



**CGL'S GUIDE
TO
CANNABIS
2 0 2 2**

 **cgl**

2 0 2 2

CGL is a new type of law firm that is dedicated to the well-being of attorneys and delivering exceptional service to our clients. It is a law firm that cares about its attorneys as much as the quality of its work.

| EXTEND YOUR TEAM WITH ALL-STAR TALENT

CGL's all-star team of attorneys have significant big law, in-house, or government experience, and a long track-record of success. As a result, you can expect exceptional, practical legal advice without the fixed costs of a full-time hire. We ensure our attorneys are empowered and valued. So they are more motivated and personally invested to deliver their best work.

| GET EXCEPTIONAL SERVICE AS YOU NEED IT

At CGL we know that what you need today may not be what you need tomorrow — one size does not fit all. Instead, we take a uniquely agile staffing approach. This means we can support large projects, short-term staffing requirements, or ad hoc needs at a moment's notice. Our approach provides us the ability to quickly adapt our services to make sure you get exactly what you need.

| MANAGE COSTS WITHOUT COMPROMISING QUALITY

CGL understands that managing costs and growing your business is of paramount importance. Unlike traditional law firms that have a waterfall of different hourly rates for attorneys, we just have one competitive hourly rate across the firm. Know how much our time will cost while getting access to senior talent at competitive rates.





Jennifer Gumer

*CGL's Cannabis
Practice Area Expert*

Jenny Gumer is a partner and Regulatory and Compliance Practice Lead at CGL. She provides strategic counseling, practical advice, and expert advocacy to clients with regulatory needs. Jenny is uniquely qualified to handle all interactions with federal, state, and local regulators who oversee product development, manufacturing, and marketing activities, including the FDA and Local Hemp Regulators.

Prior to joining CGL, Jennifer worked at the international law firm Gibson Dunn and Crutcher for over six years. Jennifer's practice at Gibson focused on FDA, healthcare, and life sciences matters.

CANNABIS IN 2021

The Year in Review

Quarterly California Cannabis Revenues in 2021

1.22B

Q1 2021 (USD)

1.36B

Q2 2021 (USD)

Source: California Department of Tax and Fee Administration

Total California Cannabis Revenues in 2021

5.2B

Legal (USD)

8B

*Estimated Black
Market (USD)*

US Legal Cannabis Market Stats

- 2019: \$12.75 billion
- 2020: \$19 billion
- 2021: \$26 billion (estimated)
- 2025: \$45.9 billion (estimated)

Sources: [Statista](#) (2019, 2020) & MJBiz Factbook 2021 (2021, 2025)

CANNABIS IN 2021

The Year in Review

Major Milestones in Legal Cannabis

More widespread acceptance of cannabis in California and the US.

MJBiz magazine recently reported on the opening of a marijuana shop in a 'prime spot' in Union City. The publication noted that the appearance of a cannabis retailer near major retailers like Best Buy and Burlington Coat Factory heralded the growing acceptance of cannabis consumption in California.

Moreover, Pew Research recently asserted that fewer than one in ten adults in the US believe that marijuana should not be legal. These findings are bolstered by the Weedmaps 2021 Cannabis in America report which outlines that 27% of cannabis consumers they surveyed would use cannabis in a work social setting (at a workplace event or post-work happy hour) and 31% said they would use cannabis products in a multigenerational family setting. In totality, it seems that cannabis is becoming more widely accepted in the US which is a win for the cannabis industry.

Investors seeing green in the cannabis market.

- ➔ Average investment in cannabis is up 165% from 2020: \$19.9 million in 2021 up from \$7.5 million in 2020.
- ➔ Number of funding rounds up from 2020 too: 205 through to October 2021 vs 176 total in 2020.
- ➔ Average seed-stage investment for 2021 up 85% (\$1.86 million) from 2020 (\$1million).
- ➔ Series B investments are up 128% (averaging \$18.96 million).
- ➔ Series C investments are up 154% (averaging \$101.67 million).

