



COLORADO
Department of Revenue
Enforcement Division - Marijuana

Annual Update

Barbara Brohl

Executive Director
Colorado Department of Revenue

Ron Kammerzell

Deputy Senior Director of Enforcement
Colorado Department of Revenue

W. Lewis Koski

Director, Marijuana Enforcement Division
Colorado Department of Revenue



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Introduction

2014 Quick Facts

- 833 Retail Establishment Licenses and 1,416 Medical Business Licenses as of December 2014
- Approximately 110% increase in Retail Business Licenses and 6% increase in Medical Business Licenses
- 15,992 Occupational Licenses as of December 2014
- 68% non-renewal rate for Occupational Licenses

- 109,578 pounds of medical marijuana flower sold
- 38,660 pounds of retail flower sold
- 1,964,917 units of medical edible products sold
- 2,850,733 units of retail edible products sold

- Approximately 3,200 MED Due Diligence and Complaint Investigations performed and closed
- 98.2% pass rate for potency tests on edibles
- 99.2% pass rate for homogeneity tests on edibles

Introduction

On December 31, 2014, Colorado concluded a full twelve months of lawful retail marijuana sales to adults over 21 years of age. The State experienced many firsts, such as the implementation of the first-in-the-world comprehensive regulatory model overseeing cultivation, products manufacturing, and sale of marijuana for non-medical retail use. Integral to that model was licensing of retail marijuana establishments, and the witnessing of the first legal sale of retail marijuana in the world.

During 2014, the Marijuana Enforcement Division continued to develop its information systems to include the Marijuana Enforcement Tracking Reporting and Compliance (METRC™) inventory tracking system, it built up its staffing levels from less than 30 full time employees to over 50, and established three additional offices around the State in Colorado Springs, Grand Junction and Longmont. These important developments led to more licensing, increased monitoring, and appropriate compliance actions taken against licensed premises compared to previous years.

Throughout 2014 there was a tremendous amount of interest in data related to the number of licensees, marijuana inventory levels, testing data, sales figures, taxes collected, monitoring activity, and administrative actions.

The Division is committed to transparency in all of its operations and

providing aggregate data, when lawfully appropriate. To further that goal, the Division aims to release the data provided in this report on a quarterly basis. The Division will also continue to develop analytical and reporting tools in order to expand the set of relevant aggregate data points in the future.

Because the MED is responsible for the comprehensive monitoring and enforcement of licensed businesses pursuant to the Medical and Retail Marijuana codes, this report focuses on licensing data, inventory data from METRC™, monitoring and enforcement data, and administrative actions.

Legal Authorities for the MED and Licensed Marijuana Businesses

Medical

- Colorado Constitution: Article XVIII, §14
- Colorado Revised Statutes: 12-43.3-101 et seq.
- Code of Colorado Regulations (MED Rules) 1 CCR 212-1

Retail

- Colorado Constitution: Article XVIII, §16
- Colorado Revised Statutes: 12-43.4-101 et seq.
- Code of Colorado Regulations (MED Rules) 1 CCR 212-2

Licensing Data

- General Information
- Business Licensing
- Occupational Licensing

Licensing Quick Facts

- 321 total local jurisdictions in Colorado
- 67 local jurisdictions allow medical and retail licensees
- 228 local jurisdictions prohibit medical and retail licensees
- 21 local jurisdictions allow only medical licensees
- 5 local jurisdictions allow only retail licensees

- 1,416 medical business licensees at the end of 2014
- 833 retail establishment licensees at the end of 2014
- 6,593 Occupational Badge licensees at the beginning of 2014
- 15,992 Occupational Badge licensees at the end of 2014

General Information

The licensing structure, as provided for in both the Medical and Retail Marijuana Codes, requires that marijuana business licensees in the commercial segments of the industry obtain licensing and/or approvals through both the MED and any relevant local licensing authority. The Medical Marijuana Code requires formal licensing by both jurisdictions while the Retail Marijuana Code requires state licensing and the local jurisdiction can either license or approve the business.

According to both the Medical and Retail Marijuana Codes, any local authority has the discretion to determine whether or not it will allow either type of commercial marijuana activity in its jurisdiction, and it

may adopt more restrictive local ordinances or resolutions to further regulate the activity within local communities.

The MED communicates at least annually with local jurisdictions in order to coordinate regulatory efforts. As of December 31, 2014, there were 321 local jurisdictions that had reported the status of their commercial licensing to the MED. Table 1 below summarizes the results of those disclosures to the MED.

Statewide, there are more local jurisdictions that have completely opted out of the commercial market in comparison to those jurisdictions that have allowed for operation of one or both of the commercialized medical and retail marijuana segments of the industry.

Table 1

<u>Local Jurisdiction Licensing Status</u>	<u>Total Jurisdictions</u>
Medical and Retail Marijuana Banned	228
Medical Marijuana Licensees Only	21
Retail Marijuana Licensees Only	5
Medical and Retail Marijuana Licensees	67
Total	321

Business Licensing

The MED is responsible for conducting investigations and making licensing recommendations to the State Licensing Authority (SLA), who is the Executive Director of the Colorado Department of Revenue, for medical marijuana businesses and retail marijuana establishments, and their respective owners.

Pursuant to House Bill 10-1284, the MED was established in 2010 to license and monitor medical marijuana businesses. The MED has been making licensing recommendations for medical marijuana businesses since 2011. On January 1, 2014 there were a total of 493 Medical Marijuana Centers, 713 Optional Premises Cultivation Locations and 129 Medical Marijuana Infused Product Manufacturers.

After the passage of Amendment 64, the MED was designated as the licensing and monitoring agency for retail marijuana establishments. Existing medical business licensees were able to start submitting applications for Retail Marijuana Establishment licenses in October of 2013, and recommendations for those licenses occurred in the months leading up to 2014. As a result, MED recommended approval for 348 Retail Marijuana Establishment licenses that became effective January 1, 2014. Of these 348 Retail Marijuana Establishment licenses, there were 136 Marijuana Stores, 178 Marijuana Cultivation Facilities, 31 Products Manufacturing Facilities and 3 Marijuana Testing Facilities.

Table 2 on page 8 illustrates the changes in numbers and types of medical marijuana business and retail marijuana establishment licenses for the calendar year ending December 31, 2014.

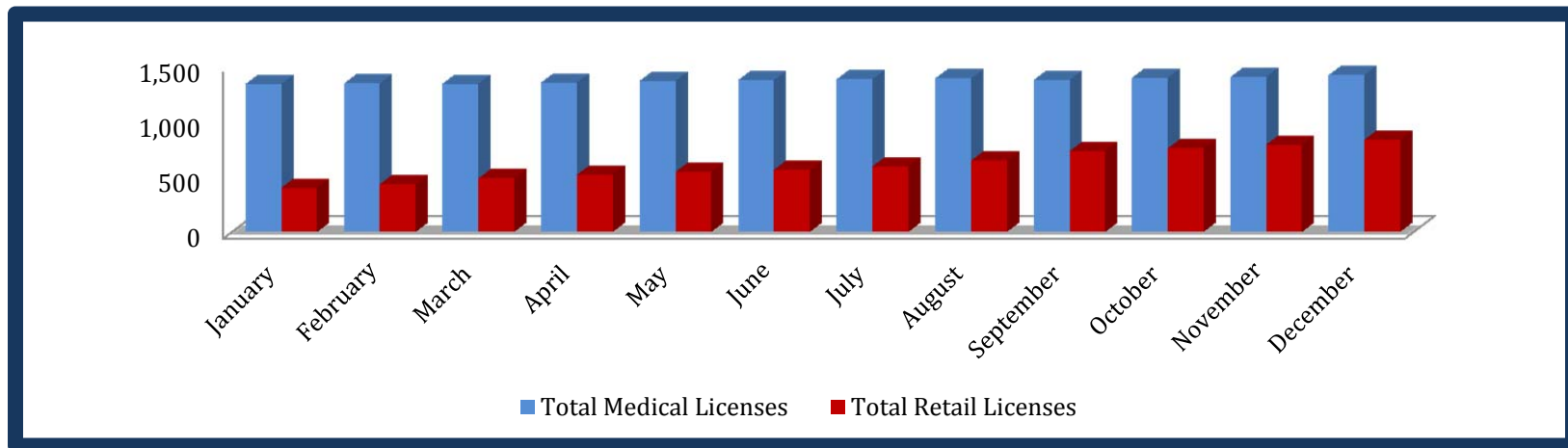


The largest licensing increases for the year occurred in the retail segment of the industry, which experienced growth of nearly 110% in issued licenses, whereas medical marijuana business licenses experienced only a 6% increase. Nevertheless, at the end of 2014, there were 583 more licensed medical marijuana businesses than retail marijuana establishments. Overall, the industry has grown from 1,734 licensed premises to 2,249 licensed premises; a growth of almost 30%.

MED 2014 Month End Business License Totals

Table 2

<u>Medical Businesses</u>	January	February	March	April	May	June	July	August	September	October	November	December
Centers	493	493	489	490	493	493	496	496	493	497	501	505
Medical Cultivations	713	717	715	719	727	729	731	735	725	737	739	748
MIP (Infused Product Manufacturer)	129	130	134	139	144	149	152	155	154	158	158	163
Total	1,335	1,340	1,338	1,348	1,364	1,371	1,379	1,386	1,372	1,392	1,398	1,416
<u>Retail Establishments</u>												
Retail Stores	156	169	188	197	205	212	221	242	282	292	306	322
Retail Cultivations	204	220	243	259	272	279	293	316	347	359	375	397
Product Manufactures	36	39	49	54	58	63	66	73	85	89	92	98
Testing Facilities	3	3	4	7	7	8	13	13	15	15	15	16
Total	399	431	484	517	542	562	593	644	729	755	788	833
Total Licensed Premises	1,734	1,771	1,822	1,832	1,906	1,933	1,972	2,030	2,101	2,147	2,186	2,249



Occupational Licensing

The MED has been processing occupational licenses since May 2011. Occupational licenses are valid for two years and the licensee is responsible for renewing the license before it expires. Early in 2014, the MED determined that it needed additional resources to meet the demand for licensing occupational license applicants, and hired four temporary licensing specialists. These positions have remained filled during the entirety of 2014 because the demand for occupational licensing has remained steady throughout the year.

In January 2014, there were a total of 6,593 approved occupational licenses. As of December 31, 2014, that number had increased to 15,992 occupational licensees an increase of nearly 143%. An analysis of new and renewal processing of occupational license applications for 2013 and 2014 show a high rate of non-renewal of occupational licenses, which may explain why the demand for new occupational licenses remains high.



The MED started issuing occupational licenses in May 2011. Those licenses began to expire in May 2013. During May to December 2013, approximately 79% of the occupational licensees that were scheduled to expire did not apply for renewal. The non-renewal rate for 2014 decreased to 68%, suggesting that demand for the processing of new occupational licenses will remain brisk for 2015.

If renewal rates for occupational licensees were to increase significantly over time, the MED still anticipates that demand for occupational licensing will remain steady either through new license processing or renewal of existing licenses. Table 3 on page 10 summarizes the MED's occupational license activity during 2014.



