



Let's Toke Business

The Commerce of Cannabis

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Ted Ohashi MBA, CFA

Week Ended August 4, 2023

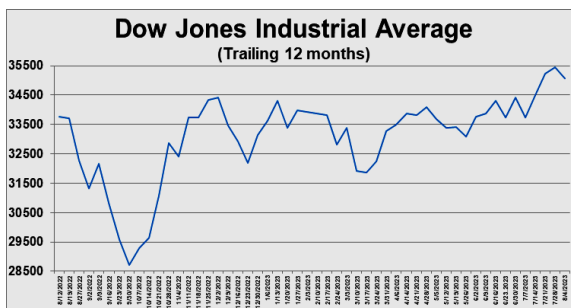
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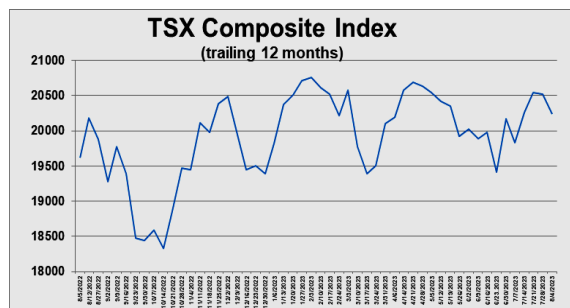
Stock Market Review & Outlook

LTB MARIJUANA INDEX: 1wk -1.1% 1 mo -5.6% 3 mo -16.3% 6 mo -30.3% 1 yr -49.8%

When the Fitch Rating service downgraded the U.S. dollar last Tuesday, all short term bets were off. This news came more or less out of the blue and took the wind out of the sails of the markets. We

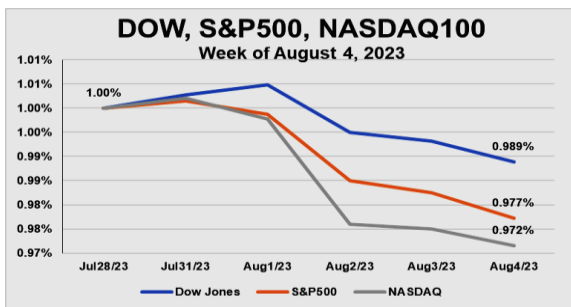


haven't talked much about foreign exchange rates but the basics are easy and the comprehensive analysis is extremely difficult. So on the simpler



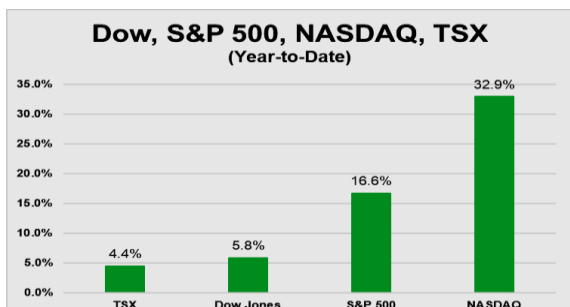
side of things, a decline in your rating such as happened to the U.S., means your currency value should decline relative to other sovereign currencies. This means to foreign buyers your goods and services will appear less costly while your imports will seem more costly. So if the dollar drops, U.S. exporters “win” and U.S. importers “lose.” On the other hand, purchasers of U.S. exports win and sellers of U.S. imports lose. Over time, U.S. exporters benefit from higher sales (more money coming into the U.S.) while U.S. importers lose (less money going out of the U.S.). For more on exchange rates, see below.

As the chart below left shows, the sell off in the blue chip sector timed very well with the Fitch announcement on Tuesday. The result was the worst weekly results since March. As discussed



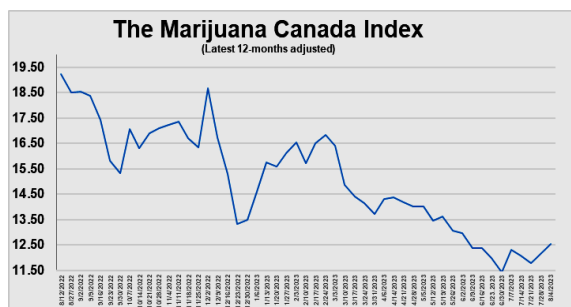
above, the major news on the week was the downgrading of U.S. debt for only the second time in history and the first time since 2011.

