

# KushCo Compliance

October 2020



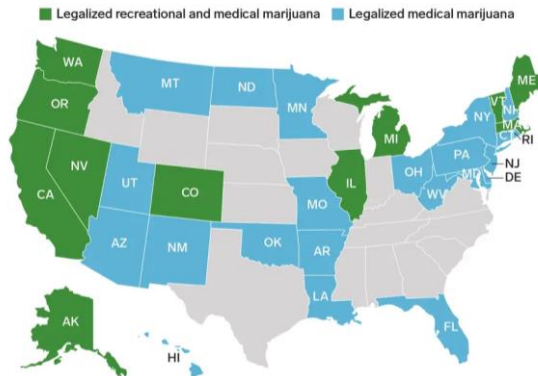
## IMPORTANT CAUTIONS REGARDING FORWARD LOOKING STATEMENTS

This presentation includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements are based upon the current beliefs and expectations of KushCo Holdings’ management and are subject to significant risks and uncertainties. If underlying assumptions prove inaccurate or risks or uncertainties materialize, actual results may differ materially from those set forth in the forward-looking statements. Risks and uncertainties include but are not limited to general industry conditions and competition; general economic factors, including interest rate and currency exchange rate fluctuations. KushCo Holdings undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in KushCo Holdings SEC filings with the Securities and Exchange Commission (SEC) available at the SEC’s internet site ([www.sec.gov](http://www.sec.gov)). The information contained in this presentation is current as of the date presented. The company assumes no duty to update the information to reflect subsequent developments. Consequently, investors should not rely upon the information as current or accurate after the presentation date.

# CURRENT LEGAL LANDSCAPE

+ Cannabis\*\* remains federally illegal in the United States, listed as a Schedule 1 controlled substance; however:

- + 90%+ of Americans in favor of legalizing cannabis for either medical or adult recreational use on a federal level
- + 34 states and the District of Columbia have legalized medical and/or adult recreational cannabis use (11 states and D.C. have legalized for adult use)\*



+ All of these states have regulatory programs that allow businesses to operate legally at the state level

+ Pending or potential future legislation

- + **SAFE Banking Act** – Would allow for depository institutions and financial service providers to legally provide financial and other services to cannabis-related legitimate businesses – House successfully passed in September 2019
- + **STATES Act** – Would amend the Controlled Substances Act (CSA) to provide for a new rule allowing each state to regulate and enforce cannabis use within its own jurisdiction
- + **MORE Act** – Would “de-schedule” cannabis from the CSA, open a pathway to full federal legalization, expunge criminal records, and institute a 5% federal tax that will be used to fund a variety of social equity initiatives – Full House vote expected post-election November 2020.
- + **Full Federal legalization** (potential alternatives to the MORE Act)

+ Cannabis is legal in Canada and other countries around the world

INDUSTRY PLAYERS DEFINED:

# CANNABIS COMPANIES

- + **Cannabis companies include** growers, processors, extractors, manufacturers, distributors, and retailers.
  - + These businesses are referred to as “plant-touching”
- + **Currently, it’s impossible for a cannabis company to be in compliance with federal law so long as cannabis\* remains a Schedule 1 controlled substance.** These companies can operate under state law in states that have legalized some form of cannabis use, provided they have the appropriate approvals and licenses; however, that does not change their status under federal law.
- + **In states where cannabis is legal for medical use, compliant businesses benefit from** rules prohibiting federal funds from being used to prosecute businesses operating in compliance with state medical cannabis programs (but not adult-use).

*\*excluding industrial hemp*

Generate revenue  
from selling  
products derived  
from the cannabis  
plant.

# INDUSTRY PLAYERS DEFINED: CBD COMPANIES

- ✦ **CBD derived from industrial hemp** (*Cannabis sativa L.* with a THC content of no more than 0.3%) **is no longer a controlled substance due to the 2018 Farm Bill**, opening the door to nationwide use and interstate commerce under federal law.
- ✦ Cannabis and CBD companies **may not** currently make unsupported health or wellness-related claims from using CBD products (the FDA has already issued warning letters to companies making these claims).
- ✦ While operators may sell certain hemp-derived CBD products across the country, the FDA currently bans food, beverages, and dietary supplements containing CBD from entering interstate commerce, pending further FDA regulation.