2014 Occupational Licensing Data

Table 3

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Total</u>
Key License Issued	314	233	197	217	165	162	152	134	131	148	100	115	2,068
Key Licenses Renewed	24	28	33	20	40	16	9	10	11	8	10	11	220
Support Licenses Issued	934	984	982	909	955	768	695	650	802	827	607	608	9,721
Support Licenses Renewed	49	40	73	76	65	34	17	13	16	14	18	10	425
Total Occupational Badges Issued	1,321	1,285	1,285	1,222	1,225	980	873	807	960	997	735	744	12,434
Key Licenses Expired	31	28	35	52	52	22	10	13	12	12	5	1	273
Support Licenses Expired	145	121	145	183	163	98	40	32	31	45	36	38	1,077
Total Occupational Badges Expired	176	149	180	235	215	120	50	45	43	57	41	39	1,350
Percent of Occupational Licenses Renewed	29%	31%	37%	29%	33%	29%	34%	34%	39%	28%	41%	35%	32%
Percent of Occupational Licenses Expired	71%	69%	63%	71%	67%	71%	66%	66%	61%	72%	59%	65%	68%

* Occupational Licensee data are month end totals that illustrate how many of each category was processed during a given month.

Marijuana Plant and Flower Data

- Inventory Tracking
- Average Number of Medical Marijuana Plants Being Cultivated
- Average Number of Retail Marijuana Plants Being Cultivated
- Total Amount of Flower Sold

Marijuana Plant and Flower Quick Facts

- Seed-to-Sale Tracking was implemented in late 2013
- Over 37 million events have been recorded
- Medical Marijuana Business plant limits are established by each center's registered patient count
- Retail Marijuana Establishment plant limits are established by rule as part of production management
- An average of 300,000-320,000 medical plants were cultivated each month, excluding January
- The average cultivated amount of retail plants ranged from nearly 25,000 plants in January, to over 200,000 plants in December
- A total of approximately 148,000 pounds of marijuana flower was sold in the regulated market

Inventory Tracking

The MED utilizes a sophisticated web-based computer system, known as the Marijuana Enforcement Tracking Reporting and Compliance (METRC™) system, to track and monitor inventory from the immature phase of the cannabis plant’s lifecycle until it is harvested, transported and sold at a licensed premises. This is what is known as “seed to sale tracking”.

Since its implementation in late 2013, the system has tracked millions of plants through their life cycle and recorded over 37 million events. The MED continues to work with its software vendor Franwell, to mine and analyze data captured in the system in order to enhance reporting capabilities and analytical tools. This section contains key aggregate data points important for interested stakeholders to better understand the scope of commercialized marijuana in the state of Colorado.

Definitions

- “Vegetative” means the state of the Cannabis plant during which plants do not produce resin or flowers and are bulking up to a desired production size for Flowering.
- “Flowering” means the reproductive state of Cannabis in which the plant is in a light cycle intended to stimulate production of flowers, trichomes, and cannabinoids characteristic of marijuana.

Average Number of Medical Marijuana Plants Being Cultivated

Medical Marijuana Business licensees have production limits that are outlined in statute. Medical Marijuana Centers (Centers) accept registrations from patients that in turn determine the total amount of plants they are authorized to grow. The number of plants allowed defaults to six per patient, but a portion of the patients registered with Centers have doctors’ recommendations that exceed the six plant limit. Licensees are not allowed to cultivate more vegetative and flowering plants than the amounts authorized by the patient registrations.



The data for Average Plants includes vegetative and flowering plants reported by Medical Marijuana Business licensees. As illustrated in Table 4 on page 14, there were between 300,000 and 320,000 plants on

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average being cultivated during 2014, with the exception of January.

One possibility for this data anomaly may have been associated with the implementation of METRC™ and under reporting by licensees as they transitioned onto the system. Another contributing factor may have been associated with the one-time transfer of medical marijuana that was authorized in statute as some Medical Marijuana Businesses began selling retail marijuana at Retail Marijuana establishments in January 2014.

Nonetheless, the number of plants reported in the system for the balance of the year appears to be stable from month to month.

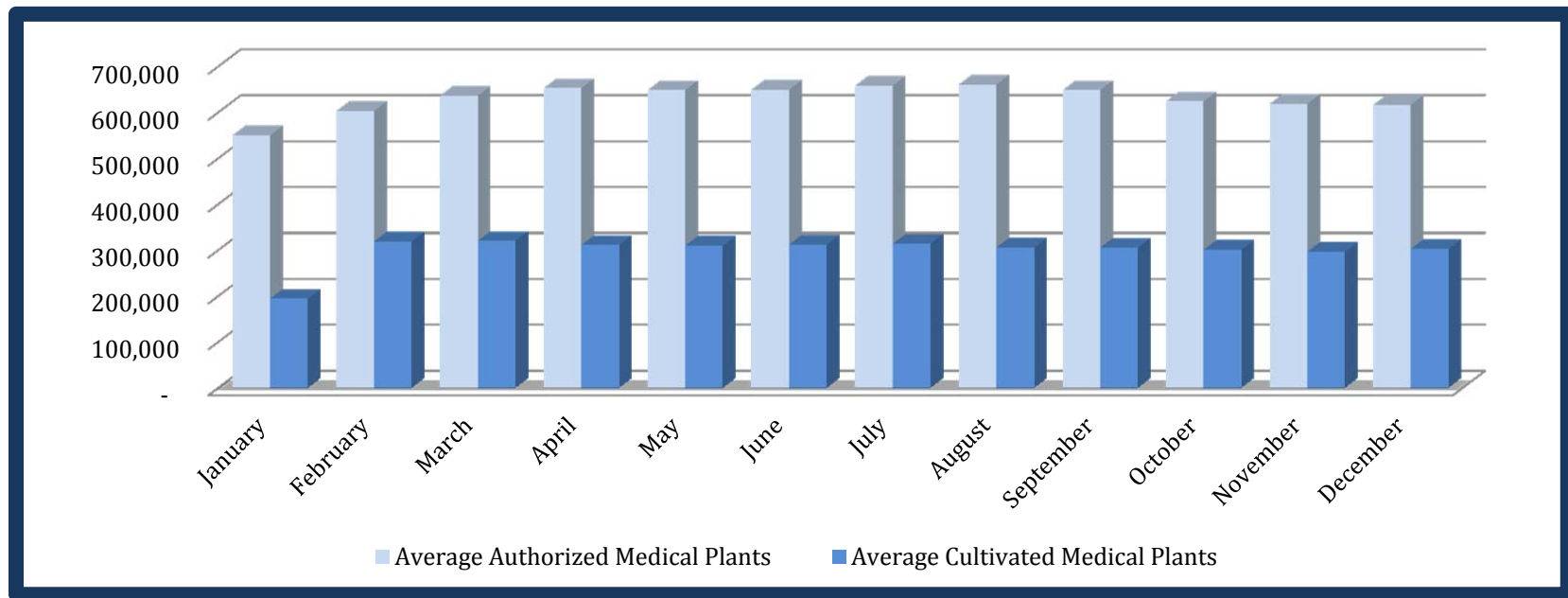
Authorized Plant Count includes total number of patient registrations and their respective plant count recommendations that licensees report into the METRC™ system. The METRC™ data suggests that licensees cultivated approximately 50 percent or less of the plants they were authorized to cultivate in any given month during 2014.



Average Medical Marijuana Plants by Month

Table 4

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Average Authorized Medical Plants	550,187	602,830	636,429	653,019	648,380	649,256	657,985	660,733	648,493	624,034	618,582	616,575
Average Cultivated Medical Plants	194,476	318,694	319,889	311,250	309,580	311,723	313,643	305,870	305,039	300,809	296,277	302,793
Percentage of Authorized Growth Capacity	35%	53%	50%	48%	48%	48%	48%	46%	47%	48%	48%	49%
Average Vegetative Medical Plants	115,279	188,505	191,276	188,583	187,039	184,973	182,454	175,210	173,244	172,961	170,582	170,055
Average Flower Medical Plants	79,197	130,189	128,613	122,666	122,540	126,750	131,188	130,659	131,794	127,847	125,695	132,737



Average Number of Retail Plants Being Cultivated

Cultivation of Retail Marijuana plants first became lawful on January 1, 2014 when the MED issued 178 Retail Marijuana Cultivation Licenses. By the end of 2014, there were 397 licenses in this category. It is important to note that many of the Retail Cultivations licensed by the MED were not necessarily operating because those businesses were also required to obtain local jurisdiction approvals as well. Those local approvals were finalized after the MED license was issued.



Retail Marijuana Establishments have production limits placed on them through regulation. There are three tiers of plant growth authorized that were established at 3,600, 6,000 and 10,200 plants. For almost the entirety of 2014 vertical integration was required, meaning that Retail Marijuana stores were required to grow 70 percent of the product sold by having a commonly owned, licensed cultivation (s). The initial production limit established for medical centers determined the number of plants a retail store

could have at its commonly owned cultivation(s). It appears from the data reported into METRC™ that Retail Marijuana Establishments were growing plants on average below what was authorized by the production limit regulations.

A conservative estimate of overall authorized plant count limits substantiates this assertion. Assuming that half of the MED licensed retail stores were operating at any given time and that those licensees were allowed the lowest tier of 3,600 plants under the production management rules, Retail Marijuana Cultivations were reporting an average growth at 40 percent or less of the total authorized plant count production limit.

