



# Let's Toke Business

The Commerce of Cannabis

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## Week Ended October 20, 2023

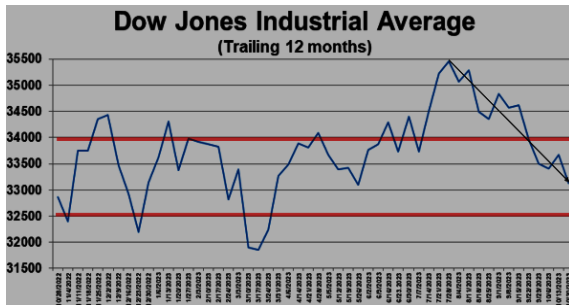
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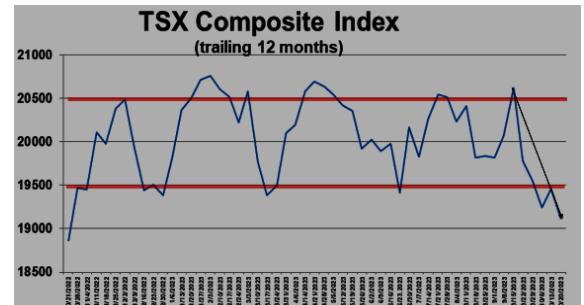
## Stock Market Review & Outlook

**LTB MARIJUANA INDEX: 1wk -3.4% 1 mo -8.9% 3 mo -16.9% 6 mo -31.1% 1 yr -48.8%**

The markets generally headed lower last week with the Dow Jones Industrials down -1.6% and the Toronto Stock Exchange Composite down the same amount. Both indexes have broken



down and established a downtrend made up of lower highs and lower lows. So this week I have to say these indexes are both



in downtrends that will prevail until we experience a series of higher highs and higher lows. I think the major concern at this point in time is the conflict between Israel and Hamas that has now spread to the Hezbollah along the Lebanese border to the North.

In The Cannabis Report that I produce for Investor's Hub, I showed the table to the left last week.

	2023-13-16
Dow Jones	0.9%
S&P 500	1.1%
NASDAQ	1.2%
Toronto	0.8%
Gold	-0.2%
Silver	-0.6%
Bitcoin	-0.8%

The point was for a person nervous about loss of stability in the Middle East, the first day of trading after hostilities were reported did not produce the results expected. In other words, I did not think the markets would be up while the hedge assets were down. As a result, concluded these trends should reverse. The table to the right shows the

	2023-13-16	20-Oct-23
Dow Jones	0.9%	-1.6%
S&P 500	1.1%	-2.4%
NASDAQ	1.2%	-3.2%
Toronto	0.8%	-1.6%
Gold	-0.2%	3.2%
Silver	-0.6%	3.3%
Bitcoin	-0.8%	4.1%

performance of these indexes on the week and the performance did reverse with stocks down and the hedge assets up. Although I was surprised by the immediate response to the conflict, I said I wasn't shocked by it. Recently, the markets have needed a short period of time to reach a longer-term conclusion. Even after the "hot" inflation report last Thursday, the markets generally closed higher. But on Friday, the selling came into the market. I expect to see a similar reaction and expect to see some downside in the markets later this week in recognition of the risks created by the situation in Israel.

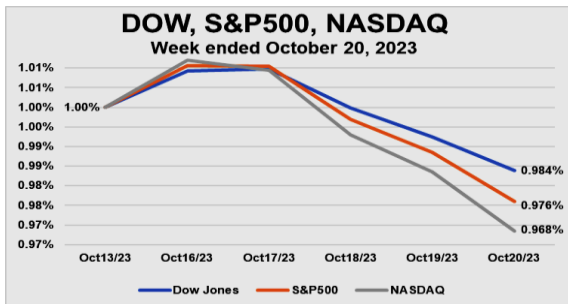
In my Special Report that was published here last week, I took a quick look at the Israeli/Palestinian problem and noted it is a very complex issue. That is why are now 75 years into it and there is still no resolution. I cannot claim to have expertise on the matter and I cannot explain the situation in a few paragraphs. What I can say is there is enough blame to go around and no one is completely clean on the issue. However, Israel has international law and the United Nations on its side. The right and the wrong of it hasn't been settled in three quarters of a century and it's not going to be solved here. But I hope my summary will have given you a more balanced review than many other reports that seem to start with the objective of supporting one side or the other.