Generate revenue  
by selling  
products derived  
from the  
industrial hemp  
plant.

# INDUSTRY PLAYERS DEFINED: ANCILLARY COMPANIES

HYDROPONICS,  
GROWING  
+ SUPPLY  
COMPANIES



ELECTRICITY  
+ HVAC



FINANCIAL  
+ LEGAL  
SERVICES



SERVICE  
PROVIDERS



PRODUCT  
PROVIDERS



Generate revenue by supporting the activities  
of cannabis and CBD companies.

# KUSHCO IS AN ANCILLARY COMPANY

## KEY REVENUE DRIVERS:



### PACKAGING + PAPERS + SUPPLIES

- + Child-resistant packaging
- + Fully customizable packaging
- + Compliant labels and processing supplies



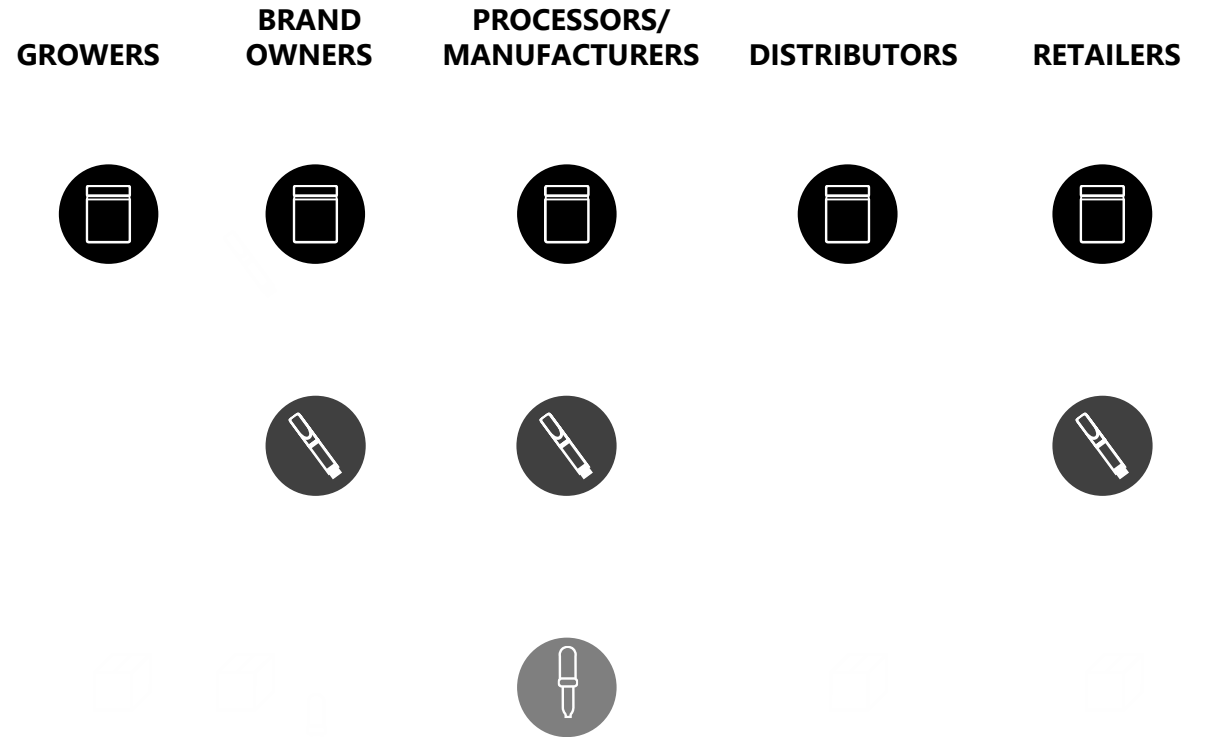
### VAPORIZER HARDWARE + TECHNOLOGY

- + Cartridges and pod systems
- + Batteries with a variety of core materials and heating technologies



### SOLVENTS + NATURAL PRODUCTS

- + Hydrocarbons and other solvents
- + Tested, food-safe oils found in most plants to enhance sensorial effects



