



Let's Toke Business

The Commerce of Cannabis

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Ted Ohashi MBA, CFA

Week Ended November 17, 2023

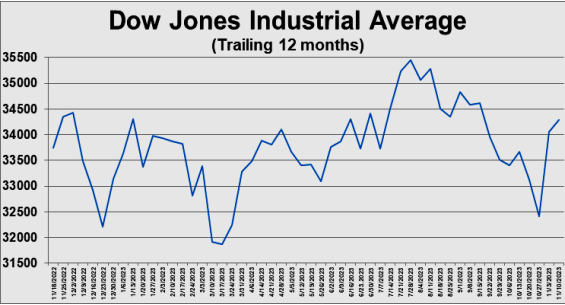
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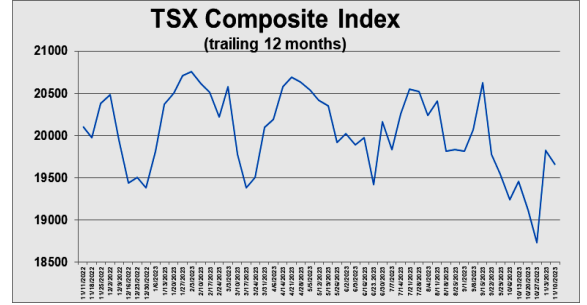
Stock Market Review & Outlook

LTB MARIJUANA INDEX: 1wk +0.5% 1 mo -4.0% 3 mo -14.4% 6 mo -25.5% 1 yr -49.2%

The blue chip indexes all posted gains for the second week in succession but it wasn't as good as it looks. The week started mildly higher as the markets digested Federal Reserve Chairman



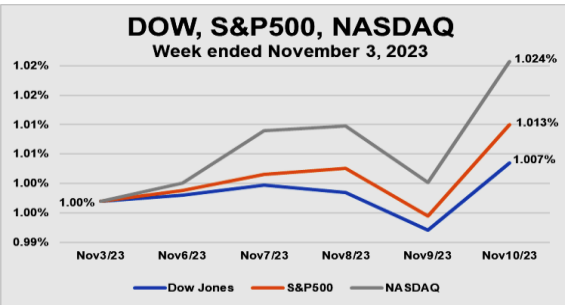
Jerome Powell's comments from the Federal Open Market Committee (FOMC) meeting the week before. A bump up in interest rates on



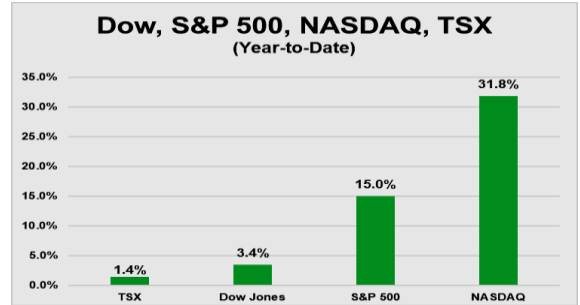
Thursday produced a correction in equities leaving only the NASDAQ up on the week. But a strong rally on Friday enabled the indexes to close higher for the week. The NASDAQ and S&P 500 led the way as the AI/tech stocks were strong.

Conclusion: It is rather remarkable how the indexes have managed to trade in fairly narrow bands almost all of the year and I expect that to continue. However as we are bouncing off the lower end of the trading ranges and moving into the two best months of the year for stocks, I think we can look forward to positive returns through the end of the year.