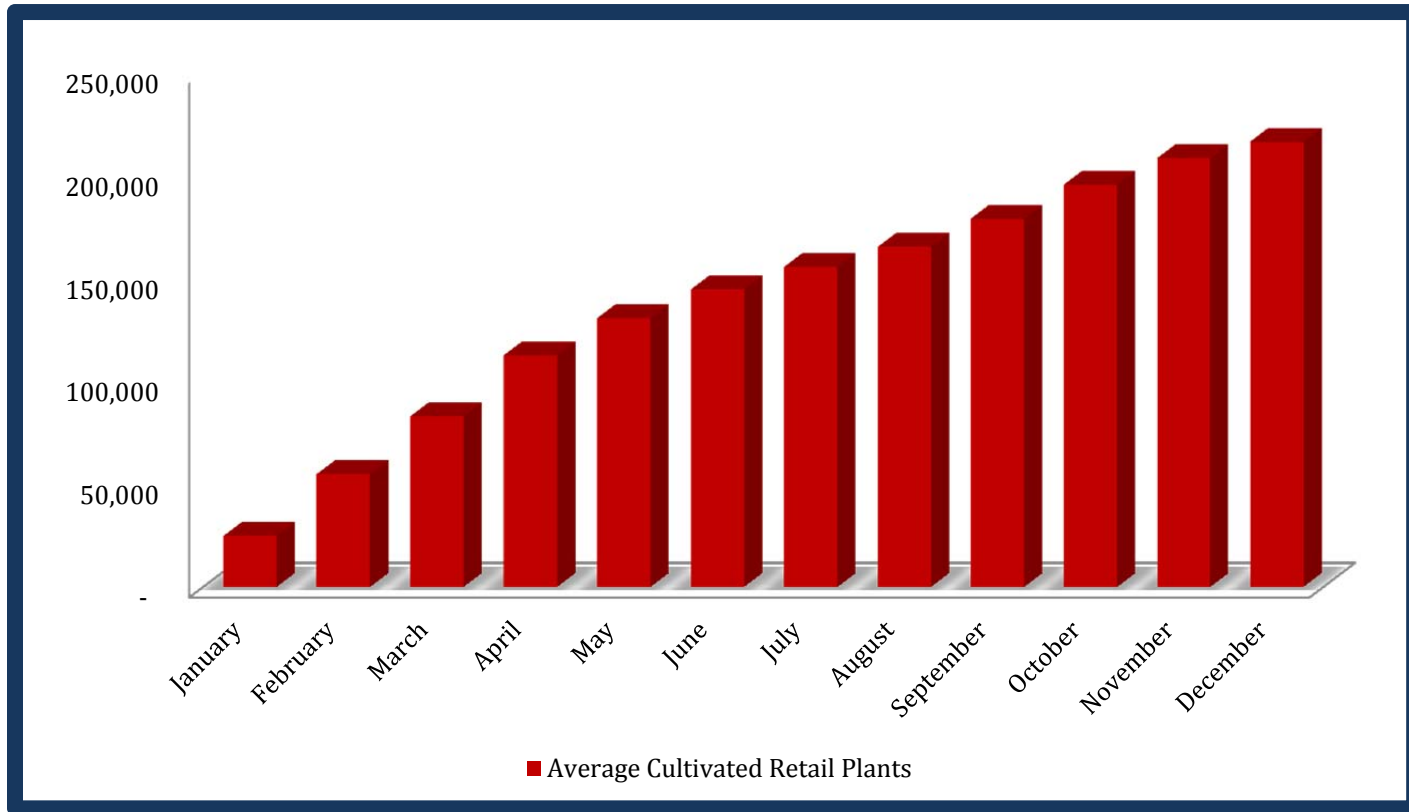
Table 5 on page 16 illustrates that the average retail marijuana plant growth trended up during 2014 and the gap between the average number of medical marijuana and retail marijuana plants was closing during the same time period.



Average Retail Marijuana Plants by Month

Table 5

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Average Cultivated Retail Plants	24,767	54,918	83,026	112,741	130,852	144,763	155,817	165,503	179,399	195,953	208,761	216,802
Average Vegetative Retail Plants	12,756	31,536	50,536	70,161	81,483	87,666	94,106	98,693	103,519	114,946	124,291	126,132
Average Flower Retail Plants	12,010	23,382	32,490	42,580	49,368	57,096	61,711	66,809	75,879	81,006	84,469	90,670

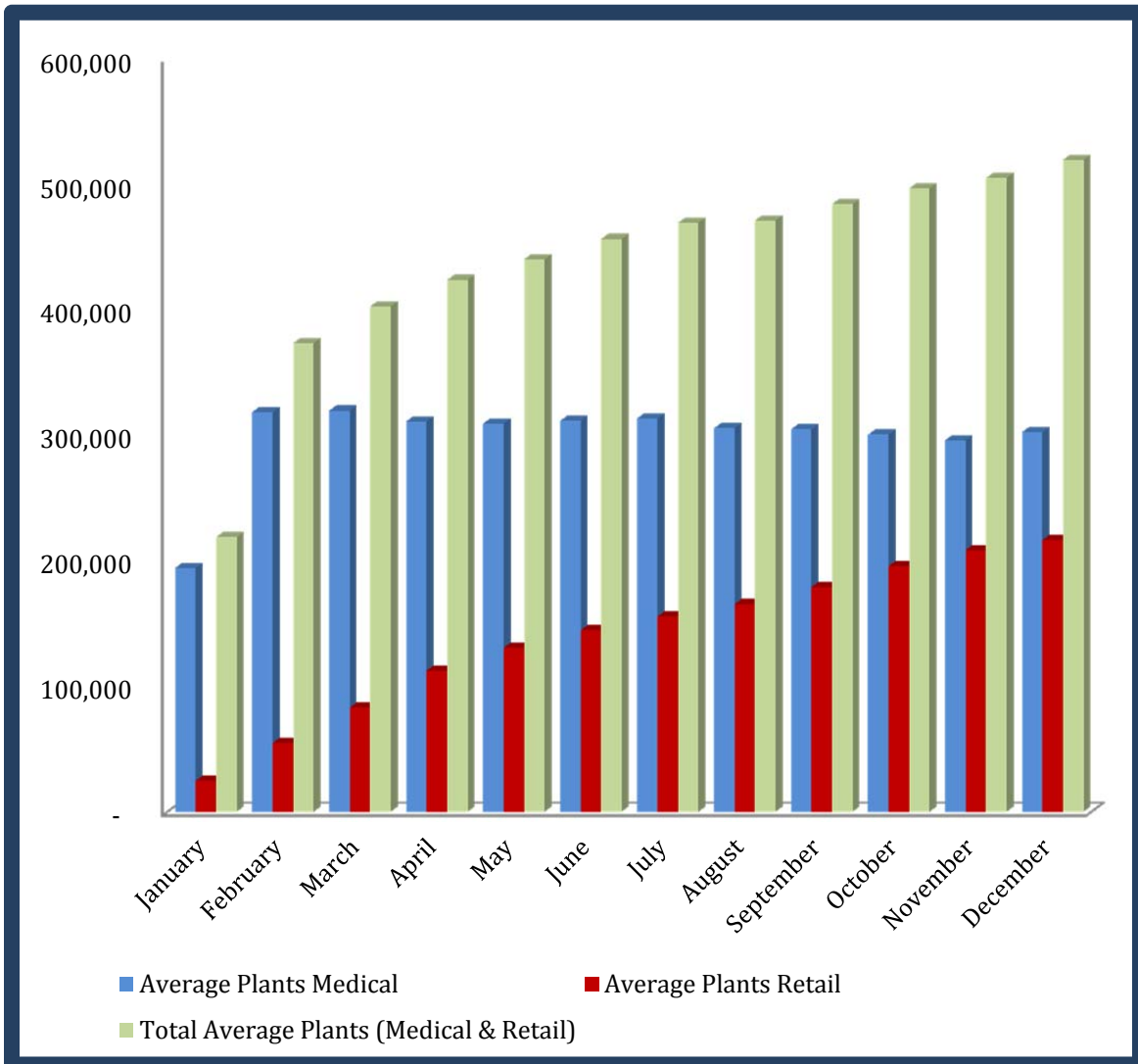


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Medical marijuana business licenses outnumbered those of retail marijuana establishments throughout the entirety of 2014. In many cases this was observed through differences in the volume of inventory tracked in METRC™.

For example, the following table shows proportional differences in the average number of plants tracked in the system during 2014. The average number of retail plants trailed medical plants, but the trend suggests that this gap is closing.

Table 6

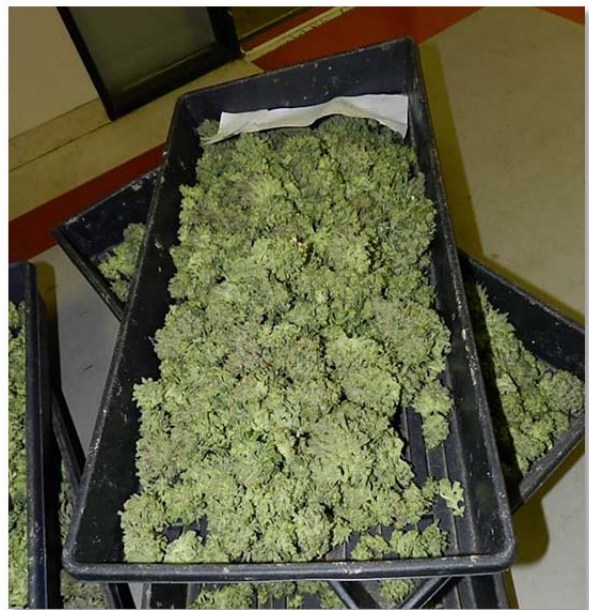
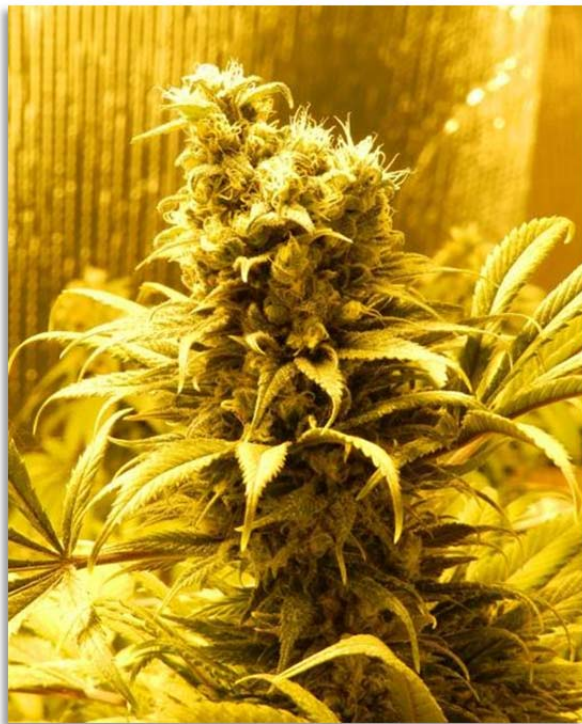


Total Amount of Flower Sold

Medical Marijuana Centers and Retail Marijuana Stores reported that approximately 148,000 pounds of flowering marijuana was sold to customers in both segments of the industry. The retail amount sold lagged behind medical marijuana. By the end of 2014, retail flower was closing the gap, but only accounted for 26% of the total flowering marijuana sold at both Medical Centers and Retail Stores in aggregate for the preceding twelve months.



