



Let's Toke Business



March 1, 2024

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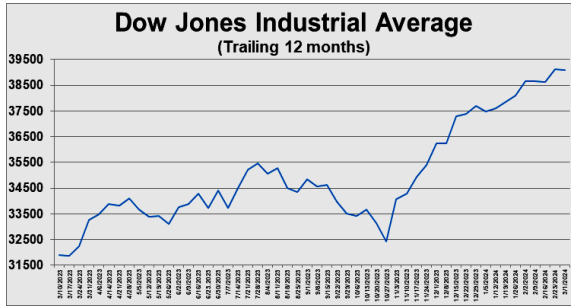
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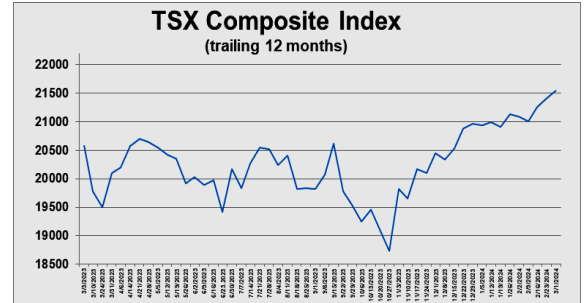
Stock Market Review & Outlook

LTB MARIJUANA INDEX: 1wk -1.3% 1 mo -3.8% 3 mo -10.0% 6 mo -17.2% 1 yr -44.7%

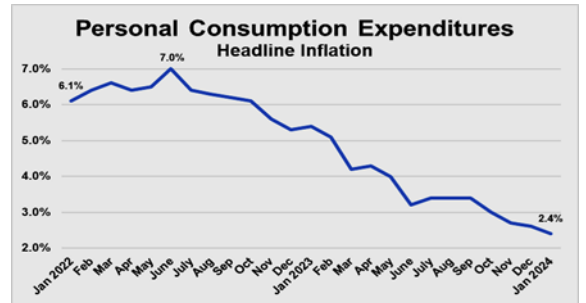
The large cap stocks moved generally higher last week with the Dow Jones Industrial Average being the only major index we follow to post a decline. The Dow was down just -0.1% last week.



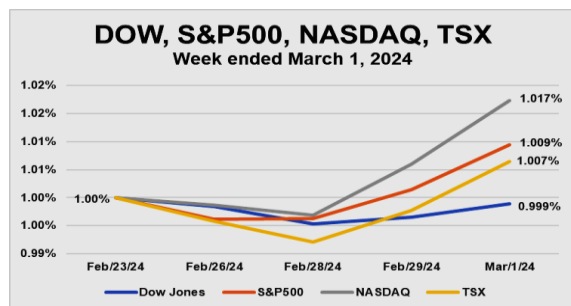
The Toronto Stock Exchange Composite gained +0.7%. The Federal Reserve's favourite measure of inflation, the Personal Consumption Expenditures Index



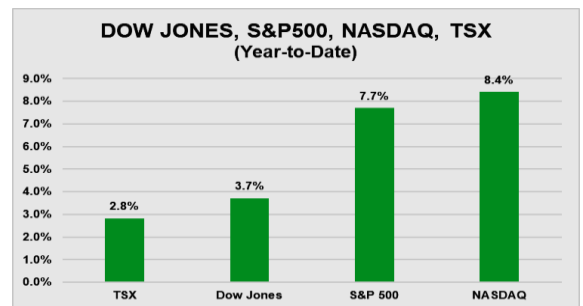
delivered a mildly positive message last week as the overall index fell -0.1% last month although the core inflation, excluding food and energy rose +0.1%, the same as the month before. But the decline in the headline rate of PCE inflation dropped for the first time since April 2020. This provided investors with enough optimism to move the markets higher on Friday. The tech stocks continued to set the pace as the Standard and Poor's 500 and the NASDAQ led the way higher. Overall, the Dow reached a record intraday high and reached a new closing high; The Standard and Poor's 500 broke over 5,100 but did not close there while the NASDAQs hit a new one year high.