The chart below left shows the market action in the large cap stocks that I described above. The chart below right shows the performance of equities on a year-to-date basis. The AI/technology stocks



continue to dominate and impact favourably on the AI-technology-heavy NASDAQ and S&P 500 and less on the Dow and TSX. At this point, the



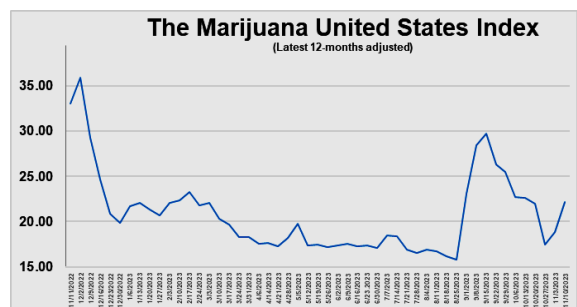
NASDAQ and S&P 500 are poised to put up excellent numbers for 2023. As I have said for many months, the Artificial Intelligence boom is a long-term trend that should continue to carry the technology stocks higher for many more years.

Looking ahead, the markets will likely stay flat as congress tries to find a way to fund the government before the deadline on Friday. At this point, there is a hardcore, ultra conservative group of eight Republicans who want to cut spending which the Democrats in the House, Senate and the Biden White House have declared as a non-starter. The Democrats are running the Republicans in circles on this

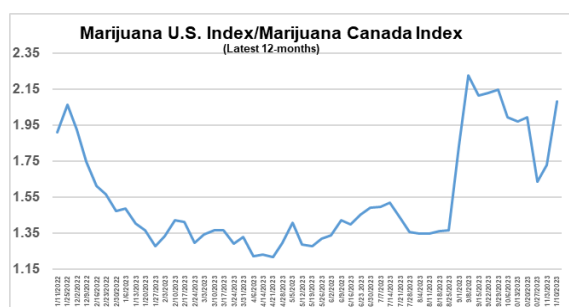
point. They forced Kevin McCarthy to run through 15 ballots to win the speakership. Then this group of ultraconservative Republicans ousted McCarthy with the help of Democrats which forced them to elect Mike Johnson, a virtual unknown with little experience handling a contentious and sensitive matter such as funding the government by Friday. If Johnson cannot put together a plan that will get majority approval in the House, the Democrats will gleefully help them oust Johnson and look for another candidate. All of this doesn't necessarily make the Democrats look good but it sure makes the Republicans look bad.

I usually don't pay much attention to these goings on as the "game" is to pretend there is no solution, tell the voters how hard they are willing to work to get a deal done, which always happens at the eleventh hour. But this time might be different and that will be bad news for the Republican chances in the 2024 election. Look for the markets to be nervous as the week goes along.

The U.S. marijuana sector had a strong week with the Marijuana United States Index gaining +17.6%. This were a couple of reasons that seemed to underlie this unexpectedly strong pop in these



stocks. First, we had the ATB Capital Markets Survey of institutional investors that revealed more optimism on the part of large investors

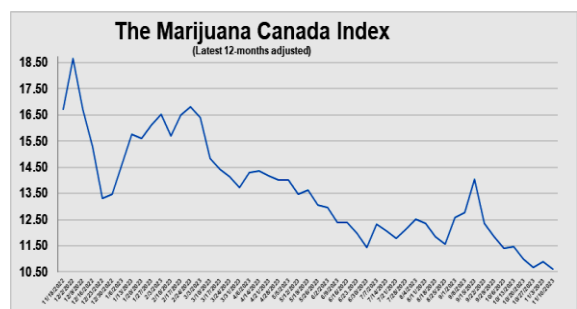


toward rescheduling marijuana from Schedule I to Schedule III leading to a more positive outlook for the cannabis group than six months ago. I think rescheduling has a better chance of happening than the passage of SAFER Banking because moving marijuana from Schedule I to III can be done by the Drug Enforcement Agency (DEA) whereas the SAFER Banking has to make it through the House assuming it passes the Senate.