Here are some events reported out of the region last week. Israeli aircraft: struck targets across Gaza in preparation for a ground attack, airports in Syria, a mosque allegedly used by militants in West Bank, exchanged fire with Hezbollah militants and accidentally fired on an Egyptian post near the

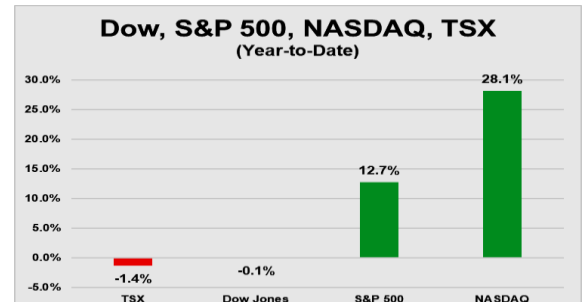
border with Gaza. A few minor injuries were reported by the Egyptians and Israel expressed regret for the incident. Iran continues to be accused of playing a major role in training and arming Hamas.

My sense of it is that the Israel/Hamas situation is being underestimated for the risks it presents. Yes, Federal Reserve Board Chairman Jerome Powell's words are still important and his somewhat hawkish commentary last week had an influence on the markets. But moving forward, I expect the situation in the Middle East threatens to worsen.

**The chart below left reflects my observations of the markets last week.** The markets were up early in the week but finished lower from the middle of the week forward. The chart below right shows

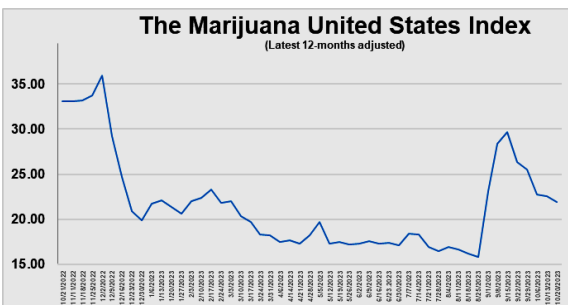


the Toronto Stock Exchange and the Dow Jones turned negative for the year-to-date. The NASDAQ and S&P 500 remain well in positive ter-

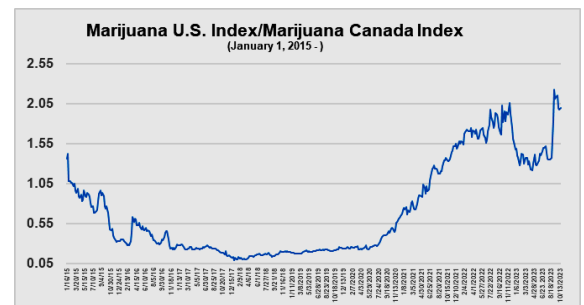


rity due to the positive impact of the Artificial Intelligence sector. What looked like a year to favor stock market investors, needs a strong finish to the year to be a positive year.

**The Marijuana United States Index continues to drift lower as there has been no word on when the SAFER Banking Act will reach the senate floor.** The lack of activity is understandable in a way.