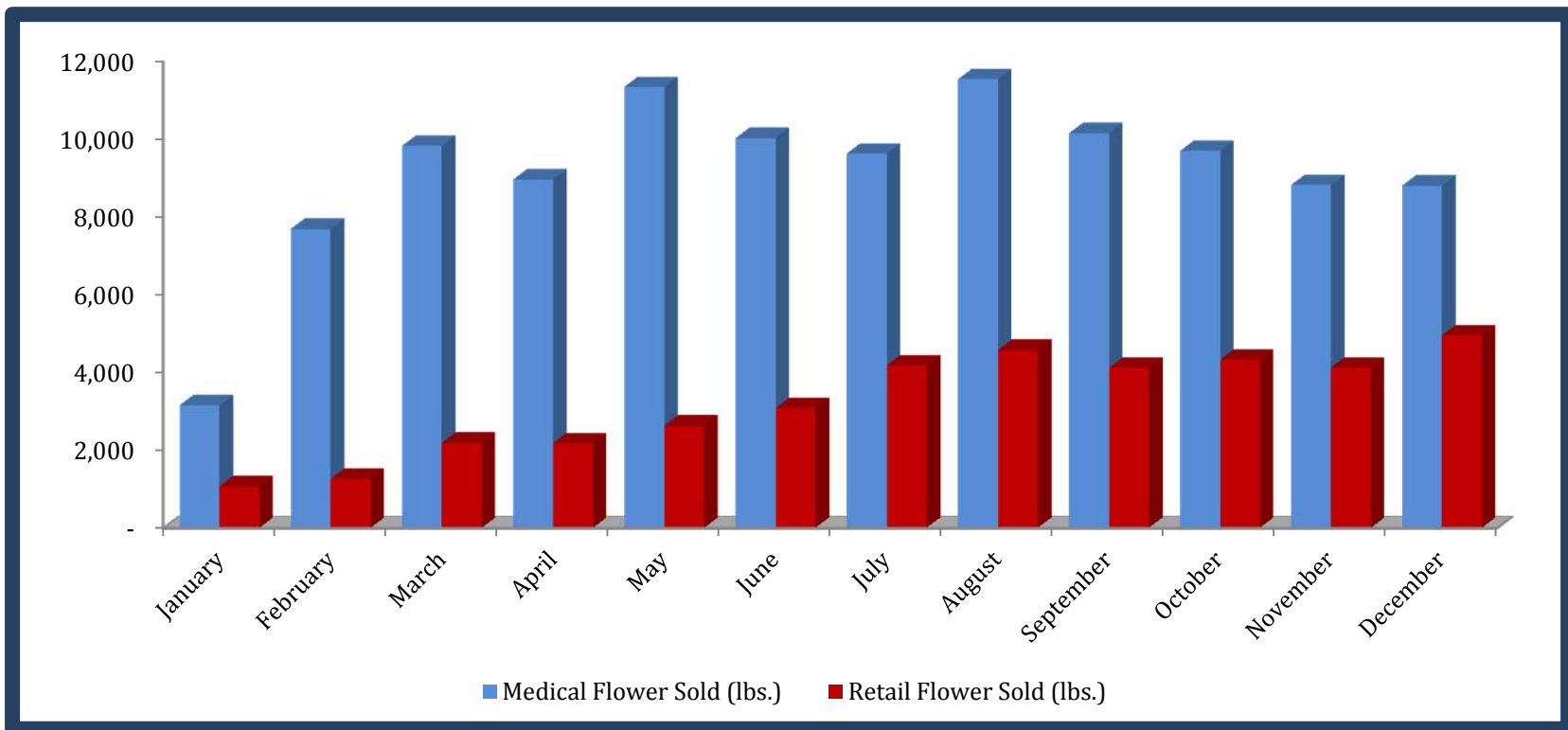
The amount of flowering marijuana sold at Medical Marijuana Centers and Retail Marijuana Stores follows a similar trend to what was being farmed at Medical and Retail Cultivations. Table 7 on page 19 shows the reported amount of flower marijuana that was sold in both the retail and medical marijuana segments of the industry.



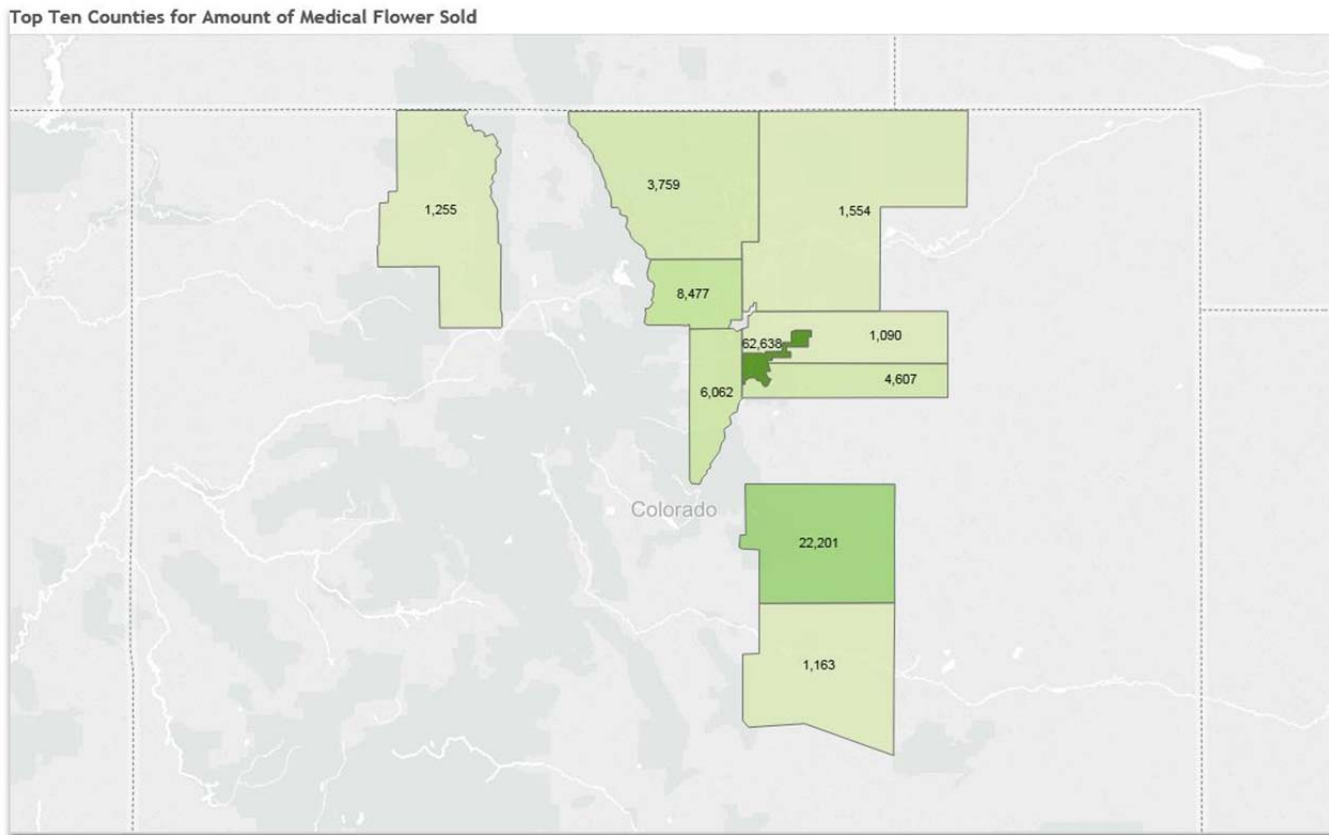
Total Pounds of Flower Sold by Month

Table 7

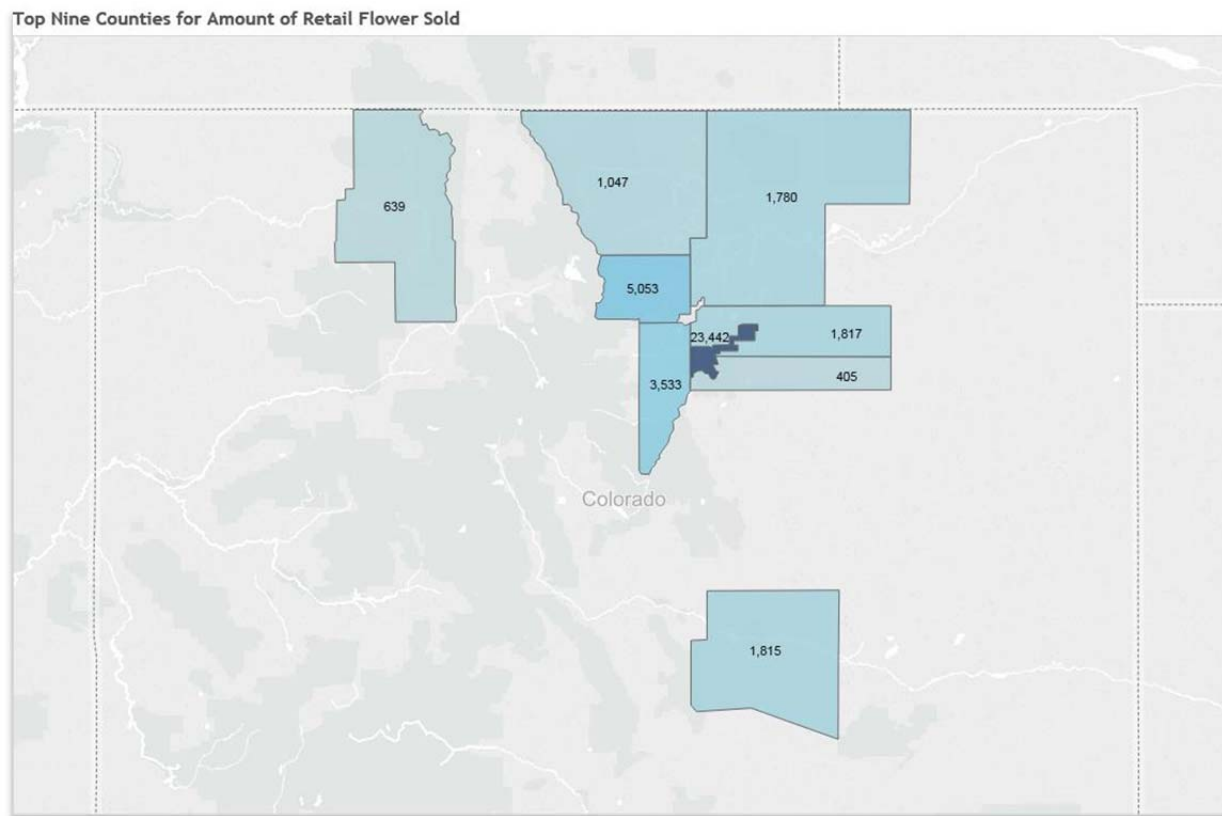
	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Totals</u>
Medical Flower Sold (lbs.)	3,150	7,686	9,819	8,955	11,338	10,020	9,624	11,531	10,148	9,692	8,816	8,799	109,578
Retail Flower Sold (lbs.)	1,070	1,262	2,187	2,180	2,627	3,075	4,181	4,573	4,112	4,319	4,125	4,949	38,660



The map below illustrates the top ten counties where licensees reported sales of flowering medical marijuana during the year. The darker shaded areas signify higher volumes of sales. Licensees reported the most flowering medical marijuana sold in Denver during 2014. It is important to note that although an entire county is shaded, the licensee(s) may be operating lawfully in specific local jurisdictions within that county.



The map below illustrates the top nine counties where licensees reported sales of flowering retail marijuana during the year. The darker shaded areas signify higher volumes of sales. Licensees reported the most flowering retail marijuana sold in Denver during 2014. It is important to note that although an entire county is shaded, the licensee(s) may be operating lawfully in specific local jurisdictions within that county.



Infused Product Data

- **Medical Marijuana Infused Products and Retail Marijuana Products**
 - **Edibles**
 - **Non-Edibles**

Infused Products Quick Facts

- 1.96 million units of edible medical marijuana infused products were sold
- 2.85 million units of edible retail marijuana products were sold
- 412,000 units of non-edible medical marijuana infused products were sold
- 359,000 units of non-edible retail marijuana products were sold

- The State Licensing Authority, through the MED, convened two stakeholder work groups tasked with discussing edible retail marijuana products
- The first work group focused on edible potency and serving size
- The second work group was mandated by House Bill 14-1366 and focused on making edible products more clearly identifiable

Medical Marijuana Infused Products and Retail Marijuana Products

Edibles

Edible products infused with marijuana were discussed at length by the public during 2014, especially with respect to retail marijuana edibles. The State Licensing Authority convened a work group in April 2014 to discuss concerns regarding the number of servings in edible retail marijuana products, versus the amount of THC contained within them.