The year-to-date re-

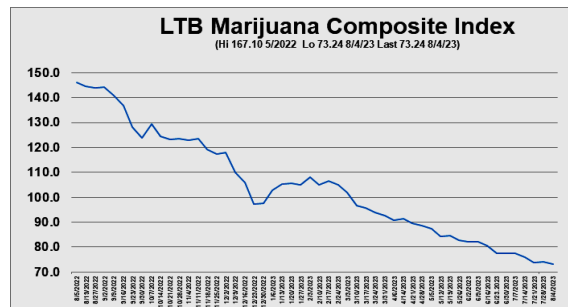


turns are indicative of the Artificial Intelligence stocks and their impact on the Standard & Poor's 500 and the NASDAQ Composite. I think it is fair to point out the strong performance of **Lexaria Bioscience (NASDAQ: LEXX)** that was up +15.4% last week. I have been pointing out that a company within weeks of filing an Investigational New Drug (IND) application for a cannabis-based treatment for hypertension trading at a market cap of under \$10 million even after its recent rally is ridiculous. See more information on LEXX below. **Predictmedix (CSX: PMED) (USOTC: PMEDF) (FRA: 3QP)** performed very well in recent weeks and I believe the positive news flow is just going to continue. Last week, I said as much as I believe being long both LEXX and PMED is an excellent idea, being short is a risk that is not worth taking in either of these stocks at current levels. At this moment, I would say the risk for short sellers is greatest with LEXX as they have a clearer timeline ahead. August should see the IND application and September is expected to see the approval from the U.S. Food & Drug Administration. If the market recognizes the possibility of a buying panic with regular investors, Redditors who have been in LEXX before and short sellers who realize the risk/reward for them means they should cover. There could be major price upside on huge volume and this time the price gains should stick.

In the cannabis sector, the Canadian operators outperformed the American operators again this week. The Marijuana Canada Index gained +3.1% while the Marijuana United States Index was

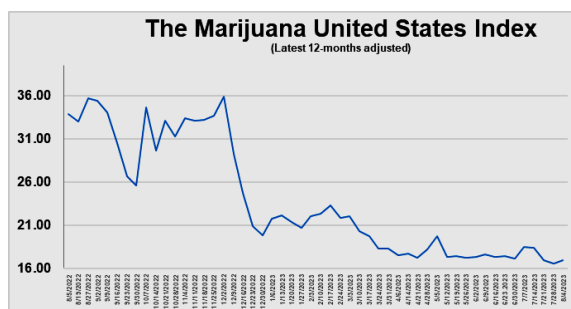


up +2.5%. The Let's Toke Business Marijuana Composite Index rose +1.1%. The U.S. sector is lagging as

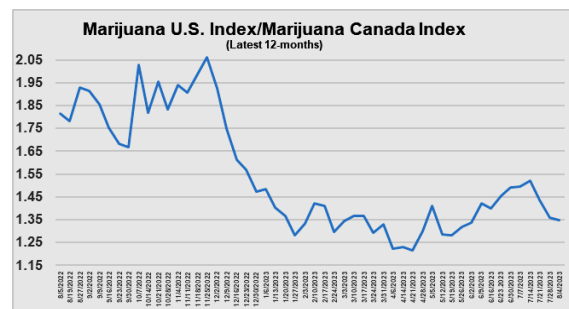


there was some life injected in the group when it appeared there was a chance that something could happen before the summer break. Now that Congressmen and women mostly left Washington for their home states, it is clear nothing will happen until after Labor Day.

Here is how the U.S. sector has performed over the past 52 weeks. The shares of the American operators showed a little strength on the expectations that Senators were prepared to act in favor of

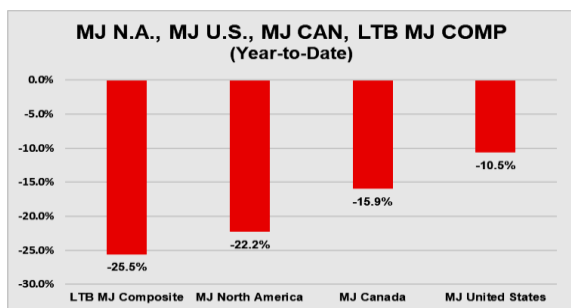


SAFE Banking before the summer and when it was obvious that would not happen, we saw a little activity in the U.S. stocks. We