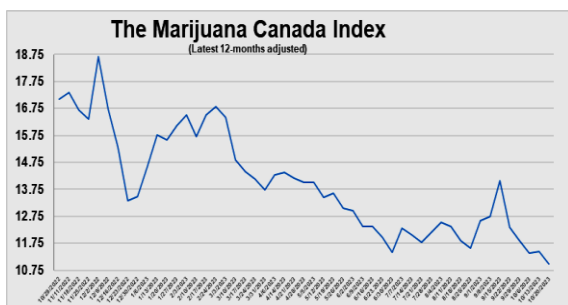


The conflict with Israel and Hamas has certainly drained some of the interest from domestic affairs. But it also raises questions as to



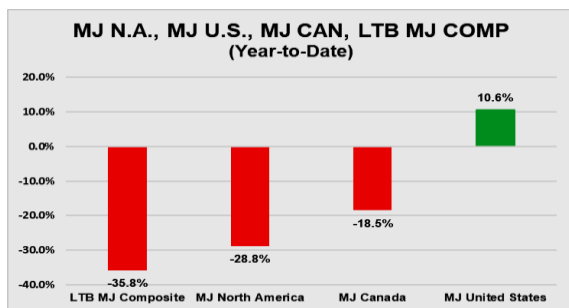
whether SAFER Banking has the 60 votes it needs to pass in the senate. Typically, organizers like to ensure bills will pass when they reach the senate and house for a formal vote. There may be discussion, but the outcome of the vote has normally been predetermined. Hopefully, a date will be announced soon.

**October 17, 2023 was the official 5<sup>th</sup> Anniversary of legalization in Canada but it certainly didn't excite investors as the MJ Canada Index fell -4.0% while the LTB Marijuana Composite**

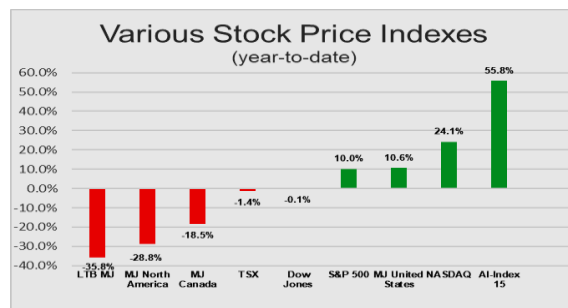


theme that five years after legalization, the industry is having problems. Some of the issues mentioned or that I would point out include too many cannabis retailers, too much government regulation, too many illegal operators, still paying for past excesses and lack of profitability in the industry. While these observations are accurate, the Canadian industry is also nearing economic equilibrium, that is, a balance between supply and demand in the market.

The chart below left shows the year-to-date (y-t-d) returns for the cannabis indexes. With the Canadian indexes back to the levels that prevailed in late August when the recent cannabis rally began,



it is no surprise to see these results. Given my expectation for further short-term progress on the U.S.



legislative front, I think the U.S. sector can be expected to outperform the Canadian group for the foreseeable future.

**Conclusion:** A couple of the stocks on my recommended list slumped last week and I consider them buying opportunities. **Predictmedix AI (CSE: PMED) (USOTC: PMEDF) (FRA: 3QP)** closed the week down -29.4%. This was odd timing that may be directly related to the diplomatic issues between Canada and India. The timing was unexpected because management has just returned from a three week trip to India and I anticipate a flow of good news in the next week or two. At \$0.06 per share, I consider the stock a screaming buy. **1933 Industries (CSX: TGIF) (USOTC: TGIFF)** that was down -25.0% to a market cap below \$5 million. If you can get this stock anywhere near the current price, I would do it. At the other end of the scale was **Lexaria Bioscience (NASDAQ: LEXX)** that gained +28.3% last week perhaps because of a story pointing out the links between LEXX and Jazz Pharma leading to a question of whether we could see a commercial agreement using DehydraTECH™ and Epidiolex®. **Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF)** is set to benefit from passage of SAFER Banking while **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** is my pick for exposure to the Canadian cannabis sector. I spoke with Alvaro Torres, CEO of **Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC)** and report what I found out below.

### 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](mailto:ltbletter@gmail.com) Include your initials or a pen name we can use along with your city and country of residence. Questions might 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.