# KUSHCO DOES NOT AID-OR-ABET A VIOLATION OF THE CSA

- ✗ KushCo, as the premier provider of ancillary services to the cannabis/CBD industry, **DOES NOT** grow, possess, process, sell, or touch cannabis or any products containing THC\*
- ✗ KushCo **DOES NOT** advertise the sale of cannabis or any other illegal products
- ✗ KushCo **DOES NOT** sell or distribute common “smoke shop” paraphernalia such as glass pipes (all KushCo product comply with drug paraphernalia laws)
- ✗ KushCo **DOES NOT** have any agreement with any customer to violate (or have the intent to violate) the CSA, including no involvement in any underlying trafficking of cannabis
- ✗ KushCo **DOES NOT** promote or have a stake in customers’ ventures (Judge Learned Hand); no revenue sharing
- ✓ KushCo **DOES** work exclusively with companies in the state-regulated cannabis and CBD jurisdictions
- ✓ KushCo’s products and services **ARE** readily available at other vendors and have substantial unoffending uses (Judge Richard Posner)
- ✓ KushCo **DOES** lack a “purposeful attitude” to engage in any affirmative conduct designed to aid any criminal venture (United States v. Ivey)
- ✓ KushCo **DOES** ensure all cash transactions greater than \$10,000 are documented with IRS-required Form 8300s
- ✓ KushCo **DOES** ensure that customers requesting credit terms undergo stringent credit committee approval process

# KUSHCO'S BEST-IN-CLASS COMPLIANCE PROGRAM

- **Best-in-class KYC measures, including:**
  - Gathering customer licenses and ensuring they are current
  - Leveraging web-based platform and ERP system to ensure sales only to customers located in jurisdictions where cannabis and/or CBD are legal under state and local law
- **Three-way match for delivery** (minimizing the risk of diversion to the illicit market)
- **Robust anti-counterfeiting and authentication programs** in place for both internal and external use, including custom branded security labels
- **24/7 employee hotline** to report suspicious customer activity
- **Auditing compliance** with potential acquisition/partnership deals
- **In-house legal department** continually monitoring the constantly evolving legal and regulatory landscape



# VENDOR / PARTNER COMPLIANCE AND QUALITY CONTROL

- ✦ Working with **high-quality, reputable and trusted** manufacturing partners (e.g. CCELL) that are GMP/ISO-certified
- ✦ **Independent third-party testing** of packaging and vape hardware
- ✦ **Investing in quality** by implementing KushCo's QA/QC team located overseas to ensure high-quality and consistent products
- ✦ **Tracking regulations** by working closely with government agencies, like Bureau of Cannabis Control, Oregon Liquor Control Commission, California Department of Public Health
- ✦ **Auditing compliance** with potential acquisition/partnership deals

# KEY INTERNAL COMPLIANCE MEASURES + CORPORATE GOVERNANCE

- + Employees sign and acknowledge company code of ethics and confidentiality agreements
- + Robust insider trading policies and monitoring
- + “Anti-kickback” policies for all employees working in foreign jurisdictions
- + “Lockbox” procedures related to all cash transactions (<5% of total transaction value)
- + Highly-involved, engaged, and independent majority board of directors with significant experience guiding compliance initiatives for similarly situated companies
- + Whistleblower policy
- + In-house legal department with corporate governance and regulatory experience



- ✦ From the start, KushCo has been actively involved in the policy and regulatory environment
- ✦ We are on the cutting edge, advocating for safer and cleaner manufacturing practices, including launching products (e.g. stainless-steel tanks) to address public health and safety issues
- ✦ Actively working with regulators and legislators to help them better understand and address recent (e.g. vaping health concerns) and recurring issues (e.g. state and federal legalization)



SHAPING  
+  
SUPPORTING  
LEGISLATION  
POLICY  
+  
REGULATORY  
PARTICIPATION

- ✦ Active role with Cannabis Trade Federation
- ✦ Active role with National Cannabis Industry Association (NCIA)
- ✦ Involved in California's Bureau of Cannabis Control (BCC) Advisory Committee

**THANK YOU**

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