[Source: TechCrunch citing Crunchbase](#)

More mergers in 2021

While exact figures are hard to come by, we've seen more and larger value mergers and acquisitions (M&As) in cannabis in 2020 and 2021 than in previous years, and it is widely expected that this trend will continue into 2022. Various investor platforms note the maturing of the industry combined with the scarcity of licenses (which means that acquisitions are being used as a mechanism to expand operations). Since cannabis is becoming more widely legal (and the market is continuing to mature), it's likely that the number and value of M&As will increase into the future.

CGI Helps Steer Sublime Acquisition for \$43 million

Sublime, an Oakland-based cannabis company, is known for its expansive line of pre-rolls, as well as vapes and roll-your-own flower kits. It was acquired in 2021 by cannabis mega-company Harborside for \$43.8 million.

CANNABIS IN 2020

The Year in Review

Growing participation in international partnerships.

California cannabis company Cookies has partnered with Israeli-based Intercure to bring cannabis to the UK and Austria in early 2022. Intercure will leverage its international supply chain to bring Cookies-branded products to medicinal cannabis patients within the European continent.

Given the challenges associated with growing a cannabis brand in the US (in the absence of federal legality), we expect to see further innovative partnerships like this from leading cannabis brands.

What didn't happen in 2021

- ✗ No federal bill legalizing cannabis.
- ✗ No improved access to banking for cannabis companies.
- ✗ No guidance from the FDA about ingestible hemp CBD products.
- ✗ No meaningful enforcement for non-compliant cannabis industry participants in California.

REGULATORY CHANGES



California Legalized Ingestible Hemp CBD

AB 45, a bill that permits hemp CBD to be included in certain products being sold in California, came into effect in October 2021. The bill also holds manufacturers to stringent testing and labeling standards, which has led to media surrounding the bill marking it as the end to the 'CBD Wild West' in the state.

California Cannabis Regulators Rolled Into One

California's three cannabis agencies – the BCC, MCSB, and CDFA – were consolidated into one mega-agency, the Department of Cannabis Control (DCC) in 2021. The new agency's goals include boosting the number of participants in the legal market, reducing the licensing burden, and increasing compliance for licensed operators. For cannabis owners, operators, and investors, the effects of the changes are likely to trickle in over the coming years.

We expect to see an increase in the scope of enforcement in 2022 as a result of the melding of these agencies. To date, we've really only seen regulatory enforcement against illegal shops in California. Given that the DCC quickly published regulations clarifying the investor and owner disclosure requirements, amongst other things, it is widely expected that the cannabis industry will start to see enforcement for a wider range of non-compliant actions, including undisclosed investors, in 2022.

REGULATORY CHANGES

Medicinal-Use Cannabis Now Permitted in California Hospitals

[SB 331](#), also known as Ryan’s Law or the Compassionate Access to Medical Cannabis Act, allows terminally ill patients to use medicinal cannabis within certain health care facilities if cannabis is recommended by a physician (and if other requirements are met).

“It is inconceivable to me that, in a state where medical cannabis was legalized more than 25 years ago, those in deepest suffering receiving treatment in our state’s healthcare facilities cannot access this proven, effective, and prescribed treatment,” said Sen. Hueso. “Instead, terminally-ill patients in California healthcare facilities are given heavy opiates that rob them of their precious last moments with family and friends. This is a simple, yet critical, move that will provide relief, compassion and dignity to terminally-ill Californians.”