***“I probably receive more questions about Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC) so I won’t attribute a question to a specific reader. But I did speak with Alvaro Torres last week for a full update.”***

Whenever I review my recent discussions with Alvaro Torres, almost all of their problems can be traced back to money. For the past year, KHRN has been trying to survive and that has not changed. But the impact of a shortage of cash is cumulative so the impact becomes more difficult to handle.

The audit illustrates the effect of a capital shortage most clearly. The audit has progressed despite the inability to maintain or hire internal accounting people but obviously it has taken more time. They are at the point where the results can be finalized but the auditor requires a payment before they will proceed. They required an independent firm in Germany that did the required impairment analysis and they also require a payment. There is nothing unusual in this process as it is normal practice in the auditing business when the client is unable to pay. KHRN is expecting a payment from the government that will provide the funds needed to complete the audit. The bottom line is the audit is closer but not there yet and money is a major reason that is holding up completing the audit at this time.

As with many changes involving governments around the world, the improvements in Colombia’s national health plan are also taking much longer than expected to put into practice. Under the existing system, the health insurers result in delaying the payment flow for four to as much as six months which means the health care service providers experience a long delay between the time the service is provided to the patients and the payment for those services and prescriptions is received. In the past four months, for example, KHRN has only been reimbursed for 30% of total billings. In KHRN’s case, they have been forced to reduce some of the services they are offering because they have to fund the services and prescriptions they provide and wait up to six months to get fully paid.

The government has passed legislation that will result in payments bypassing the health insurance companies and going directly to the government that will significantly reduce the delay in payments. Torres is staying in very close contact with government officials and thus KHRN is aware that the government is committed to this approach. But what is good for the clinics is a negative for the health insurance companies so there is political resistance to the changes. At the present time, it looks like there will be no change in the payment flow in 2024. This means KHRN has to find a way to survive for longer.

Part of that survival strategy is to convince KHRN creditors that the alternative to making an agreement with KHRN is better than nothing. KHRN has been able to convince larger creditors to accept a very small payment today while agreeing to recognize they will get a five to ten year note for the balance. These are difficult conversations to have but this is part of the survival strategy.

On the positive side, the government has approved establishing a \$6 billion fund that will act as a healthcare “bank.” This might provide some relief to the clinics. KHRN is also trying to sell its building that will provide over \$1 million of free cash. Of course, problems also create opportunities. KHRN and their Zerenia branded clinics are not the only ones suffering under these conditions. Other medical service providers are getting out of the business or thinking of getting out of this part of the business. They are currently in discussions with an insurance company to have Khiron/Zerenia take over their patients. There are also patients that won’t have anywhere to go if their current provider gets out of the business. KHRN is taking the approach that if they can sign up patients now, when the legislation changes, they will be in a strong position to move forward. The situation is very difficult but not hopeless.

This all puts pressure on the government because access to medical services is declining. The Zerenia clinics are full every day. There is a waiting list of 2,000 patients. There are 1,000 patients on the waiting list for some surgeries. As a result, the government is also highly motivated to have this situation resolved quickly as well.

Finally, KHRN is waiting for regulatory approval for the sale of European assets. Torres believes it will happen shortly and does not expect any surprises.

**Conclusion:** CEO Alvaro Torres continues to do everything in his power to see KHRN through this extremely difficult period. In fact, Torres provided personal guarantees to secure the more recent loans and I interpret this as an indication of his commitment to **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)**, its employees and its shareholders. At this point, it is difficult to say how the KHRN story will turn out but I know Torres will not stop trying. I am reminded of the parable of getting ready to have bacon and eggs for breakfast knowing that in preparing this meal, the chicken was involved but the pig is committed. As long as there is a chance, shareholders have a chance. It is Alvaro Torres' commitment, determination and effort that gives us that chance.