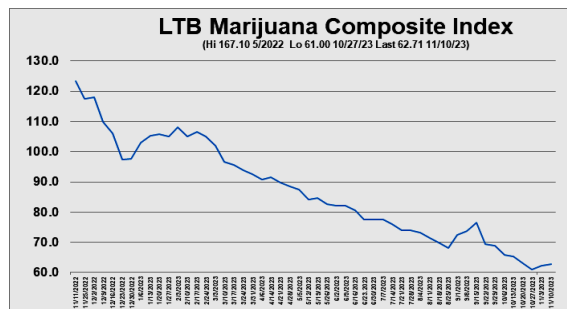
Second, the most recent Gallup Poll indicated 70% of Americans are in favour of legalizing marijuana. This is the highest positive vote since Gallup began to ask the question in 1969 – over 50 years ago. Majority support runs across all major demographic groups, across Republicans and Democrats and in states that have legalized or not. I think marijuana is clearly a substance whose time has come and to the extent that Republicans oppose it, they will be running against a strong tide of public opinion. See more below.

Finally, I think the strong double digit bounce in the U.S. cannabis sector is another indication these stocks are severely oversold and it won't take much to trigger a strong rally. As we saw at the end of August and into mid-September, things will move too quickly for investors to react after the news comes out. You must anticipate change and I think there is still the chance for rescheduling that should produce a major rally in the American cannabis group.

The Canadian cannabis stocks did not participate in the gains recorded in the U.S. as the Marijuana Canada Index declined -2.4% while the Let's Toke Business Marijuana Composite gained



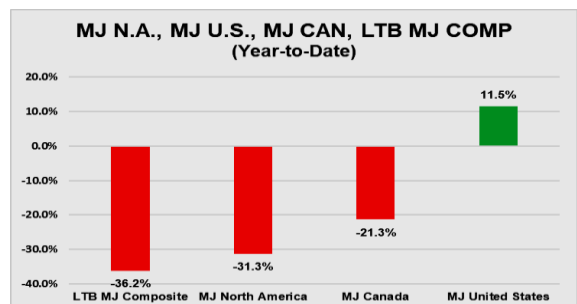
a fractional +0.5% on the week. There was the basis for some optimism in the Canadian sector as both Canopy Growth



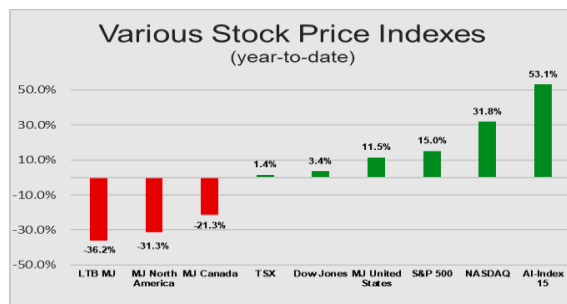
and Aurora Cannabis saw their shares edge higher following earnings reports. It's been a while since we've been able to say that. Aurora posted a 30% gain in year-over-year revenue growth and swung to a small positive EBITDA. Canopy also reported an increase in revenue but a -21% year-over-year decline in Canadian cannabis sales. In recent comments, I have pointed out in recent reports that fundamental supply and demand seem to be coming into equilibrium in Canada and these results are another indication this is happening.

I think the Canadian cannabis group is positioning itself for a positive 2024 based on improved industry fundamentals. Rather than anticipating an explosive move such as I am in the U.S. group, I think the cannabis group will be a more steady and orderly advance. We may also see some consolidation in the sector though mergers and acquisitions.

The chart below left shows the year-to-date (y-t-d) returns for the cannabis indexes and the strong move in the U.S. marijuana stocks vaulted that index back into positive territory y-t-d. Not only that, as



the chart to the right shows, the U.S. marijuana stocks leapt past the Dow Jones Industrials and the TSX Index on a y-t-d basis. Again,



we should take this as a reminder that sitting around waiting for news before you make your move is likely to yield poor returns. Although some traders are reducing their AI holdings, these have tended to be short term moves. I think the AI sector will continue to dominate for at least a year and perhaps many years ahead. Speaking of the short term, don't forget November and December are historically the two strongest months for share prices.