The chart below left shows the large cap indexes remained tight and lower early in the week but positive news from the Personal Consumption Expenditures Index allowed most of the indexes to

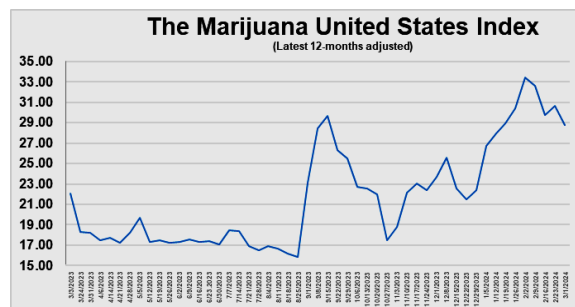


finish in positive territory. The chart below right shows stocks are off to a positive start in 2024. From a political point of view in this

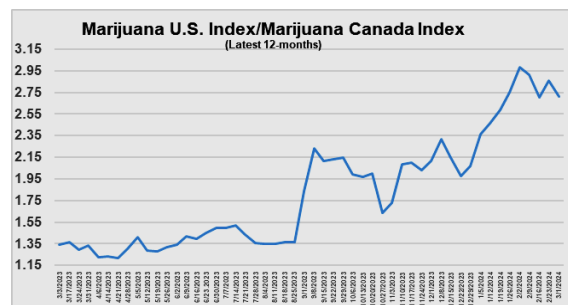


presidential election year, improving economic results including declining inflation and interest rates and higher stock prices augur well for President Biden. Weaker economic news such as declining economic results, rising inflation and interest rates together with declining stocks prices will be more pleasing for President Trump and the Republicans. The key will be the results after Labour Day.

The Cannabis Indexes turned lower again last week as the Marijuana United States Index lost -6.2%. In my view, the Drug Enforcement Administration (DEA) has been unfriendly toward cannabis

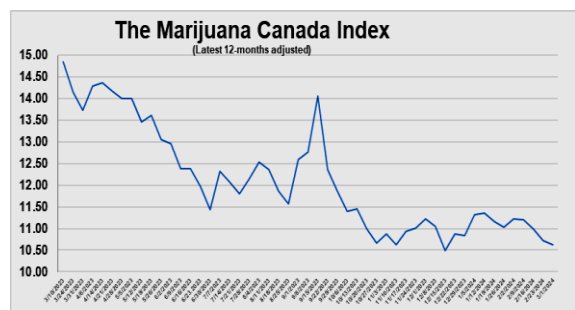


legalization and will continue to drag its feet on rescheduling. Looking at the recent history of cannabis regula-

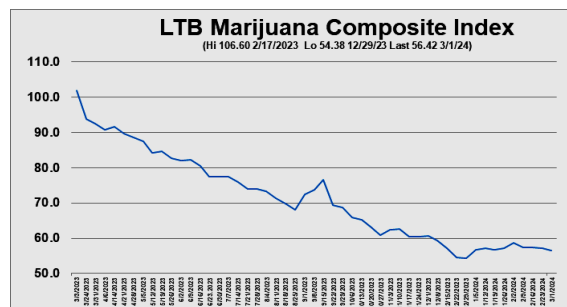


tion, on October 6, 2022, President Biden made a statement that requested, among other things, that the Secretary of Health and Human Resources (HHR) to "...initiate the administrative process to review expeditiously how marijuana is scheduled under federal law." On August 29, 2023 or 327 days later, Xavier Becerra, Secretary of HHR, recommended the DEA reschedule marijuana from Schedule I to Schedule III. If the DEA were to respond as quickly to HHR as quickly as HHR responded to the President, that would be 327 days from August 29, 2023 or July 31, 2024. If the DEA betters HHR, the approval could come in June or July. If it is later than HHR, it could be July or August. In my opinion, this would be considered a minor accomplishment after four years in office, two of which Democrats controlled the White House, the House of Representatives and the Senate.