## The Cannabis Report Model Portfolio

The two largest holdings are **1933 Industries (CSX: TGIF)(USOTCQB: TGIFF)** and **Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** while **Lexaria Bioscience (NASDAQ: LEXX)** and **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)** remain prominent holdings. The two smallest positions are **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** and **Jushi Holdings Inc. (CSX: JUSH) (USOTCQX: JUSHF)**. Cash is around 17%.

## Special Report

### Problems in the Middle East are Having a Negative Impact on the Markets

I expect the conflict between Hamas and Israel will be a market driver in the weeks ahead and depending on the events that transpire, the economic risks are significant. From my reading, there are only two absolutes. First, the Israelis believe they have every right to their claim on the region and Hamas believes the Israelis have absolutely no claim to anything in the area.

After World War II, the State of Israel was created within the bounds of Palestine that generally encompassed the area known as the Promised Land or the Holy Land. On May 14, 1948, David Ben-Gurion, head of the Jewish Agency proclaimed the State of Israel and U.S. President Harry S. Truman recognized Israel the same day. On that day, it was a controversial situation. In 1945, U.S. President Franklin D. Roosevelt promised the United States would not intervene without consulting both the Arabs and the Jews in the region. Britain, that held a colonial mandate for Palestine until May 1948 were opposed to the creation of a Jewish State or an Arab State in Palestine as well as unlimited immigration of Jewish refugees to the area.

On May 11, 1949, the 58 member nations of the United Nations General Assembly passed a vote to admit Israel into the United Nations by a vote of 37 for, 12 against with 9 abstentions. Voting against were six of the seven members of the Arab League, namely, Iraq, Lebanon, Saudi Arabia, Syria and Yemen and Afghanistan, Burma, Ethiopia, India, Iran and Pakistan. The abstainers were Belgium, Brazil, Denmark, El Salvador, Greece, Siam, Sweden, Turkey and the United Kingdom. All other na-

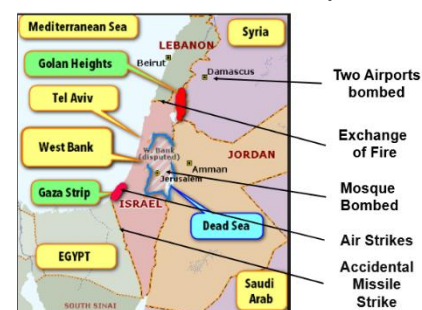


tions approved Israel's inclusion although Cuba and Venezuela have withdrawn recognition. Currently, 28 of the 193 members or 14.5% of the United Nations do not recognize Israel. Of the 28 member nations that do not recognize Israel, 15 are members of the Arab League and 10 are non-Arab members of the Organization of Islamic Cooperation. The Israeli/Palestinian conflict is now over 75 years long and not likely to be resolved anytime soon.

At the time a State of Israel was created and recognized by the United Nations, a State of Palestine was not created or recognized.

The risk is the U.N. members that do not recognize Israel control 66% of world oil reserves. If there is a concerted effort to weaponize oil and oil prices, it could be catastrophic. International economies are still fighting the inflation that resulted from the economic response to the COVID pandemic and large economies such as the United States are teetering on the verge of recession. A concerted increase in the price of oil could push inflation toward or beyond double digit levels and plunge the world into a recession/depression.

The map to the right should give you some idea of the events of last week. As can be seen, Saudi Arabia, Egypt, Lebanon, Syria and Jordan are close to Israel/Palestine. Saudi Arabia is separated from Israel by Jordan that administered West Bank from 1950 to 1988. Egypt and Israel have avoided conflict since signing a peace treaty in 1979 and subsequently establishing full diplomatic relations in 1980 and since then, Israel has an embassy in Cairo and Egypt has an embassy in Tel Aviv. Israel and Egypt have formed a strategic partnership in the region and each will be very careful to preserve their relationship through this conflict. Israel considers Lebanon to be an "enemy state." Hezbollah operates a political party and militant group in Lebanon and the U.S. and the West believes it is funded and trained by Iran and Syria. Syria does not recognize Israel that considers Syria to be a hostile state and a state of war has existed since 1948.