The concern centered on edibles that by their size indicated they were a single serving, such as a single cookie, to be consumed in one sitting, but the product actually could contain up to ten servings of THC. This work group met four times, which culminated in the development of rules to address some of the concerns stakeholders had relevant to consumer protection. Those rules became effective on October 30, 2014 with an implementation deadline of February 1, 2015. For more information on this work group and the rules promulgated as a result, please visit our website at: www.colorado.gov/marijuanaenforcement

The State Licensing Authority also convened a work group related to edibles that was mandated by House Bill 14-1366. This work group also met four times with the intent of providing the legislature with a report by February 1, 2015 that would make edibles more clearly identifiable to the general public. The findings of this work group were memorialized in a report that was submitted to the General Assembly. For

more information on this work group and to access the report submitted to the General Assembly, please visit our website.

The 2014 sales volume for edibles is illustrated on the Table 8, located on page 25. During the first quarter of 2014, the number of infused edibles sold in the medical segment of the market was higher than retail marijuana products. Starting in April 2014, and throughout the remainder of the year, units of retail marijuana edibles sold were higher than medical infused products. There were a total of 1.96 million units of medical infused products sold in 2014 compared to 2.85 million units of retail marijuana products.



This measurement illustrates the number of units sold, but does not quantify the amount in milligrams of THC that was found in these edible products. Medical marijuana infused products have no restrictions regarding the amount of THC that can be present in each unit for sale, while in contrast, retail marijuana products

are limited to no more than 100 milligrams of THC per edible for sale.

The data reported into the system clearly illustrates a strong demand for edibles in general, but especially for retail marijuana edibles. The edible trend suggests that retail marijuana products are a viable product for retail consumers. The retail marijuana product edible trend differs from the sales trend for flowering retail marijuana where the latter only comprised 26 percent of total flowering marijuana sold in pounds. Retail marijuana product edibles accounted for approximately 59 percent of total units of edibles sold in 2014.



Non-Edibles

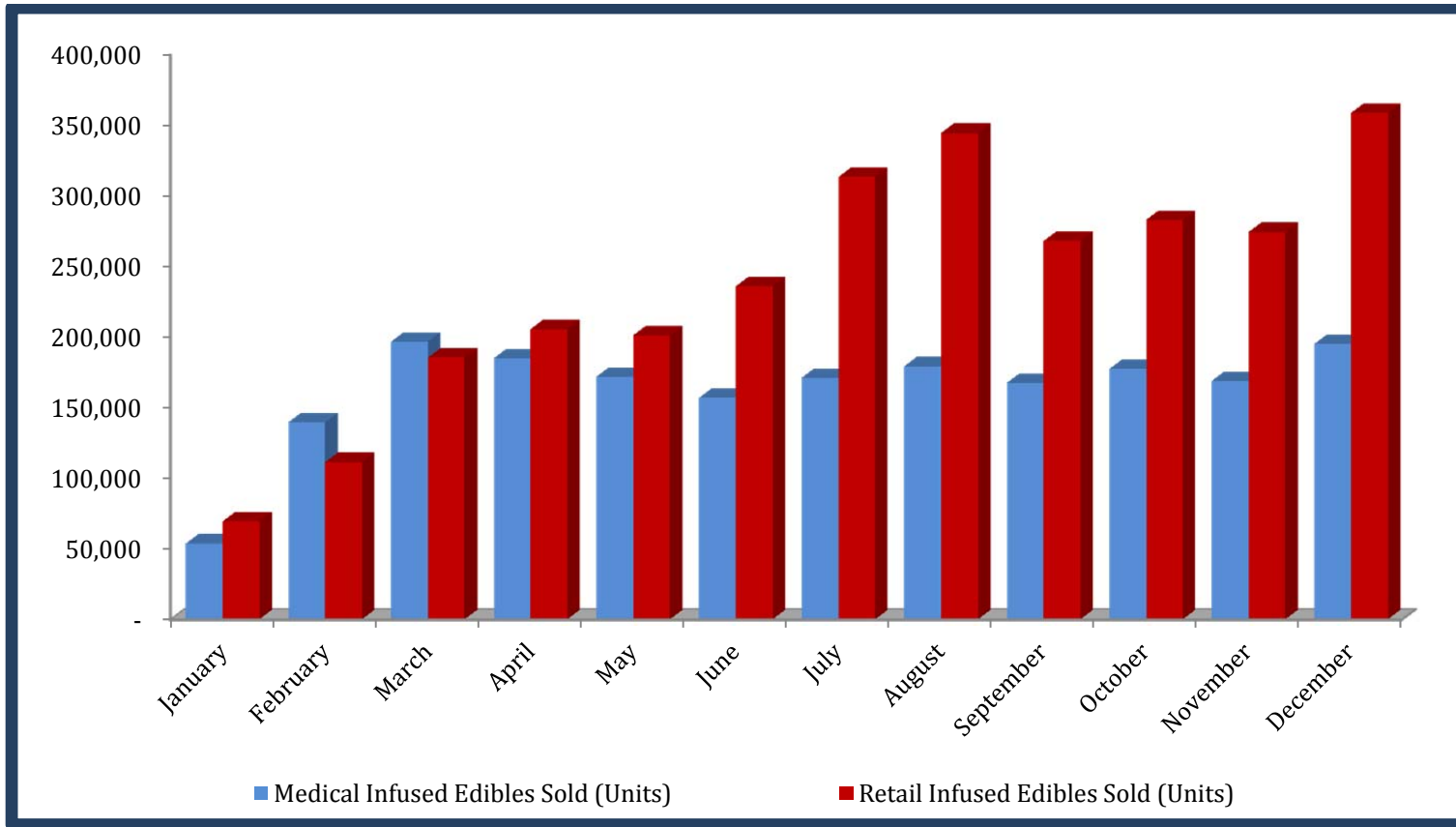
Table 9 on page 28 demonstrates that the sale of non-edible medical infused products and retail marijuana products, such as lotions, salves, patches, etc., remained relatively consistent throughout the year. There were approximately 412,000 units of medical marijuana infused products sold compared to 359,000 units of retail marijuana products.

In total, there were approximately 5.59 million units of edible and non-edible medical marijuana infused products and retail marijuana products sold in 2014.

2014 Total Sales Volume of Medical and Retail Marijuana Infused Edibles

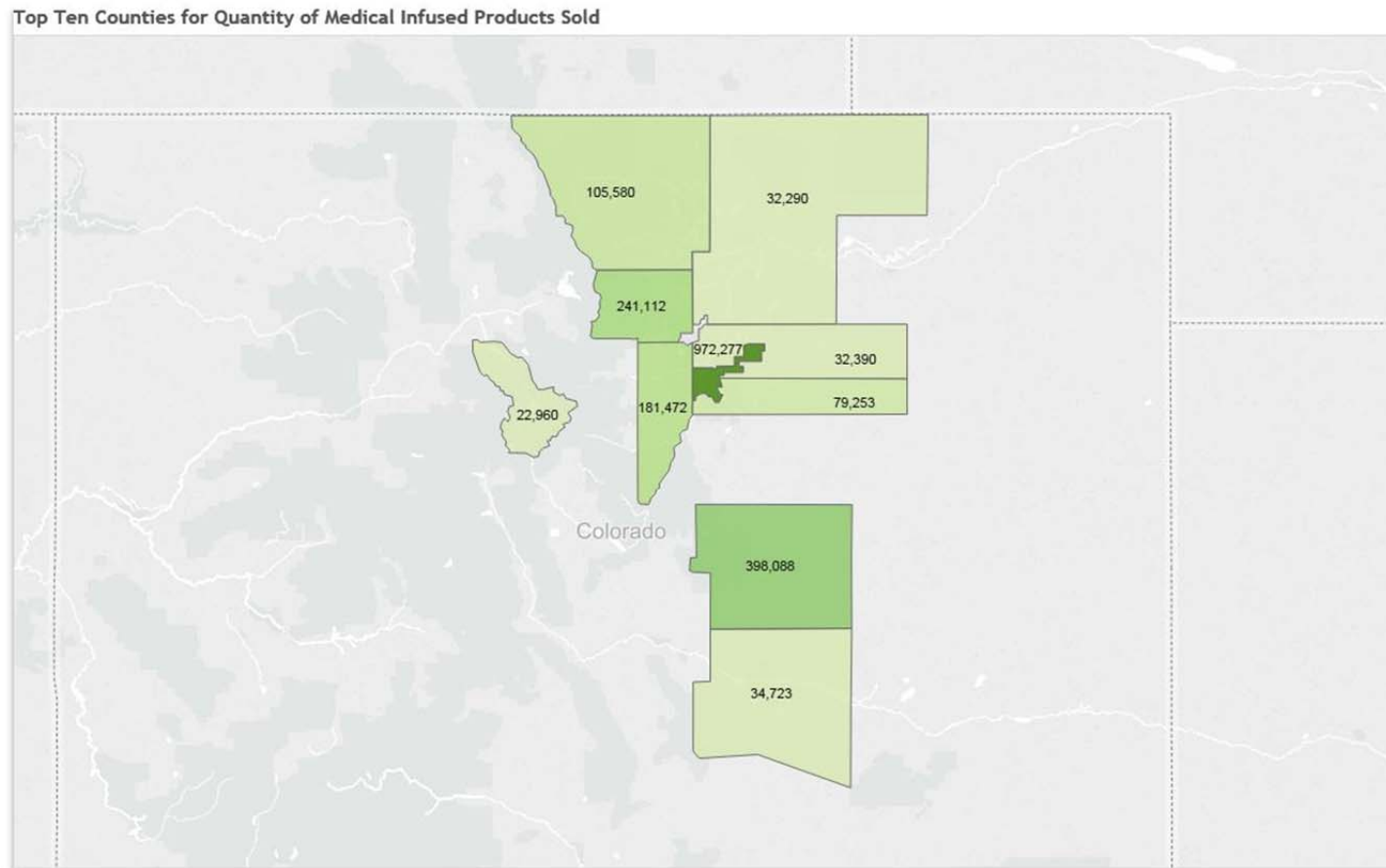
Table 8

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Totals</u>
Medical Infused (Units)	53,760	139,750	196,891	185,068	171,999	157,038	171,272	179,469	167,707	177,569	169,136	195,258	1,964,917
Retail Products (Units)	69,406	111,519	185,520	205,729	201,358	235,989	313,222	344,313	268,005	282,906	274,319	358,447	2,850,733