The Canadian cannabis stocks continue to drift lower. Last week, the Marijuana Canada Index lost -1.0% while the Let's Toke Business Marijuana Composite Index was down -1.4%. There is a



glimmer of hope for the Canadian sector and that is the industry review that was laid out in the original Cannabis Act in October 2018. The members of the Committee reviewing



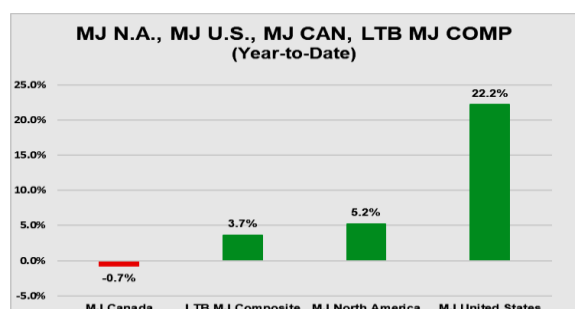
the Cannabis Act are:

- **Morris Rosenberg (Chair):** a lawyer with little expertise in cannabis.
- **Dr. Oyedele Ayonrinde:** a professor at Queens University with peer reviewed publications on the risks of gestational cannabis use, cannabis and psychosis and safety issues with cannabis-based medicines.
- **Dr. Patricia J. Conrod:** a registered clinical psychologist with expertise in addiction and cannabis.
- **Lynda L. Levesque:** a criminal lawyer of indigenous ancestry with expertise in indigenous justice.
- **Dr. Peter Selby:** an advisor on Mental Health and Addictions and the treatment of addictive behaviours and comorbidities.

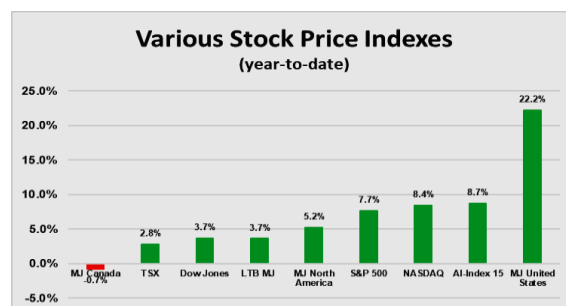
This committee is made up of two men and three women, an indigenous woman and three “professor/educators.” This is kind of a typical committee set up by the federal government these days: diversity, political connections and not a person with business and/or cannabis industry operating expertise.

On the positive side, Canada’s House of Commons Standing Committee on Finance so that the excise tax on cannabis is charged on wholesale prices rather than retail prices. A spokesperson for Organigram Holdings says this will provide licensed producers relief from the excise tax that can be 35% of revenue and undermines competitiveness and growth.

The charts below show that the positive start for the stock markets continue although the Marijuana Canada Index has slipped into negative territory. Nevertheless, it remains an excellent start for the



cannabis stocks that have not had a positive return in six years. As I said in recent weeks, it looks like the Artificial Intelligence stocks



will have another positive year although the overall return is likely to be lower. I look for the cannabis sector to have a strong year if the DEA responds with a favourable decision in the next few weeks or another poor year if the DEA delays and the Republicans win the White House.

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 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. Here is a question sent in this week.

Ted. Your favorites consistently are corporations with limited or no cash flows.

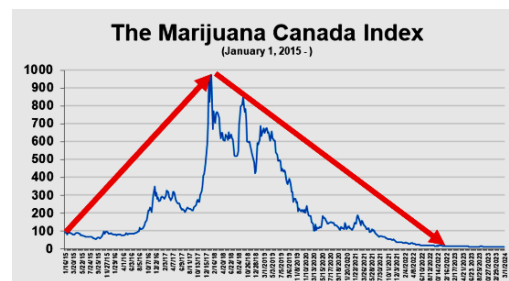
I would think I am not the only follower of your selections frustrated by almost continuous issues of shares at a discount with 3-5 year warrants. Ted can you defend my assertion that your selections are never backed by even a shade of a cash flow. and therefore been a rough ride to shareholders.

L. M., Whistler, Canada

Your statement is not exactly correct. Companies like **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** and **Jushi Holdings Inc. (CSX: JUSH) (USOTCQX: JUSHF)** do have sizeable revenue but even they have not hit positive cash flow on a sustained basis.