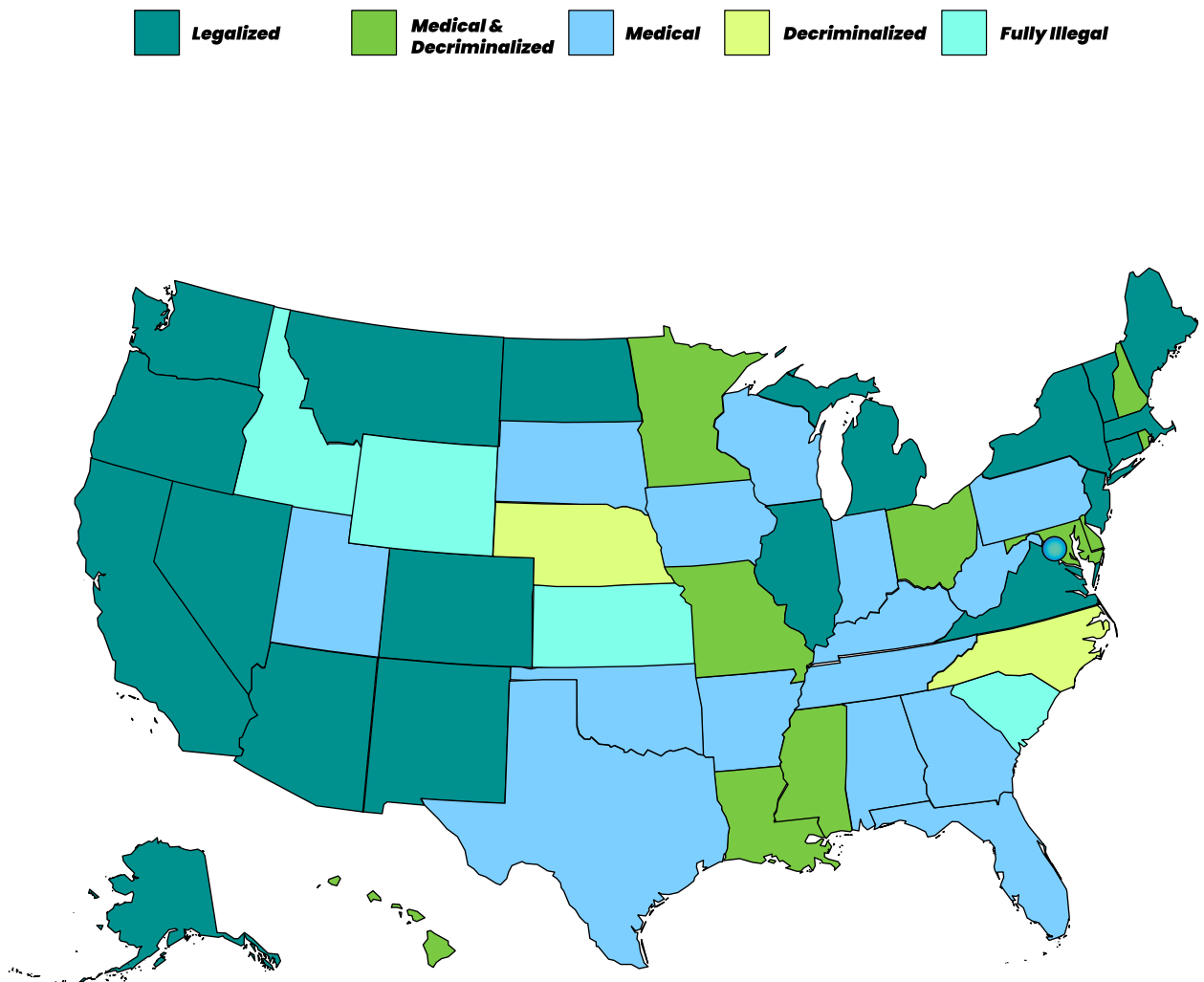
A similar bill had previously been vetoed by the California Governor-General in 2019, due to concerns about potential implications, including reduced access to federal funding. These concerns have been alleviated following the [receipt of a letter from the Centers for Medicare and Medicaid Service](#) confirming that no federal regulations specifically address the issue and that it does not appear funding has been pulled in any similar circumstances previously.

LEGAL STATUS ACROSS NORTH AMERICA

5 More States Legalized Cannabis in 2020

In 2021, adult-use recreational marijuana was legalized in Connecticut, North Dakota, New Mexico, Montana, New York, and Virginia. New Jersey's 2020 law legalizing recreational cannabis was signed by the governor in 2021, too.