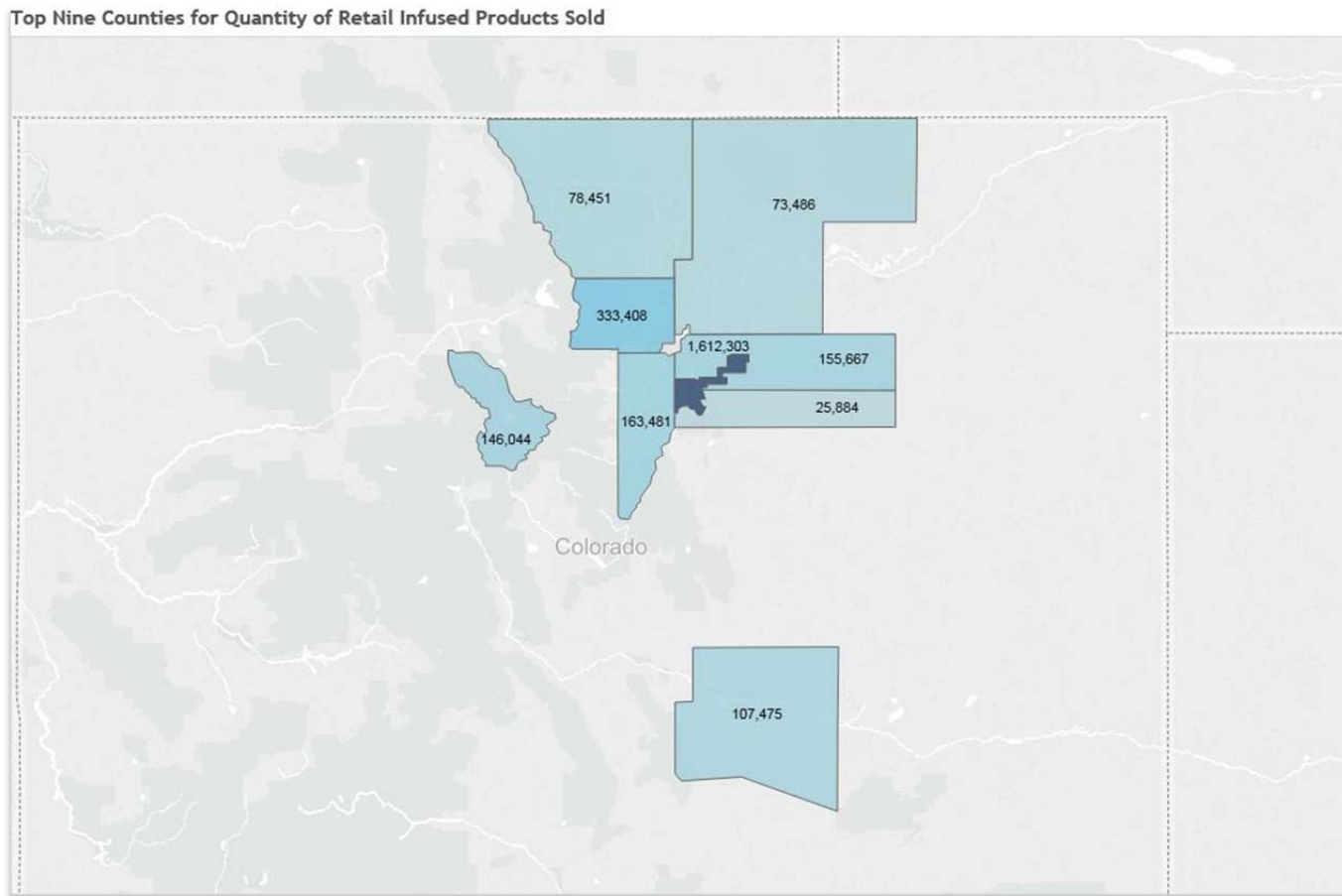
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The map below illustrates the top ten counties where licensees reported sales of infused medical marijuana products during the year. The darker shaded areas signify higher volumes of sales. Licensees reported the most infused medical marijuana products sold in Denver during 2014. It is important to note that although an entire county is shaded, the licensee(s) may be operating lawfully in specific local jurisdictions within that county.



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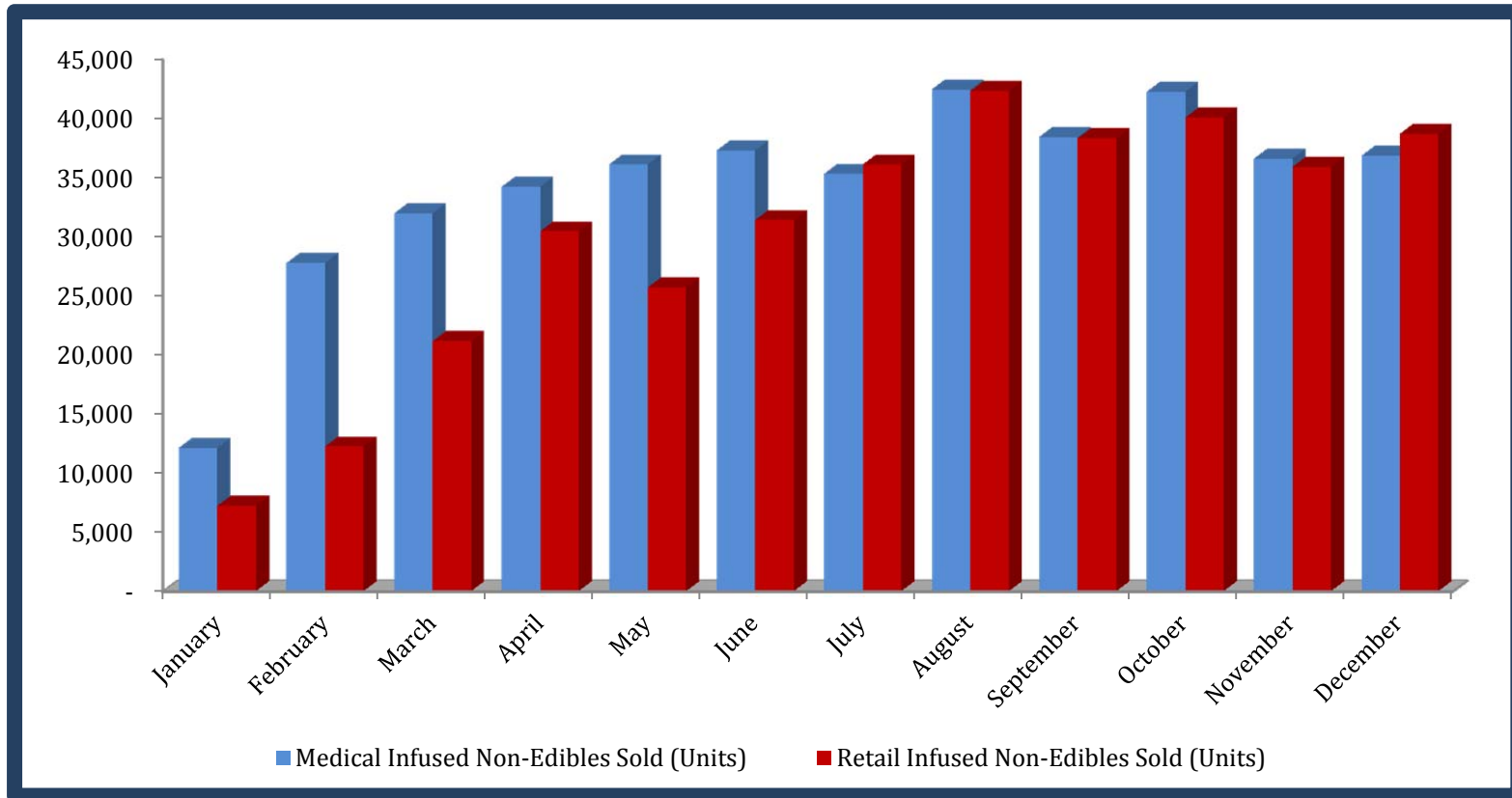
The map below illustrates the top nine counties where licensees reported sales of infused retail marijuana products during the year. The darker shaded areas signify higher volumes of sales. Licensees reported the most infused retail marijuana products sold in Denver during 2014. It is important to note that although an entire county is shaded, the licensee(s) may be operating lawfully in specific local jurisdictions within that county.



2014 Total Sales Volume of Medical and Retail Marijuana Infused Non-Edibles

Table 9

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Totals</u>
Medical Infused Non-Edibles Sold (Units)	12,141	27,769	31,945	34,197	36,082	37,259	35,297	42,410	38,411	42,211	36,573	36,804	411,099
Retail Infused Non-Edibles Sold (Units)	7,235	12,257	21,169	30,440	25,699	31,397	36,079	42,273	38,292	40,029	35,879	38,663	359,412



Mandatory Retail Testing Data

Testing Quick Facts

- 16 Testing Facilities were licensed by the end of 2014
- 8 were provisionally certified for potency/homogeneity testing
- 1 was provisionally certified for residual solvent testing
- MED licenses and monitors the testing facilities, and the Laboratory Service Division of the Colorado Department of Public Health and Environment evaluates the testing facilities for certification
- Nearly 4,000 potency test results were reported in METRC™
- Nearly 2,300 homogeneity test results were reported in METRC™
- Data illustrates a 98.2% pass rate for potency tests, and a 99.2% pass rate for homogeneity tests
- Contaminant testing for residual solvents and microbials will be implemented in 2015
- Pursuant to statute, testing was required only for the retail segment of the industry

Mandatory Retail Marijuana Testing

In May 2014, MED implemented required potency testing for retail marijuana products to ensure retail marijuana products did not contain more than 100 mg of THC in one unit of edibles. During 2014, licensees reported into METRC™ 3,893 potency test results. Retail marijuana testing facilities reported into METRC™ 72 failed tests for a pass rate of 98.2 percent.

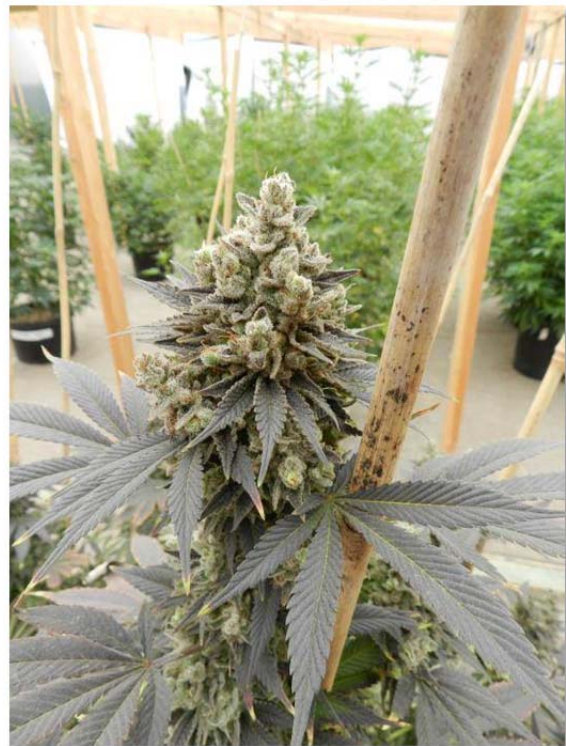
In July 2014, MED implemented additional required testing to ensure that THC infused into retail marijuana products was homogenous throughout the unit of retail marijuana product for sale to a consumer. During 2014, licensees reported into METRC™ 2,261 homogeneity tests. Retail marijuana testing facilities reported in METRC™ 18 failed test for a pass rate of 99.2 percent.

MED anticipates implementing more mandatory testing requirements during the first half of 2015 for contaminant testing. Contaminant testing will include both residual solvent and microbial analysis. Standards for both types of contaminant testing are established in Rule 1 CCR-212, R 712. Testing for contaminants will begin with beta testing to ensure there is adequate retail marijuana testing facility capacity to accommodate this additional testing. MED continues to work within the confines of the statute that gives authority to the State Licensing Authority to adopt rules related to mandatory testing of retail

marijuana, on a timeline to be established by the State Licensing Authority.