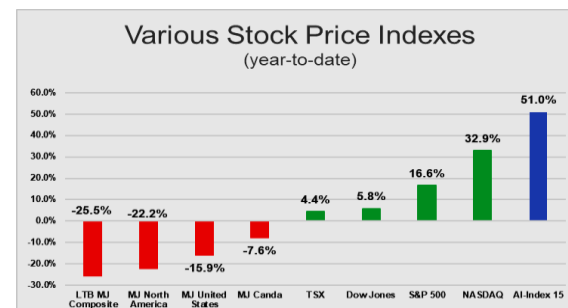


may get snippets of news in August that might generate some activity but this will be organized for the post Labor Day period. So from my point of view, I would concentrate on opportunities such as **Lexaria Bioscience (NASDAQ: LEXX)** and **Predictmedix (CSX: PMED) (USOTC: PMEDF) (FRA: 3QP)** that have some activities expected over the summer months.

The chart below left reflects the changes to stock groups year-to-date. It shows the cannabis sector continues to bring up the rear although it made some gains last week. We can see the performance



sectors in the chart to the right. There was a much needed correction in the Artificial Intelligence group that has been



propping up the NASDAQ and Standard & Poor's Indexes. So there was some compression with the cannabis returns moving the right and the large cap sectors moving to the left.

Conclusion: Lexaria Bioscience (NASDAQ: LEXX) is now very close to filing their Investigational New Drug (IND) application with the FDA for the treatment of hypertension and the market is beginning to reflect it. The stock has been up three of the last four weeks. In the meantime, LEXX has published news on DehydraTECH-Nicotine, the creation of subsidiary Lexaria Nutraceutical Corp. and potential for the treatment of diabetes. LEXX is not a one trick pony. LEXX appears to be on the

move and if you want to participate, now is the time for action. **Predictmedix AI (CSE: PMED) (USOTC: PMEDF) (FRA: 3QP)** is drawing us a map with their recent press releases. They are telling us they are going after the Indian and Indonesia markets which represent about one person in five on earth. They have had delegations from both countries here in Canada recently and they have made a production agreement with a high capacity manufacturer in India. My forecasts show, PMED is a company that could produce excellent revenue and positive cashflow with orders of multiples of 50 units and explosive results with orders of multiples of 100 units. So it is intriguing to learn the manufacturer has capacities in the thousands. I talked to Alvaro Torres, CEO of **Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC)** this week about the announced sale of the European assets. See the full report below. **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** and **Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF)** corrected slightly on the week while **1933 Industries (CSX: TGIF) (USOTC: TGIFF)** was unchanged. I continue to try to connect with **Kiario Holdings Corp. (TSX: KO)**.

Question of the Week

Thank you for sending in your questions and I hope you will keep them coming. It's your questions that keep this feature interesting and useful. Send your questions to: ltbletter@gmail.com Include your initials or a pen name we can use along with your city and country of residence. Questions will be edited for clarity and brevity.

The objective of the 'Question of the Week' feature is to allow readers to ask questions about investing about investing that is on their minds rather than have me guess what you are wondering about.

"It appears the sale of Khiron's European assets has been completed. It says the selling price is \$3 million and there is an addition of a possible sale of the Colombian assets for another \$8 million. Is this correct? Have you spoken to Alvaro Torres? What do you think about the reported transaction."

I.N., Manitoba, Canada

Recently, **Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC)** announced the closing of the sale of the European assets. Since the failure of the equity financing in February, KHRN's strategy has been to sell its European assets, to refocus on building its business base in Colombia and survive until this was accomplished.

The report that Khiron Life Sciences "ENTERS DEFINITIVE AGREEMENT FOR SALE OF ITS EUROPEAN BUSINESS" means the transaction was completed on July 28, 2023 subject to regulatory approvals in Canada and Germany. The purchaser is 2518542 Alberta, a company controlled by Avonlea-Drewry Holdings. The companies being sold are KHRN's European subsidiaries: Khiron Europe GmbH (**Khiron Europe**), Zerenia Clinics Limited (**Zerenia, UK**), Khiron Life Sciences Spain SL (**Khiron Spain**), Khiron Life Sciences UK Limited (**Khiron UK**) and PharmaDrug Production GmbH (**Pharma-drug**).