Medicinal use was legalized in Alabama and Georgia, while medicinal-use regulations were expanded in Texas, Minnesota, Louisiana, Pennsylvania, and Tennessee.



NOTABLE IN NORTH AMERICA

Texas Saw a Slight Increase in Medical Access

While an [overwhelming majority of Texans](#) believe marijuana should be legalized and lobbyists are keen to see a legal market in the Lone Star State, legislators have not shown much of an appetite for a legal adult-use market. There was a small win for cannabis in 2021, however. [House Bill 1535](#), which doubled the allowable THC limit for medicinal use cannabis products and expanded the program to include people with any type of cancer and those suffering PTSD.

South Dakota Supreme Court Invalidates Marijuana Legalization

The South Dakota Supreme Court invalidated a voter-approved marijuana legalization initiative on procedural grounds in late November 2021. The legal arguments centered around a constitutional requirement that voters must be afforded an opportunity to vote separately on each separate subject contained in a proposed amendment. In this case, the judges determined that voters were not permitted to vote separately on provisions related to recreational marijuana, hemp, and medical marijuana, and that the three objects had different purposes which were not interconnected. As a result, the legalization initiative violated the state constitution and could not be enacted.

Advocates are now focusing on a ballot initiative for 2022, while also watching to see whether adult-use marijuana legalization bills make any headway with the legislature.

Recreational-use Decriminalized in Mexico

Mexico's Supreme Court decriminalized the recreational use of marijuana in June 2021. The court determined that the prohibition on recreational-use marijuana was unconstitutional. As a result of the decision, adults are permitted to apply for permits to cultivate and consume their own cannabis. However, smoking in public and in front of children is banned.

Practically, the law won't have a profound immediate impact on cannabis in Mexico, since the ruling is silent on the commercialization of cannabis. Instead, it is hoped that a legalization bill that is currently waiting on a decision to be made by Congress will be passed in 2022.

REVIEW OF LAST YEAR'S PREDICTIONS

1 CalCannabis Appellations Program will mean more niche products

There has certainly been a rise in the number of niche products and, incredibly, these are going to be celebrated at the first [California State Fair cannabis competition in 2022](#). The science-based competition is open to all licensed cannabis cultivators in California and hopes to normalize the conversation about cannabis while showcasing the diversity of microclimates, appellations, indoor, sun-grown, and mixed light farms and brands.

2 COVID-safe retail trends will continue

The popularity of delivery for cannabis has increased significantly since last year, [according to the Weedmaps 2021 Cannabis in America Report](#). The report notes a 97% year-over-year increase in the popularity of delivery in the first quarter of 2021. It also outlines that 60% of online orders now elect for delivery. Millennials and Gen Z consumers are the driving forces behind this increase.

3 Increased Social Equity

The Weedmaps 2021 Cannabis in America Report outlines that cannabis consumers have an appetite for social equity in the cannabis industry. In fact:

- ➔ 46% of consumers would patronize women-owned cannabis companies, given the chance.
- ➔ 44% want to give their business to minority-owned cannabis businesses.
- ➔ 37% would prioritize purchasing from an LGBTQ+ cannabis company, if possible.

However, significant barriers to entry still hinder women and minority cannabis owners from entering the industry, including poor access to capital which was identified as a 'major problem' for 90% of respondents in a social equity survey out of Oakland. That same survey, conducted by the [California Cannabis Industry Association's Diversity, Inclusion, and Social Equity Committee](#), highlighted that 82% of social equity respondents made less than \$50,000 in gross receipts in the prior financial year and 80% had a personal income of less than \$60,000 annually. Conversely, non-equity participants generally reported having good access to capital, 50% made over a million dollars in gross receipts and just 33% made less than \$60,000 annually. The Committee notes "This disparity seems consistent throughout California and should deeply alarm lawmakers."