As of December 31, 2014 there were eight retail testing facilities provisionally certified for potency testing and one provisionally certified for residual solvents. While there were no testing facilities provisionally certified for testing microbials at the end of 2014, multiple testing facilities were in the process of completing the necessary requirements in order to obtain provisional certification.

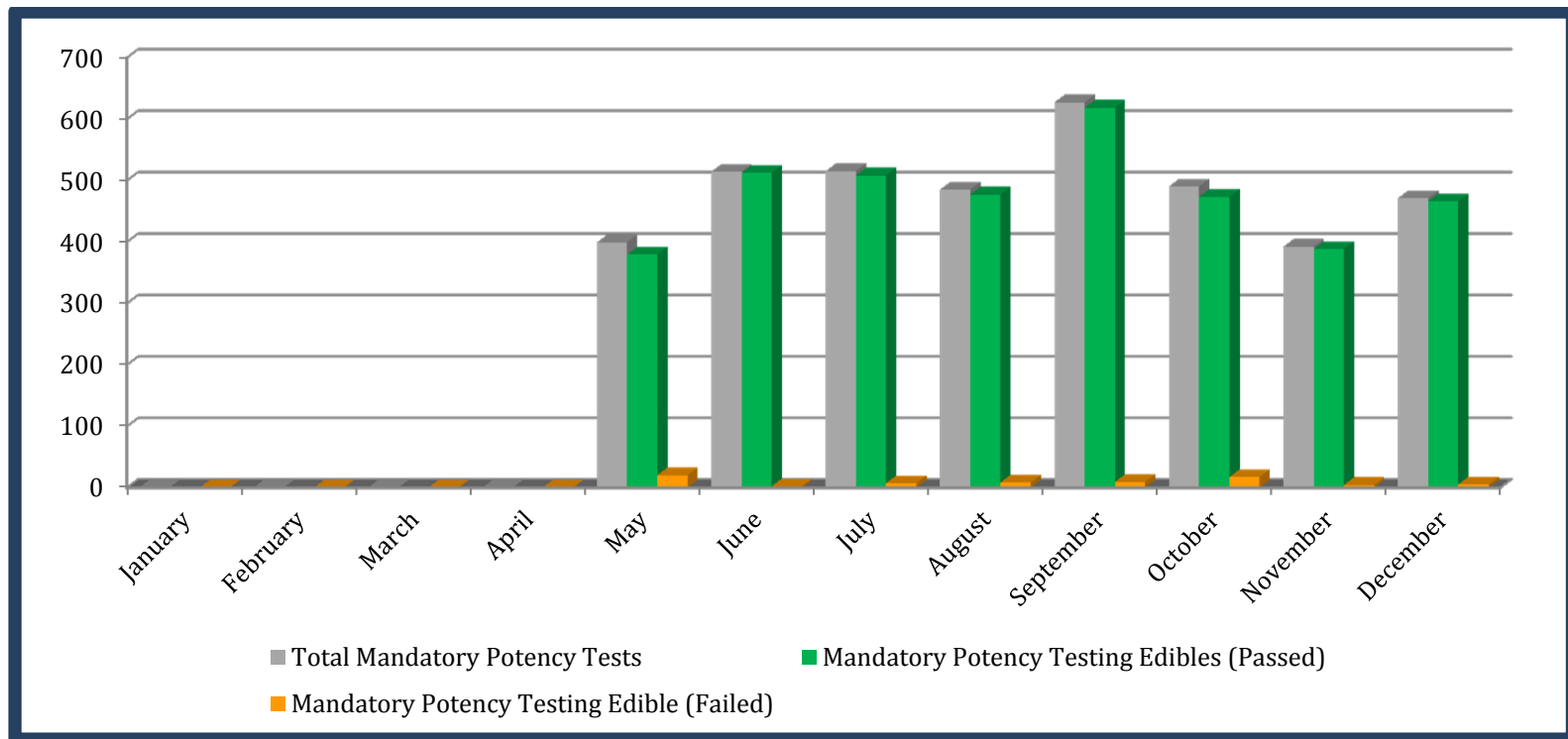
In 2014, pursuant to the Medical Marijuana Code, there were no requirements for Medical Marijuana Businesses to test any medical marijuana or medical marijuana infused products produced at licensed premises.



2014 Mandatory Retail Potency Testing for Edibles

Table 10

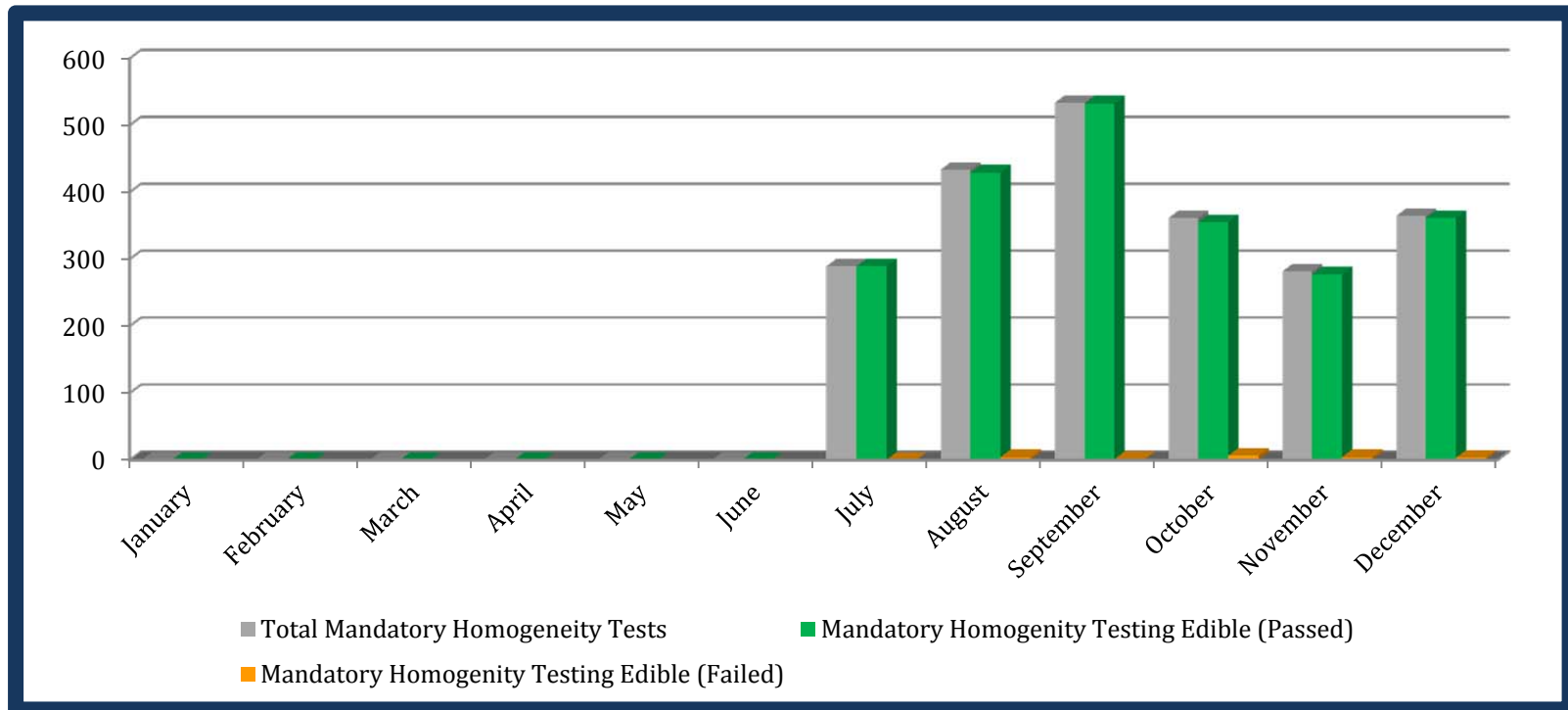
	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Totals</u>
Total Mandatory Potency Tests	-	-	-	-	399	514	515	485	627	490	392	471	3,893
Mandatory Potency Testing Edibles (Passed)	-	-	-	-	379	512	508	477	618	473	388	466	3,821
Mandatory Potency Testing Edible (Failed)	-	-	-	-	20	2	7	8	9	17	4	5	72
Mandatory Potency Testing Passed (%)	-	-	-	-	95.0%	99.6%	98.6%	98.4%	98.6%	96.5%	99.0%	98.9%	98.2%



2014 Mandatory Retail Homogeneity Testing for Edibles

Table 11

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Totals</u>
Mandatory Homogeneity Testing Edibles	-	-	-	-	-	-	289	433	533	361	281	364	2,261
Mandatory Homogeneity Testing Edible (Passed)	-	-	-	-	-	-	289	429	532	355	277	361	2,243
Mandatory Homogeneity Testing Edible (Failed)	-	-	-	-	-	-	-	4	1	6	4	3	18
Mandatory Homogeneity Testing Passed (%)	-	-	-	-	-	-	100.0%	99.1%	99.8%	98.3%	98.6%	99.2%	99.2%



Due Diligence Investigation Data

- Business Licensing Investigations
- Field Due Diligence investigations
- Complaint Investigations
- Assurance of Voluntary Compliance
- Administrative Actions by the State Licensing Authority

Investigations Quick Facts

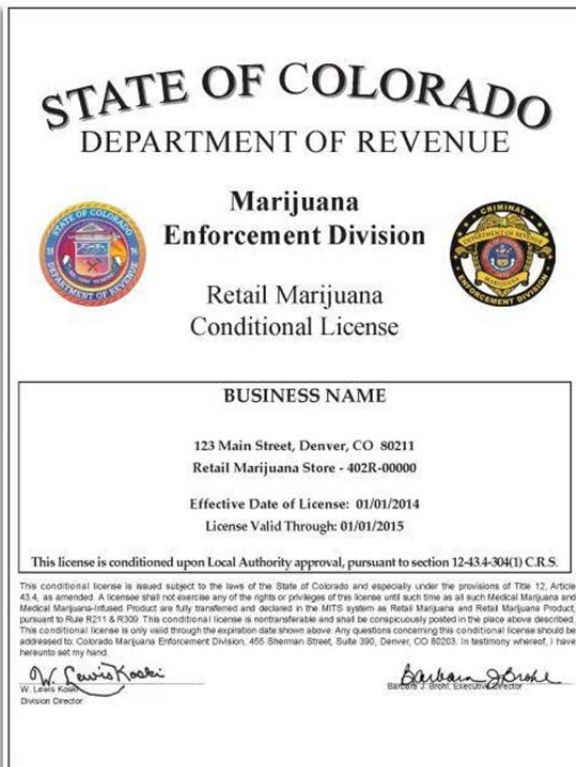
- The Division has four offices located throughout Colorado: Denver, Colorado Springs, Grand Junction, and Longmont
- MED concluded over 3,200 due diligence and complaint investigations
- Nearly 1,200 licensing investigations were closed for new and renewed business licenses
- MED completed new licensing investigations of just over 300 new owner applications during 2014
- 230 application investigations were processed for changes of ownership for current licensees

Due Diligence Investigations

On a daily basis, MED staff members are engaged in a number of routine activities related to the licensing and monitoring of medical marijuana businesses and retail marijuana establishments. These activities are grounded in statutes that outline the due diligence the MED is required to conduct in order properly regulate the commercial medical and retail licensees.

ownership for current licensees. Each of the cases noted above can vary in complexity and affect the licensing status of many licenses for any given investigation. In addition to the corporate investigations, the MED completed new licensing investigations of just over 300 new owner applications during 2014.