Over my many years in the investment business, the stock market has risen three years out of four on average. As a result, in my experience investing in small cap and microcap companies, the way to generate above average returns is:

- (1) Find a company with a strong business plan and the management to carry it out.
- (2) As the business plan is put into action and the company grows, every growth company requires capital to fund their growth. As the markets rise, growth is typically rewarded by a higher stock price that reduces the cost of financing of each subsequent money raise. Under such circumstances, fundings are not dilutive but just the opposite. As growth continues, the stock price rises and the business model is able to move forward by financing on the markets until positive cash flow and profitability is ultimately achieved.
- (3) In the cannabis industry, however, this growth model broke down because of the underlying cycle in the marijuana stocks. The cannabis stocks had a first five to six years when the pot stocks went up in price inspite of the poor quality of management and business plans. This was followed by five to six years during which marijuana stocks went down, with total disregard of the quality of management and their plans. In other words, the cannabis markets failed in their fundamental duty to efficiently allocate capital, that is, make capital less expensive to the quality operators and more expensive to the lower quality operators.
- (4) To my way of thinking, the company that suffered the most from this market anomaly was **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)**. This is a company that had a great business plan and a strong management team assembled and led by Alvaro Torres that could make the plan work. However, they started at about the peak in the cannabis stock market cycle and through most of their history operating success did not matter when it came to financing. Accomplishing each phase of their growth plan didn't matter. The stock went lower and required more dilution to keep up their operational growth despite a pattern of operating success. Today, after being forced to sell or shut down many parts of their operation for the lack of finances, KHRN is in survival mode and it is uncertain how that will turn out.
- (5) As a result, I did end up investing in companies that needed to fund their growth by raising capital in the markets. They found themselves trapped in a cycle in which the stock markets did not allocate capital efficiently. **1933 Industries (CSX: TGIF) (USOTCQB: TGIFF)** was one of the companies that recognized microcap companies may not be able to raise capital from the markets. Paul Rosen was parachuted in during the start of the pandemic and immediately began to cut costs, not like a surgeon but like a lumberjack. As a result, he was able to save TGIF and the company is now well positioned to prosper in the future. **Lexaria Bioscience (NASDAQ: LEXX)** took a different route. Again, in the midst of the pandemic, Chris Bunka foresaw their business



plan would require the support of small U.S. institutions. As a result, he moved to list on the NASDAQ exchange which allowed LEXX to attract investors that would commit to a business plan such as LEXX had put in place. Again, they fought the good fight and are now in the early stages of making a strong comeback in the markets to the benefit of their shareholders.

Conclusion: Certainly, I must admit the small and microcap companies I found were my favourites and they did suffer from a lack of funding. It was not part of my expectations for the cannabis stocks that they would decline for six years in succession. By the way, I think those negative background trends are changing so my growth investment model may improve moving ahead. When it does, the returns will be sizeable and, in my opinion, the wait will have been worthwhile.

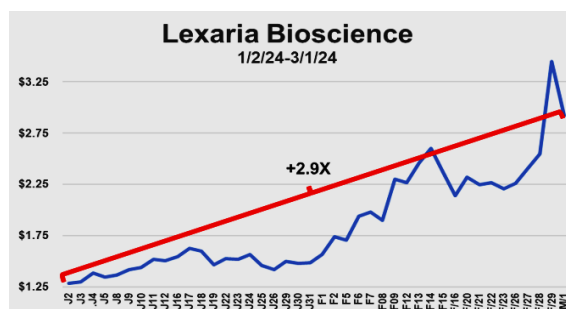
The Cannabis Report Model Portfolio

Another positive week for the model portfolio which advanced 10% or more for the second week in succession. The two largest holdings are **Lexaria Bioscience (NASDAQ: LEXX)** and **1933 Industries (CSX: TGIF)(USOTCQB: TGIFF)** while **Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** and **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)** remain prominent holdings. The two representative positions are **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** and **Jushi Holdings Inc. (CSX: JUSH) (USOTCQX: JUSHF)**. Cash is around 17%.

Special Report

Where does Lexaria go from here?

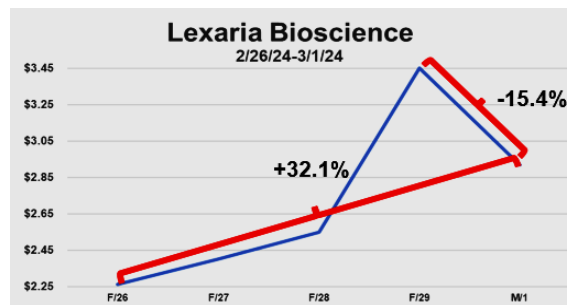
It was an exciting week for my favourite stock, **Lexaria Bioscience (NASDAQ: LEXX)**. Before I explain why I don't think the correction is justified, let's look at some of the lead up to what happened on Friday. The first chart shows LEXX's stock performance so far in 2024. You will see LEXX has been close to a three-bagger year-to-date. This is an outstanding performance even with a backdrop of rising stock prices generally. The uptrend has encountered very few, short term price "corrections," which made me refer to LEXX as being under accumulation.