As I mentioned last week, this conflict has significant implications for world stability.

- It could become a second major ongoing world conflict along with Russia/Ukraine. This raises international tensions with the United States, Europe and the United Kingdom supporting Israel and China, Russia and India calling for peace talks mainly for humanitarian reasons but also suggesting a separate state for Palestinians.
- Although a terrorist attack with the indiscriminate killing and hostage taking of civilians cannot be condoned, the Palestinian position has support especially in the region but also throughout the rest of the world. At the same time, one cannot blame Israel for protecting the land it was granted by the United Nations. Clearly it is a complicated issue without a simple solution.
- There is a real threat that the Israel/Hamas conflict could spread into other regions in the Middle East. Hizballah, a militant, terrorist group supported by Iran based in Lebanon, is already reported as joining the conflict against Israel alleging Israeli munitions have struck Lebanon. Iran, one of Israel's main enemies, has said they would not "remain a spectator" if Israel invaded the Gaza Strip that has been under control of Hamas. U.S. Secretary of State Antony Blinken has visited Bahrain, Egypt, Jordan, Qatar, Saudi Arabia and the United Arab Emirates in re-

cent days. The threat of a growing conflict is real which could trigger an international war. While not likely, it is possible.

- If this conflict should spread throughout the Middle East, it could be disruptive for crude oil deliveries. For example, the map to the right shows the positioning of the Straits of Hormuz. The Strait is only 20 nautical miles wide at its narrowest point with Iran on its north and Oman on the opposite side. Its location means that almost all oil and gas from the Organization of Petroleum Exporting Countries (OPEC) flows through the straits. That is 17.2 million barrels per day or 17% of the world's oil exports and this is the only way much of this oil can connect to the open ocean. Bank of America, Citigroup and Goldman Sachs are companies that were forecasting US \$100 per barrel oil before the Hamas/Israel conflict.
- I would be the first to admit my lack of in-depth knowledge with regard to the history of the Middle East but I do understand more about inflation. If crude oil moves above US \$100 per barrel, then U.S. inflation will be back nearer double-digit levels. Such an eventuality would be bad for both the U.S. economy and stock markets.



**Conclusion:** My position on the war involving Israel and Hamas has not changed. This conflict must end before it spreads in the region. I do not believe the markets in North America fully recognize the risks created by this war for international economics. Until that changes, I believe the market is more at risk of declining.

## Cannabis Quickies

**Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP) continues to slip on the markets closing at \$0.06 per share, down -29.4% on the week.** The weakness was probably triggered by a report that Canada had recalled 41 diplomats from India. The diplomatic crisis was triggered by Prime Minister Justin Trudeau's allegation that the Indian government may have been involved in the slaying of Sikh separatist Hardeep Singh Nijjar in Surrey, just outside of Vancouver. Removal of 41 out of 62 diplomats will hurt operators developing or conducting business there.

In addition, PMED management has just returned from a three-week business development trip to India so I would expect news reports in the days ahead. So after a dry spell of over three weeks without any information from management, we are likely to see some news releases very soon and I think this will restore some interest in the shares.

**Conclusion:** In this market, small and microcap stocks have been very volatile. This creates opportunities for long-term investors to average down and short-term traders to buy and sell. The circle shows the sharp drop in **Predictmedix AI (CSX: PMED) (USOTC: PMEDF) (FRA: 3QP)**. The stock dropped from \$0.085 to \$0.06 for a decline of -29.4% on the week with 60% of the drop coming on Friday. Typically, these opportunities will arise because someone made a bad trade and there wasn't anyone to





take advantage of it. But the normally profitable trade will probably still be available on Monday morning. Maybe you should be there to make a gain from someone else's loss.

## Applications Watch

Health Canada issued one new license last week for an adjusted total number of licenses of 973. Last week, a new license was to 144622203 Canada of Quebec for micro-cultivation. 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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