The terms of the sale are:

- An aggregate base price for all of Khiron's business in Europe as listed above is \$3 million subject to customary closing and post-closing adjustments.
- The purchase price will be satisfied by:
 1. The paid cash deposit of \$500,000 as reported earlier, and,

2. The buyer has advanced \$1,000,000 to be disbursed, in its entirety, to the German subsidiaries to pay agreed operating expenses until closing.
 3. A 3-year, non-interest bearing vendor takeback promissory note.
- The sale is expected to close:
 1. First closing date: the purchase and sale of Khiron Europe, Zerenia U.K., Khiron Spain and Khiron UK.
 2. Second closing date: the purchase and sale of Pharmadrug. If regulatory approval for the purchase and sale of Pharmadrug is not received by November 30, 2023, the purchase price will be reduced in accordance with the terms laid out in the Definitive Agreement.
 - On the First Closing Date: Avonlea-Drewry (The Purchaser), Khiron Colombia S.A.S. and Zerenia S.A.S. (the optionors) will negotiate a two year, irrevocable option to the Purchaser under which the optionors will be required to sell all of the issued and outstanding shares of Zerenia Colombia for a purchase price not to exceed \$8.0 million. This agreement will be negotiated in good faith between now and then. In the event this option is exercised further details will be provided by Khiron in a future news release.

My assessment of this agreement:

- (a) This agreement was not “negotiated” between two equal parties. The purchaser held all the cards and was negotiating from a position of great strength relative to Khiron. This agreement reflects these facts.
- (b) Given those circumstances, the result is not a total loss. KHRN shareholders will have a \$1.5 million note from the purchaser payable within three years and possibly sooner and the prospect of selling Zerenia Colombia for up to \$8.0 million for a total of \$9.5 million. KHRN’s market cap when the stock was halted, was approximately \$9.0 million so conceivably, at the end of the day, the downside is limited to the \$.04 per share the stock was trading at when KHRN was halted. This is not a wonderful result but it is better than a total loss.
- (c) Torres is pushing forward with the audit and he reports they are close to completion. There are those who think there are advantages to not completing the audit at this time. However, Torres believes it is his responsibility to get the stock trading as soon as possible.
- (d) I think the transactions also reflect Alvaro Torres’ business ethic. He has done everything he can to save the businesses and jobs for the employees in Europe. They say you learn a lot more about a person in bad times than in good times. I have learned many positive characteristics about Alvaro Torres during this stressful year. Many people have asked, often in a sarcastic tone, if my view of Torres is still positive. My answer is I am just as supportive of Alvaro Torres as I have ever been and my respect for him as a businessman and human being has increased as I watched him work through this extremely difficult time.
- (e) The goal now is to leave Khiron with an operation in Colombia to use as a base to rebuild upon. That will depend on whether or not the option for 2518542 Alberta, the company controlled by Avonlea-Drewry Holdings to purchase Zerenia Colombia is exercised. That is expected to have a two year term so we will have to await the terms of that option being settled. Continuing operations will also require additional capital and KHRN is considering the sale of a building it owns in Colombia.

Conclusion: Considering Alvaro Torres just got out of a poker game in which he had no cards, investors have a chance of remaining shareholders in a company with growth potential in Columbia and in the future, perhaps Latin America. For a number of reasons, only a few of which were under management's control, the KHRN story has not been on script. But if Alvaro Torres somehow creates a second chance for himself, I think he will make it. In the short term, I think we should wait for the completion of the audit, not for the numbers but so Torres can work on relisting. Once you can turn the momentum from negative to positive, other good things can follow.

The Cannabis Report Model Portfolio

The two largest holdings are **Predictmedix AI (CSX: PMED) (USOTC: PMEDF) (FRA: 3QP)** and **Lexaria Bioscience NASDAQ: LEXX** followed by **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)**. The two smallest positions are **Kiaro Holdings Corp. (TSXV: KO)** that has undergone a major overhaul of ownership and **Speakeasy Cannabis Club (CSX: EASY)**, **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** provides portfolio exposure to the Canadian market while **Jushi Holdings Inc. (CSX: JUSH) (USOTCQX: JUSHF)** is our choice for the U.S. market. and income guidance numbers and **1933 Industries (CSX: TGIF) (USOTCQB: TGIF)** is, in my view, a turned around company. Cash is around 15%.