Here's what apparently happened on Friday, March 1, 2024. I have spoken at length here about the stock market adage, "Buy on mystery, sell on history." This means to realize above average investment returns you should invest in companies before all the good news is out because stock prices tend to advance on the unknown potential of what might happen. In other words, there is still some mystery about the outcome. It seems many investors were buying LEXX on the potential for the U.S. Food and Drug Administration (FDA) approval of LEXX's Investigational New Drug (IND) application. That was certainly a large part of my optimism for the company.

When the FDA gave the go-ahead for LEXX's IND application, the approval became history and those investors sold some or all of their stock. This caused the selloff in LEXX that can be seen on the chart below. Sell on history was on my mind as well. When so many people expect something to happen that their collective actions make it happen, it is called a self-fulfilling prophesy.

This chart shows the LEXX performance last week and clearly there is something unique happening with the stock. First, the initial "sell on history" correction was -15.4% which strikes me as relatively small. Second, even after the "sell on history" reaction, LEXX was still up +32.1% on the week! Finally, if we look at fundamental value, Yahoo Finance lists LEXX's market cap as \$35.6 million which I think is still greatly undervalued for a company that has an FDA confirmed Phase 1b hypertension clinical trial HYPER-H23-1 utilizing DehydraTECH-CBD. Assuming the next few studies are successful, and I have no reason to doubt that it will be, the work that LEXX does on its IND application will add significant additional value to LEXX's market cap. For most companies that is the story that drives investors at this stage.



However, that is not the situation with LEXX. There is something that many investors are overlooking that could be bigger than the just approved hypertension study. Formally, we can refer to it as a program to thoroughly evaluate DehydraTECH™ for the improved delivery of Glucagon-like peptide 1 (GLP-1) drugs, designed to support prospective commercial partnering with the global pharmaceutical companies. This is the diabetes/obesity sector that is one of the hottest segments in the U.S. pharmaceutical space right now.

Here are a couple of issues to consider:

- I think with the FDA approval of the IND application, LEXX has been carried forward into a new market cap range above where the company has been trading for the past few years. I would not expect to see LEXX trading at below a \$30 million market cap and perhaps much higher.
- On January 22, 2024, Zacks Small Cap Research published a report dated January 22, 2024 and titled "LEXX' Sweet Opportunity in GLP-1s." In other words, Zacks was thinking past hypertension in late January while still recognizing the potential value of the hypertension market. However, Zacks was already looking at LEXX as a diabetes/obesity play. On this basis, they arrived at a \$10.00 per share valuation based on a Discounted Cash Flow model. This is an implied market cap of US \$100 million. When you see numbers like this, you can see why I don't think the LEXX play is over, in fact it may be just getting started.
- I expect news flow on the hypertension project will become drawn out as development progresses. This will be especially true if LEXX takes on a larger partner at some stage to carry this project to conclusion. That is why the participation of some smaller, American institutional

investors is so important. They understand this process. Canadian retail investors might get too impatient.

- Here is an example of a weight loss company, Viking Therapeutics (NASDAQ: VKTX). Last week, VKTX reported Phase II clinical trial results on an experimental weight-loss drug. Before the news, VKTX was an approximately US \$3.9 billion market cap company that soared to about a US \$10.0 billion market cap before settling back to an US \$8.6 billion market cap level. This essentially all happened last week. I use this example to make the point that LEXX at a US \$100 million market cap is not some wild flight of fancy. It is very possible. Second, the weight-loss market is hot as a pistol right now. Vivani Medical (NASDAQ: VANI) is another weight loss company that was approximately at a US \$50 million market cap on February 26, 2024 that is currently in a US \$150 million market cap range today. LEXX has entered this market and has laid out aggressive growth plans for 2024.
- Unlike many other companies that get started on the FDA process and have nothing else to fall back on, LEXX has a diabetes/obesity project already underway. Although the news flow from the hypertension project might get drawn out, the GLP-1 (diabetes/obesity) project will fill in to keep the pot boiling. U.S. smaller institutions understand these market dynamics and will provide a less volatile growth path to much higher market caps for LEXX in my view.