During 2014, just fewer than 100 business license applications were voluntarily withdrawn by applicants before the licensing investigation was completed. Also during 2014, the MED processed approximately 150 voluntary surrenders for businesses licensed in the Medical and Retail segments of the industry. Many of these voluntary surrenders were the result of licensed Medical Marijuana Businesses converting to Retail Marijuana Establishment licenses.



Business Licensing Investigations

In 2014, the MED closed nearly 1,200 licensing investigations for new and renewed business licenses. The Division accepted and closed another 230 application investigations for changes of

Field Due Diligence Investigations

MED investigators perform due diligence investigations in order to proactively monitor licensees and to ensure continued compliance beyond licensing. As part of MED’s due diligence, field investigators conducted over 800 routine licensing inspections for new licenses, changes in location, modifications of licensed premises, and in response to complaints.

The MED's field enforcement section began the year with one field office fully established in the Denver metropolitan area. During this time MED had other staff members working throughout the state, but by the end of the year, MED established three new field offices located in Colorado Springs, Grand Junction, and Longmont. The Colorado Springs office monitors licensees in the southern region of the state, mainly along the I-25 corridor. The Longmont office monitors licensees located in the northern part of the Front Range. The Grand Junction office monitors licensees in the western third of the state.

Complaint Investigations

Complaint investigations occur when the MED conducts an inquiry into a specific concern or allegation of non-compliance involving a licensee. In some cases, due diligence investigations develop into complaints, while other times issues are raised by local licensing authorities, cooperative investigations with other law

enforcement agencies, or through citizen complaints against a specific licensee. Not all complaint investigations lead to administrative action recommendations. An example of this scenario is when an investigation reveals that the concerns prompting the investigation were unfounded.

As illustrated in Table 12 on page 36, the Division closed approximately 370 different complaint investigations in 2014. The next section of the report will discuss the administrative actions taken by the State Licensing authority during 2014.

Due Diligence and Complaint Investigations Conclusion

During 2014, MED concluded over 3,200 due diligence and complaint investigations. The Division had approximately 1,200 open due diligence and complaint investigations as of December 31, 2014, which were assigned to current staff members.

Over the course of the year, the division thoughtfully grew its field offices and staff count in order to meet the requirements of regulating the medical and retail marijuana industry, and to reduce the amount of open cases. To further accomplish these objectives, MED submitted a supplemental budget request at the end of 2014, requesting additional staff in order to reduce open cases and improve the Division’s capacity to monitor licensees for compliance.

2014 Due Diligence Investigations and Complaints

Table 12

<u>Background Due Diligence Investigations</u>	<u>Open</u>	<u>Closed</u>
Corporate Background Investigation	48	488
Corporate Renewal Investigation	110	702
Corporate Change of Ownership	43	230
Voluntary Withdrawal Applications	22	97
Change of Trade Name	7	57
Owner Background Investigation	44	301
Voluntary Surrender License	24	150
Mandatory Reporting	6	37
<u>Field Enforcement Due Diligence Investigations</u>		
Licensing Field Inspection	646	319
Investigator Initiated Field Visit	32	137
Change of Location	28	138
Modification of Premises	48	211
Voluntary Surrender Product	2	9
Assist Other Agency	4	22
<i>Total Due Diligence Investigations</i>	<i>1,064</i>	<i>2,898</i>
<u>Complaint Investigations</u>		
Background Investigation	3	17
Field Inspection	18	54
Citizen Complaint	19	56
Report of Violations	18	31
Tip Line	6	19
Regulatory Violation	103	172
Criminal Violation	8	18
<i>Total Complaint Investigations</i>	<i>175</i>	<i>367</i>

Assurance of Voluntary Compliance

During 2014, the State Licensing Authority promulgated a rule that became effective October 30th and gave MED the authority to work with licensees to efficiently resolve certain complaints, without having to pursue formal administrative action. This type of agreement is referred to as an Assurance of Voluntary Compliance (AVC). AVCs could be used to resolve alleged violations for various types of regulatory non-compliance.

Under this agreement, the licensee does not admit any guilt with respect to the alleged violations, but does agree to maintain compliance with all statutes and regulations going forward. In most cases, the licensee agrees to pay a fee to cover the cost of the associated investigation, and understands that the underlying circumstances of the case could be used in future proceedings.



This AVC rule was effective in late 2014, and the MED entered into nine such AVCs during December. The MED sees this

as an effective tool for efficiently resolving some of its cases, while also ensuring that compliance issues related to the underlying complaint are avoided in the future. As a result, MED anticipates seeing considerably more AVCs in 2015.



Administrative Actions by the State Licensing Authority

The State Licensing Authority approved approximately 130 administrative actions, which were submitted by the MED, in the form of Summary Suspensions and Order to Show Cause actions. The State Licensing Authority also approved 77 denials for business licensing applications. Tables 14 through 18 on pages 38-40 illustrate the number of licensed premises that were subject to AVCs and other administrative actions during 2014.

Administrative Actions

Year End Business License Totals

Table 13

<u>Medical Businesses</u>	December
Centers	505
Medical Cultivations	748
MIP (Infused Product Manufacturer)	163
Total	1,416
<u>Retail Establishments</u>	
Retail Stores	322
Retail Cultivations	397
Product Manufactures	98
Testing Facilities	16
Total	833
Total Licensed Premises	2,249

Assurance of Voluntary Compliance

Table 14

Month	Nov	Dec	TOTAL
Center	0	3	3
OPC	0	3	3
Infused Products	0	0	0
Retail Store	0	1	1
Retail Cultivation	0	0	0
Retail Products	0	0	0
Retail Testing	0	0	0
Key/Assoc.Key/Support	0	1	1
Vendor	0	1	1
TOTAL LICENSES	0	9	9

* Data in Table 13 is taken from Table 2 on page 8, and included in this section for reference purposes.

Notices of Denial

Table 15

	Jan	Feb	Mar	April	May	June	July	August	Sept	Oct	Nov	Dec	TOTAL
Center	0	6	13	6	0	1	0	0	0	0	0	0	26
OPC	0	7	17	8	0	1	1	0	0	0	0	0	34
Infused Products	0	2	9	1	0	1	0	0	0	0	0	0	13
Retail Store	0	0	0	1	0	0	0	0	0	0	0	0	1
Retail Cultivation	0	0	0	1	0	0	0	0	0	0	1	0	2
Retail Products	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail Testing	0	0	0	0	0	0	0	0	0	0	0	0	0
Key/Assoc.Key/Support	0	0	1	0	0	0	0	0	0	0	0	0	1
TOTAL LICENSES	0	15	40	17	0	3	1	0	0	0	1	0	77

Summary Suspensions

Table 16

	Jan	Feb	Mar	April	May	June	July	August	Sept	Oct	Nov	Dec	TOTAL
Center	0	0	0	0	2	0	0	1	0	1	0	1	5
OPC	0	0	0	0	3	0	0	1	0	4	0	1	9
Infused Products	0	0	0	0	2	0	0	0	0	1	0	0	3
Retail Store	0	0	0	0	1	0	0	1	0	4	0	0	6
Retail Cultivation	0	0	0	0	0	0	0	1	0	0	0	0	1
Retail Products	0	0	0	0	1	0	0	0	0	0	0	0	1
Retail Testing	0	0	0	0	0	0	0	0	0	0	0	0	0
Key/Assoc.Key/Support	0	0	0	0	0	0	0	0	0	0	4	1	5
TOTAL LICENSES	0	0	0	0	9	0	0	4	0	10	4	3	30

Orders to Show Cause

Table 17

	Jan	Feb	Mar	April	May	June	July	August	Sept	Oct	Nov	Dec	TOTAL
Center	0	2	0	2	2	5	0	2	2	0	3	2	20
OPC	0	2	0	3	2	5	0	3	1	0	6	5	27
Infused Products	0	1	0	1	0	1	0	2	0	0	1	0	6
Retail Store	0	0	0	0	0	1	0	1	1	0	2	3	8
Retail Cultivation	0	0	0	0	0	1	0	2	2	0	5	4	14
Retail Products	0	0	0	0	0	1	0	1	0	0	0	0	2
Retail Testing	0	0	0	0	0	0	0	0	0	0	0	0	0
Key/Assoc.Key/Support	0		0	3	7	2	0	2	0	0	3	5	22
TOTAL LICENSES	0	5	0	9	11	16	0	13	6	0	20	19	99

Stipulation, Agreement, and Order

Table 18

	Jan	Feb	Mar	April	May	June	July	August	Sept	Oct	Nov	Dec	TOTAL
Center	0	0	0	3	1	14	2	7	5	3	3	4	42
OPC	0	1	0	1	1	20	3	9	5	4	3	6	53
Infused Products	0	1	0	0	0	2	0	2	1	0	0	0	6
Retail Store	0	0	0	0	0	1	0	0	0	0	0	0	1
Retail Cultivation	0	0	0	0	0	1	0	0	0	0	0	0	1
Retail Products	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail Testing	0	0	0	0	0	0	0	0	0	0	0	0	0
Key/Assoc.Key/Support	0	1	0	2	2	13	3	11	5	0	4	9	50
TOTAL LICENSES	0	3	0	6	4	51	8	29	16	7	10	19	153

Closing Thoughts

As the regulating agency of the world's first legal retail marijuana industry, along with regulating the medical marijuana industry, the Colorado Marijuana Enforcement Division recognizes the importance of its role in data collection and sharing. The Division is committed to reporting and managing the collected data with transparency and in accordance with all applicable laws.

To continue to provide relevant data, the Division intends to release the information and data collected in this update on a quarterly basis. In addition, the MED will continue to work with the METRC™ system developer to mine and analyze data, in order to expand upon the amount of aggregate data available for public release.

Please visit our website at: www.colorado.gov/marijuanaenforcement, which is where this Annual Update and the Quarterly Updates will be made available.

MED Offices

All offices are open Monday-Friday, 8:00 AM – 5:00 PM

Denver

- 455 Sherman Street, Suite 390
Denver, CO 80203
- Open for Occupational Licensing: Monday-Friday, 8:00 AM – 11:00 AM, and 1:00 PM to 2:00 PM
- Business Licensing by Appointment

Colorado Springs

- 1030 Academy Blvd, Suite 200
Colorado Springs, CO 80910
- Open for Occupational Licensing by appointment only

Grand Junction

- 632 Market Street, Suite G3
Grand Junction, CO 81505
- Open for Occupational Licensing by appointment only

Longmont

- 275 South Main Street, Suite 101
Longmont, CO 80501
- Open for Occupational Licensing by appointment only

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