Marijuana Matters

Last week, there was a negative economic event that hit the U.S. unexpectedly. There are three credit rating agencies (CRAs) that rate the quality sovereign debt (countries) and corporate debt (companies): Moody's, Standard & Poor's and Fitch Ratings. These companies use an alphabetic rating system typically ranging from AAA to CCC. Of course each of these agencies have their own variation. With Moody's, for example, Aaa is the highest rating and C is the lowest. Standard & Poor's goes from AAA at the highest rating to D as the lowest. Fitch also uses a range from AAA to D and nuanced changes are indicated with a "+" or "-" sign. So a BB+ is slightly better than a BB- for example.

This is similar to a personal credit score from a consumer reporting bureau such as Equifax, Experian or TransUnion. They will keep a numeric credit score on you and it may be slightly different at each agency but normally in a range of 300 (worst credit score) to 850 (best credit score). Generally speaking, if your personal credit score is lower, you can expect to pay higher interest rates on debt, perhaps you will have access to fewer borrowing opportunities and, if your credit score is low enough, you may not be able to borrow at all.

Last week, for only the second time in history, the U.S. rating was downgraded by Fitch from AAA to AA+. Here are the current U.S. ratings for all three rating agencies. Here is my unbiased assessment of last week's developments. The first time the U.S. rating was cut was in 2011 and it was controversial. At the time, President Barrak Obama was in office and it created such a row that Deven Sharma, then President of Standard & Poor's, was forced to step down. Such decisions are not to be taken lightly.

Agency	U.S. Debt Rating
Moody's	Aaa
Fitch	AA+
S%P	AA+

Here are some of my observations on the downgrade:

- The timing of the downgrade has been called into question coming shortly after the debt ceiling debate in Congress. Some argue that if Fitch had acted before the settlement, the direct threat of a downgrade might have forced the two sides into an agreement sooner. Of course, this is

not the function of a rating agency. Fitch waited to see how Congress would settle the matter and probably concluded that Biden's negotiated levels of spending caps were not sufficient to turn the tide on a tax and spend fiscal policy.

- Was the downgrade politically motivated? It seems everything at the federal level is politically motivated, so it must have been a factor. How big a factor it was will probably come to light over the next 16 months leading up to the election. Treasury Secretary Janet Yellen called it "arbitrary and based on outdated data." Also, remember if Yellen, Secretary of the Treasury says things like the U.S. banking industry is safe and secure when it's not, she's not lying. Saying such things is part of her job description. There were many other Fitch critics but mostly along party lines. Former Obama economic adviser Jason Furman said it was "completely absurd" while economist Larry Summers described it as "bizarre and inept."
- But there are also those inconvenient truths. Annual budget deficits are forecast to double and interest on debt is projected to triple in the next ten years. Since 2008, U.S. debt held by the public has risen from 39% of Gross Domestic Product to over 100% today. In the next 30 years, debt is projected to increase to 181% of GDP. We should also remember government estimates of their deficits and debts have always missed the target on the wrong side.
- A lowering of the U.S. credit rating means a perceived reduction in the U.S. ability to repay debt. It reflects a decline in U.S. creditworthiness. In general, it is a reflection on fiscal policy which is government spending and taxation. In the American system:
 1. The executive branch, normally, the President and the Secretary of the Treasury with input from economic advisors, direct fiscal policies.
 2. The legislative branch, that is, the Congress passes the laws to advance or resist the policies of the executive branch.
 3. The judicial branch may play a role by declaring certain actions of the executive and/or the legislative branches unconstitutional.
- The downgrade is not the sole responsibility of President Biden and the Democrats or President Trump and the Republicans. This is the culmination of many years of federal budget deficits with both parties and several Presidents and both parties participating and contributing.
- Prior to 2011, all three rating agencies rated the U.S. debt as AAA, that is, American debt was rated least likely to default. In 2011, Standard & Poor's downgraded U.S. debt from AAA to AA+ and in 2023, Fitch as reduced U.S. debt from AAA to AA+. Moody's remains unchanged from its highest Aaa rating.
- The downgrade by Fitch last week was serious. Fitch is saying some of the financial trends they watch in rating U.S. debt have been running in the wrong directions and are getting to troublesome levels. Like the chart I showed last week that plotted the amount of Interest the U.S. federal government is paying on its debt. It is a warning but an early warning. "America's debt makes up 113% of economic output," said Richard Francis, who called this "pretty alarming." Francis added the ongoing budget deficits are a concern as is the interest cost of carrying the debt especially as interest rates rise.
- The U.S. dollar is still the world's reserve currency and that depends on America never defaulting on its debt. But some nations are already starting to consider geo-political alliances that would by-pass the U.S. dollar as a reserve currency. There is China and Russia. There is the Saudis on their own in the Middle Eastern, oil rich, region. No one stays on top forever but there is no value in hurrying your decline along.