Conclusion: Lexaria Bioscience (NASDAQ: LEXX) has been performing exceptionally well since the rally that started in late August. Although we have heard nothing about the Investigational New Drug

(IND) application, as I explained above, you have to act before the news. With the way these stocks are moving, you have to be in when the news breaks and LEXX has a lot more going for it than just the IND application. **Predictmedix AI (CSE: PMED) (USOTC: PMEDF) (FRA: 3QP)** remains in the \$0.045 to \$0.05 per share trading range. I believe PMED's Intellectual Property is worth more than the \$6.7 million market cap the stock is valued at on the market. **1933 Industries (CSX: TGIF) (USOTC: TGIFF)** did not get a boost from last week's rally in the U.S. cannabis group. As a result, I think we might see a little positive market action in the weeks ahead. As our U.S. representative stock, it was great to see **Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF)** participate fully in the rally in the group last week posting a +23% gain on Friday. I think JUSH is a great stock to own in advance of the positive legislative changes we can see ahead. JUSH will have its earnings call on November 14, 2023. **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** had a strong week on the markets as British American Tobacco (BAT) upped its holding in OGI by \$124.6 million. About two-thirds of the money will be used to "grow its geographic footprint," that is, expand outside of Canada. I think OGI is probably the best Canadian cannabis stock to own at this point. **Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC)** that is in a difficult spot with CEO Alvaro Torres doing everything in his power to help KHRN survive the situation.

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.

"The recent financing by Lexaria Bioscience (NASDAQ: LEXX) Included pre-funded warrants. What are they? I thought warrants were something that investors didn't have to pay for until they are exercised."

D.M.

Let's start with describing a warrant. A warrant is a security that confers the right but not the obligation, normally to buy a security at a certain price before a certain date. The "certain price" is the exercise or strike price and the "certain date" is the expiration or expiry date. Warrants are most often issued as a "sweetener" to an offering, that is, a fractional or full warrant is attached to a security to make the offering more attractive. In the U.S. and Canada, warrants can usually be detached from the security they are issued with and sold at any time. In Europe, the standard practice is the warrant is only exercisable on the expiry date. Here are some factors to consider:

(a) Let's say you own 1,000 warrants that are detached and give you the right to buy 1,000 shares at \$1.00 per share when the share is trading at \$2.00 per share.

1. The investor can exercise the warrants by paying (1,000 warrants X \$1.00 =) \$1,000 and receive and hold the 1,000 shares acquired.
 2. The investor can sell (500 shares at \$2.00 per share =) \$1,000 and exercise the 1,000 warrants and retain the 1,000 shares plus the 500 you still own.
 3. Any combination of selling 0 to 1,000 shares of stock to exercise 0 to 1,000 warrants.
- (b) If the price of the underlying security is not above the exercise price of \$1.00 at or before expiration, the warrant can expire worthless. If the stock is trading at \$.50 per share, there is no sense exercising the warrant to buy shares at \$1.00 per share.

A pre-funded warrant, sometimes called penny warrants, is exactly the same as the warrant described above, except the exercise price is a nominal amount, say, \$.01 per share. An important advantage of pre-funded warrants to the issuer is the amount of upfront capital raised includes an amount as if all the warrants were exercised. If the warrants expire unexercised, the issue does not have to refund the upfront amount received.

An important advantage to the investor in the warrants is pre-funded warrants are virtually the same as owning the shares that would be acquired by exercising the warrants but the investor does not own the shares. Regulations can impose certain restrictions or requirements on a party that owns 10% or 20% of an issuer's stock. Using pre-funded warrants allows an investor to effectively own more than 10% or 20% of an issuing company without being subjected to such rules. For this reason a pre-funded warrant may have a longer period before expiration.

Pre-funded warrants can be complex, especially as it relates to anti-dilution provisions. This review has just touched on the highlights of the subject. If you are planning to be involved in a pre-funded warrant transaction, please seek independent professional advice.

Conclusion: I don't want to start any rumours so I will start with the declaration that I have not discussed the pre-funded warrants issued by LEXX with management. The ideas that follow are mine and mine alone.