REVIEW OF LAST YEAR'S PREDICTIONS

The report goes on to highlight 4 proposed action items for California cannabis regulators, namely:

- ➔ Direct stakeholder oversight of current equity programs.
- ➔ The introduction of a state-level 'equity' definition.
- ➔ Financial relief for startup costs for equity applicants, specifically relief for costs related to property acquisition, hiring, and compliance review.
- ➔ Increased and ongoing funding for equity programs.

It is clear that social equity is seen as an important issue within California cannabis, however,

4 Legalization of recreational marijuana in 4 states

We predicted that recreational marijuana would be legalized in at least 4 states in 2021, and we hit the nail on the head here. We suggested New York, Connecticut, New Mexico, and Virginia would be contenders for legalization, and recreational use bills passed in all these states. North Dakota and Montana also legalized recreational marijuana.

Last year, we also said we'd be surprised if Texas legalized recreational cannabis even though it is receiving significant attention from lobbyists. As we outlined earlier, medical access was expanded in Texas in 2021, but adult-use cannabis remains illegal for now.

We also said that Pennsylvania and Rhode Island would face an uphill battle to pass recreational use laws in 2021. With support increasing in both states throughout 2021, 2022 looks more promising - though we wouldn't hold our breath for either.

5 Improved access to financing

We wrote (with optimism) in last year's guide to cannabis about the MORE Act and the incredible impact its passing would have on access to financing for cannabis companies. Unfortunately, the MORE Act of 2020 failed to pass. The (revised) MORE Act of 2021 was introduced in late May 2021 and passed the House Judiciary Committee in late September. Its fate now lies with the Senate, which is where the bill failed last time.

2021 also saw the introduction of the Cannabis Administration and Opportunity Act (CAOA), which is considered the most comprehensive piece of cannabis reform legislation ever introduced to Congress. This bill focuses on addressing the disproportionate harm the war on drugs has caused Black and Brown Americans, but it does seek to legalize marijuana at the federal level. If passed, this would have a tremendous impact on access to financing in the cannabis industry, while also allowing better access to federal tax deductions for businesses.

All that being said, there was very little movement in terms of access to financing for California cannabis companies in 2021. We saw a few credit unions specifically outline that they do offer banking services to cannabis companies and increased investment, but little more.

REVIEW OF LAST YEAR'S PREDICTIONS

We are hopeful that we will see progress in 2022, however. We expect that more banks will be providing access to cannabis companies under the 2014 FinCen guidelines. There is still lingering hope for the Secure And Fair Enforcement (SAFE) Banking Act, which has stalled at the Senate level in the past. Given the growing consensus regarding the problems caused by lack of access to banking, 2022 may be the year it finally passes. As it currently stands, a diverse multi-sector coalition of organizations is calling for the inclusion of the SAFE Banking Act in the Senate National Defense Authorization Act (NDAA) for 2022.

5 EXCITING PREDICTIONS FOR 2022

1 The Legal Status of Cannabis in the US Will Continue To Change.

We are nowhere near the end of the road for cannabis adoption in the US. California will see further counties legalize cannabis in 2022, and we expect at least 3 more states to legalize adult-use cannabis in the coming 12 months too. The most likely candidates are:

- ➔ North Dakota.
- ➔ South Dakota (following its former legalization being deemed unconstitutional)
- ➔ Oklahoma
- ➔ Rhode Island
- ➔ Pennsylvania

The legalization of adult-use cannabis is also on the table for Maryland, Ohio, Arkansas, Florida, and Missouri.

We would not be surprised to see medical use legalized in Wyoming or Mississippi and potentially even North Carolina and Nebraska.

We would be surprised (but thrilled) to see cannabis legalized at the federal level in 2022. There is growing pressure from industry groups, congress, even the courts to legalize cannabis at the federal level, and with the widespread and growing acceptance of cannabis use, the reasons not to do so are diminishing.

“A prohibition on intrastate use or cultivation of marijuana may no longer be necessary or proper to support the federal government’s piecemeal approach.” - Thomas Clarence, a Supreme Court Justice.

However, progress has proved to be very slow at the federal level and we do not anticipate much movement in this regard in 2022.