Conclusion: the downgrade of U.S. debt by Fitch last week was important but it did not have the short-term market impact that one might expect. As a result, the muted negative response in the markets last week was appropriate. If the current market correction holds in the 3% to 5% range and the major indexes move on to new highs, this will be another sign we are in a bull market stage of the markets.

Special Report

Predictmedix AI announces a milestone 200,000 individual scans for its Safe Entry Stations

Predictmedix AI (CSX: PMED) (USOTC: PMEDF) (FRA: 3QP) announces it has attained a milestone 200,000 individual scans for its Artificial Intelligence (AI)-powered Safe Entry Stations covering various vitals such as body temperature, heart rate, respiration rate, body weight, HRV, fatigue, and impairment. This achievement marks a significant advancement in utilizing machine learning to enhance accuracy and efficiency in the healthcare and other industries.

As paraphrased in the Press Release, Safe Entry Stations powered by advanced artificial intelligence algorithms, have played a vital role in providing seamless and secure entry to various public and private establishments. Additionally, these stations have proven instrumental in triage functionality within hospital settings and other environments. The cutting-edge technology rapidly and accurately identifies potential health risks, including symptoms of infectious diseases, ensuring the well-being of individuals and communities.

"The data collected from Safe Entry's scans has significantly advanced our machine learning capabilities, allowing us to offer more precise and reliable solutions to the healthcare industry. This extensive dataset provides an unprecedented opportunity to gain deeper insights into various health indicators and trends, enabling a more comprehensive understanding of human health. Moreover, this rich data trove serves as a powerful resource for medical research and innovation, allowing experts to explore new avenues for disease prevention, early detection, and personalized healthcare solutions," commented Dr. Rahul Kushwah, COO of Predictmedix AI.

Predictmedix AI is positioned to play a pivotal role in shaping the future of healthcare in global markets, particularly Indonesia and India. With scalable plans and robust procedures, PPMED AI is prepared for a commercial rollout of Safe Entry. The company's diverse dataset for Safe Entry encompasses different skin tones, age groups, and genders from various geographic locations. Consequently, the generalized AI models for different vitals are universally applicable across ethnicities. To address privacy concerns, PMED AI emphasizes their strong privacy policy, ensuring that no data is stored without subject consent. All data collection is based on explicit consent from individuals.

Conclusion: The key to Artificial Intelligence (AI) and machine learning (ML) is the data base. It is out of the data base that AI and ML are able to find and test the patterns that lead to AI being able to make statistically-based "decisions." As you scan more and more people, the statistical support for your decisions increase and therefore improve. This data base becomes an intellectual property.

The other thing about data is you can't just go out and buy it. You have to find the people, get their permission and collect the data. There are no shortcuts.

As the AI industry grows, investors will soon realize the value of data. I think we will get to the stage in AI when companies acquire and are acquired for the value of their data base.



Applications Watch

Health Canada issued two new licenses last week for an adjusted total number of licenses of 990. This week new licenses were issued to 4440442 Nova Scotia Ltd of Nova Scotia for cultivation and processing and Southern Stars Inc. of Ontario for cultivation and processing. Over 40 public companies are LPs or own an interest in one or more LPs. For a complete list of LPs and related information, Ctrl-Click [\(here\)](#)

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