Cannabis Recommendations

Lexaria Bioscience (NASDAQ: LEXX): LEXX has become a company with a hypertension study with FDA approval, an aggressive growth project in the diabetes/obesity sector, a completed financing and a budget and business plan that is attractive to U.S. smaller institutional investors because it is trading at a highly undervalued US \$35 million market cap. Although the stock may back and fill near current levels for a few days, I'm thinking it won't drop far before it makes a renewed rally to significantly higher levels.

1933 Industries (CSX: TGIF) (USOTC: TGIFF): is a Nevada-based cannabis company focussed on the cultivation and manufacturing of a large portfolio of cannabis consumer-packaged goods in a variety of formats for both the wholesale and retail markets. Having followed TGIF through an emergency rescue program starting in 2020, it is gratifying to see the company very close to a self-sustaining point. TGIF is scheduled to report on April 1, 2024 and I expect these results to further solidify the company's increasing positive financial position. If cannabis is rescheduled in the United States, a company like TGIF will suddenly become a more attractive asset to industry buyers as well as stock market investors. On the market, there has been a battle between buyers and sellers in the \$0.01 to \$0.02 per share range. Lately, however, my reading is the buyers are getting the upper hand. As a result, I can see the potential for a breakout to the upside sooner rather than later.

Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP) has settled into the \$0.06 per share range which I think is appropriate. From here, I would be a buyer if the stock slipped into the \$0.03 to \$0.04 range. I still await news from the major Indian and Indonesian market sectors where PMED has invested considerable time and money and substantial revenue and cashflow has been indicated. Without such news that is needed to confirm that management really had high expectations for these markets, I would not be a buyer. It is the same position I took when LEXX had a delay in submitting their IND application. I waited and when the news came, LEXX soared higher. That potential still exists with PMED but at this point it is up to management to deliver on its promises.

Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF): is a vertically integrated cannabis company, a multistate operator (MSO) with a strong management team schooled in Investment Banking. As a result, JUSH's growth strategy includes "...opportunistic acquisitions, distressed workouts, and competitive applications." I am concerned that the U.S. operators are overly optimistic about rescheduling of marijuana and there may be some disappointment ahead. But I am more than comfortable having a representative U.S. operator in my portfolio and JUSH is my choice. JUSH has outperformed as the U.S. sector has again shown strength on the expectation of rescheduling of marijuana. But based on my outlook for rescheduling as explained above, I am keeping an extra close eye on the stock.

Organigram Holdings (NASDAQ: OGI) (TSX: OGI): is a Canadian Licensed Producer of cannabis for medical and recreational consumers with an excellent portfolio of adult use products. OGI has a partnership with British American Tobacco (BAT) that is currently in the process of increasing its ownership through a \$124.6 million equity investment. A substantial share of this cash will be used to expand OGI's international footprint. The Canadian cannabis market is coming into supply/demand balance and with BAT's support, OGI will be adding to its international presence. OGI also stands to benefit from a review of the Cannabis Act that is now underway.

Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC): has been halted since May 8, 2023. I have been in touch with CEO Alvaro Torres regularly, most recently in February 2024 and I reported KHRN remains in survival mode. The government in Colombia is attempting to nationalize the health insurance business and in this attempt, companies like KHRN are becoming collateral damage. Companies like KHRN are in an ever tightening spot and all that they can do is try to hang on until the government is finished. Torres is professionally and personally committed to keep KHRN going as long as it can.

Applications Watch

Health Canada issued three new licenses last week bringing the adjusted total number of licenses to 981. Last week, new licenses were issued to Ferme Mellow Hill of Quebec for micro-cultivation, 2518505 Alberta for micro-cultivation and micro-processing and to PARADISE VALLEY BOTANICS

of British Columbia 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](#))

(For a free copy of this newsletter or to have your name removed or to contact us with feedback, industry and corporate news, email ted@letstoke.biz)

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