2 Commercialization of More Cannabinoids.

There are more than 100 cannabinoids - THC and CBD are just two of them. At the moment, researchers are starting to explore the potential effects of the other cannabinoids - and some are already being commercialized. We expect this trend to continue and grow in 2022.

5 EXCITING PREDICTIONS FOR 2022

One cannabinoid that has already been identified, CBN (cannabinol), is mildly intoxicating and is being promoted as a sleep aid in California, Colorado, Nevada, and Oregon. Consumers in these four states spent \$65 million on CBN-containing products between Q2 in 2020 and Q2 in 2021. Its potential to be the 'next big thing' is hindered by the fact that CBN exists in relatively small amounts in marijuana or hemp plants. The THC molecules need to oxidize in order to break down and become CBN. This process takes time and money.

Researchers have also identified CBG (cannabigerol) and CBC (cannabichromene) as holding potential for commercialization. Neither is intoxicating and both can be derived from hemp. These features mean that the cannabinoids may be federally legal under the Farm Bill and may not attract the ire of the DEA.

We anticipate that researchers will continue to explore and identify more minor cannabinoids that hold potential for commercialization in 2022. Given the continuing federal illegality of THC, we anticipate they will focus on non-intoxicating hemp-derived cannabinoids.

'Cowboy' CBD Companies in California's Wild West to be Weeded Out

Prior to AB 45 being signed into law, California's hemp marketplace was the wild west. But with AB 45 came increased regulation and fairly onerous regulatory requirements for market participants. As a result, we predict that cowboy companies will be scared away by the increasing costs of compliance and stringent requirements.

In practice, we're expecting that potential new entrants may rethink their decision to enter the market in California, since it is no longer an easy option. This will lead to drop off in the number of new companies entering the hemp CBD market. Additionally, it will also result in some existing companies closing. For some companies, the cost or burden of compliance with AB45 will be too great and they will shut their doors (or risk enforcement for non-compliance). There are suggestions that hemp CBD profitability is stagnating in any event, so the requirements of AB45 may prove to be too great for some.

Continued Interest in Psychedelics

Support for psychedelics has been quietly growing over the past years and we are expecting to see the interest in psychedelics mushroom in 2022. Researchers have been exploring the therapeutic potential of psychedelics and we anticipate the amount of research exploring the impact of psychedelics will continue to proliferate.

5 EXCITING PREDICTIONS FOR 2022

We also expect more states and local jurisdictions to decriminalize psychedelics. Detroit recently decriminalized personal possession and therapeutic use of psilocybin (magic mushrooms). Seattle, Washington, Ann Arbor, Michigan, Denver, Colorado; Oakland, California, Santa Cruz, California, Somerville and Cambridge, Massachusetts, Oregon, and Washington D.C. had all also previously decriminalized psilocybin to varying extents.

While we aren't expecting to see any states legalize the recreational use of psychedelics in 2022, we are expecting more states and local jurisdictions to decriminalize psilocybin to varying extents.

5 More Psychedelics and Cannabis Companies on Stock Exchanges

To date, more than 50 psychedelics companies have listed on US stock exchanges, as have hundreds of cannabis companies. Since the senior stock exchanges (namely NYSE and Nasdaq) only list businesses that operate lawfully in all of their markets of operation (and meet other criteria), US psychedelics and cannabis companies overcome this by:

- ➔ Listing on exchanges with relatively lax registration requirements; or
- ➔ Conducting research on psychedelics to develop them into therapeutics via the FDA approval process; or
- ➔ By operating legally in a foreign market (for instance, in Canada where cannabis is federally legal); or
- ➔ Going public via foreign exchanges.

The stance the senior stock exchanges have taken isn't necessarily logical and comes with significant drawbacks, especially where companies are electing to list on foreign exchanges. However, we do not expect to see any changes in their position in 2022. We do expect more US psychedelics and cannabis companies to go public via the available mechanisms in 2022, though.

Looking for
guidance
navigating the
Cannabis space?

Let's
Talk

