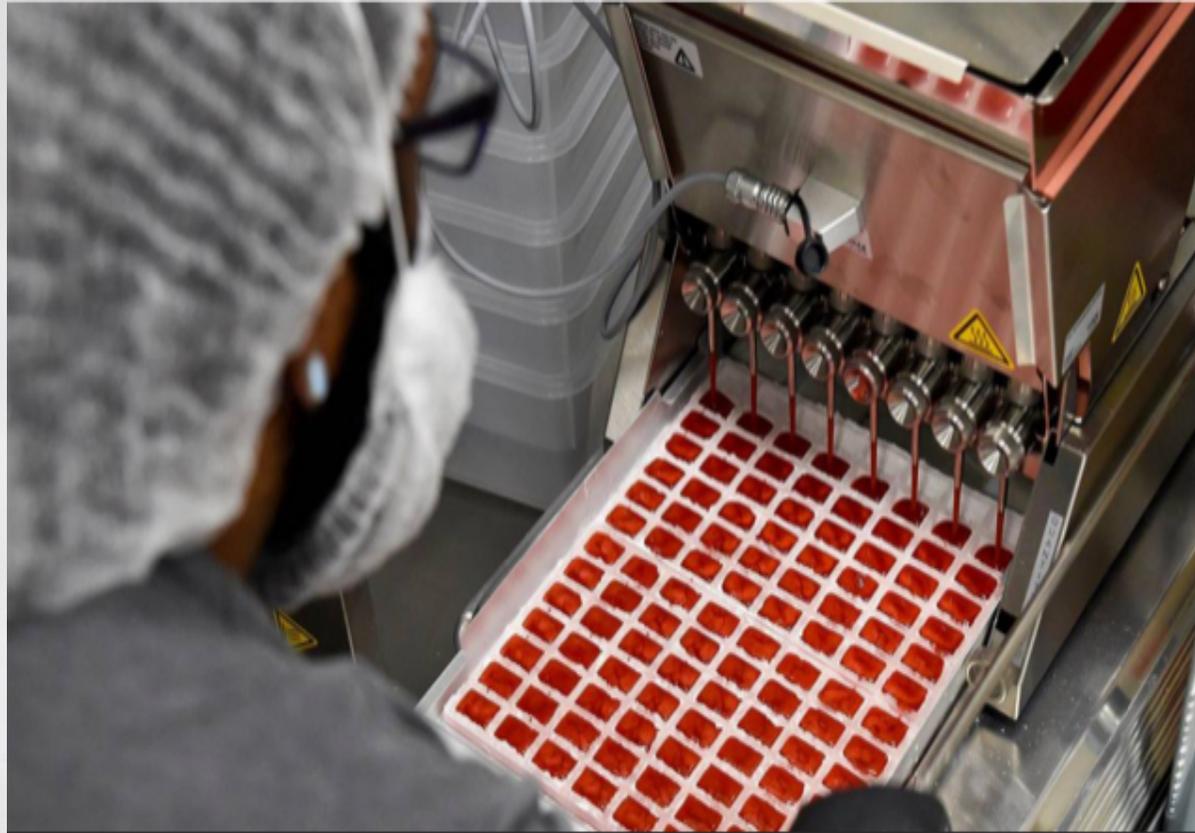
Cultivation



Extraction



Edibles Manufacturing



Retail



An aerial photograph of a wide river valley with green hills and a winding river. A large purple semi-transparent shape is overlaid on the center of the image, containing the text 'PETITION PROCESS'.

PETITION PROCESS

Petition Process

The law establishes a petition process to challenge a municipal decision to ban medicinal cannabis businesses

- If local government prohibits cannabis business operations, a public question regarding cannabis business operations within the locality may be brought to the locality's voters by petition
- The public question, initiated by petition, is a submission to the locality's voters at the next regular election regarding whether cannabis business should be permitted to operate in the locality
- Steps to Submit a Petition:
 - Before a petition for submission may be presented for signature, an intent to circulate the petition, including a copy of the unsigned petition, must be filed with the locality's county clerk
- Within 10 days after the intent to circulate the petition is filed, the county clerk must deliver a copy to the locality's legislative body

Petition Process

➤ Petition Requirements:

- The requirements for sufficient petitions are significant
 - The petition must set out the following question, which will be the question presented to voters during the election: “Are you in favor of the sale of medicinal cannabis at a licensed dispensary and the operation of other cannabis businesses in [the locality]?”
 - The petition must be signed by at least 5% of the registered voters of the locality.
 - The average Kentucky county population, based on 2022 estimates of state population, is 37,603 people
 - A petition filed in a Kentucky county with an average population will require the signature of 1,881 people
 - Each signature must be executed in ink or “indelible pencil” and include the signatory’s printed name, residence, year of birth, and date of signature
- The petition may not be circulated for more than 6 months prior to being filed

Petition Process

- After full execution, the signed petition must be filed with the county clerk.
- Certification of a Petition's Sufficiency:
 - Within 30 days after the petition is filed, the county clerk must certify the petition's sufficiency
 - If the petition is insufficient, the county clerk must specify the insufficiency
 - If the petition is insufficient for lack of the required number of valid signatures, it may be amended by a "supplemental petition" once within 30 days after receiving the certificate of insufficiency
 - Within 10 days of the supplemental petition being filed, the county clerk must certify the petition's sufficiency
 - Challenges to the sufficiency determination may be brought to the locality's Circuit Court, but only the validity of the county clerk's determination may be determined
 - If a petition is determined to be insufficient, it will not preclude the filing of a new petition for the same purpose

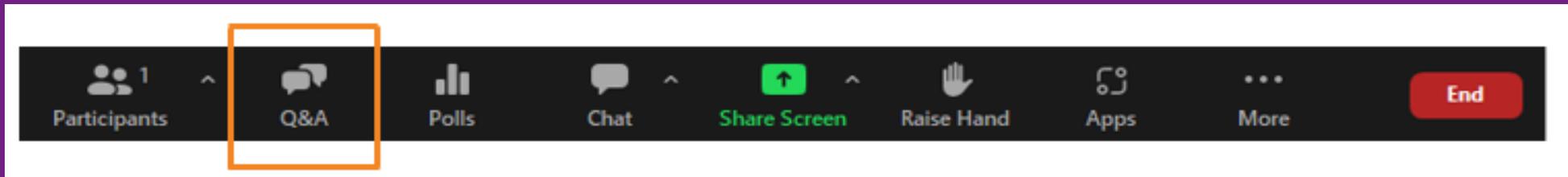
Petition Process

➤ Begin the Petition Process Early

- If the petition has been certified as sufficient prior to the second Tuesday in August preceding the day established for a regular election, the county clerk will include the question during the next regular election
- The county clerk has 30 days to certify the petition's sufficiency or lack thereof. The cannabis business has 30 days to remedy any insufficiency, then the county clerk has an additional 10 days to certify the supplemental petition's sufficiency
- Do not want to miss the August deadline for failure to timely file a sufficient petition
- If voters do not vote in favor of the sale of medicinal cannabis and operation of cannabis businesses in the locality during the election, the question of medicinal cannabis sales and business operations may not be brought on the ballot for three years

Questions?

- Please direct your question(s) to the Q/A function below
- Please include your email address
- We will follow-up on any unanswered questions after the webinar



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