Having said that, in some cases the use of a pre-funded warrant might indicate the investor already owns or plans to own 10% or 20% or more of the issuer's equity. For a few months I have been saying that LEXX's shares were showing signs of being under accumulation. If my observations were correct, and again I disavow any knowledge that some undisclosed activity is or is not taking place, the observation of accumulation would be a fit with a yet to be identified party accumulating LEXX shares and using pre-funded warrants in the process. In any case, LEXX is the largest holding in my Cannabis Report model portfolio. I think it should be a larger position in your portfolio too.



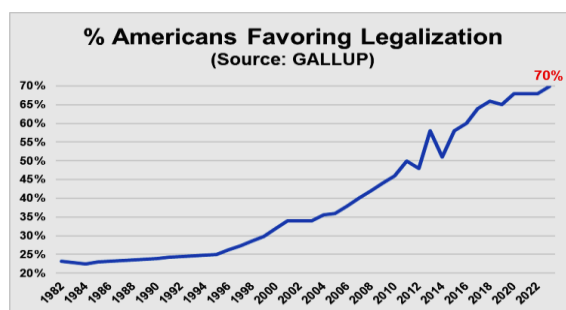
The Cannabis Report Model Portfolio: The two largest holdings are **Lexaria Bioscience (NASDAQ: LEXX)** and **1933 Industries (CSX: TGIF)(USOTCQB: TGIFF)** while **Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** and **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)** remain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

Special Report

Gallup says a record 70% of Americans think marijuana should be legal

According to Gallup, 70% of adult Americans favor legalization of marijuana, up from 68% in 2021 and 2022.

The poll was conducted October 2 – 23, 2023. This is a record high approval rating during the 54 years that Gallup started asking American preferences on this issue in 1969.



The specific question asked is “Do you think the use of marijuana should be legal, or not?” This means the 70% positive response applies to the proportion of adult Americans who favor total legalization and not just medical cannabis.

Here are some specific findings. Majority support for legalization of marijuana is found in all major subgroups including age, political party and ideology.

- (a) Younger Americans (age 18 to 34 years old) show the highest support at 79% while Americans 55 years old and older are 64% in favour. This suggests support will continue to grow over time.
- (b) By party, the breakdown is (Republicans 55%, Independents 70% and Democrats 87%).
- (c) Marijuana use is highest among self-identified liberals at 91% lowest among conservatives (52%).
- (d) There are no significant differences in support by gender (men 72% and women 68%), race (people of colour 72% and non-Hispanic white adults 69%) or education (no college 70%, some college 73%, college graduate only 66% and postgraduate 70%).
- (e) Regional differences are not statistically significant although there is slightly less support in the east than in the west and Midwest (East 64%, Midwest 75%, south 70%, west 72%).
- (f) There is no difference in support among residents of the 23 states and the District of Columbia where adult-use was already legal (70%) and residents of the 27 states that have not legalized adult-use marijuana (70%).
- (g) 17% of Americans say they use marijuana personally while 50% have ever tried it.

Conclusion: When there is such broadly popular support for the legalization of cannabis, politicians should sit up and take notice. It is not lost on me that we are now in the middle of November and Senate

Majority Leader Charles Schumer has not brought the SAFER Banking bill to the senate floor for a vote and his cohorts Cory Booker and Ron Wyden remain remarkably silent. This triumvirate spent the first three years of the Biden administration blocking SAFE Banking at the senate and perhaps they intend to do it for another year. But if you interpret the Gallup results as reflecting the views of the average American and the ATB Capital Markets Survey of larger institutional investors having a more positive outlook toward the cannabis group that revealed more optimism on the part of large investors, the one to two year outlook for cannabis stocks must be positive.

Despite all the distractions such as the wars in Ukraine and Gaza, it is inconceivable to me that Schumer, Booker and Wyden will be able to block pro-cannabis legislation for the entire four years of the Biden administration.

Marijuana Matters

I'll keep this brief. I continue to have grave concerns with respect to the conflict between Hamas and Israel. On October 7, 2023, Hamas attacked, murdered some 1,200 people and made hostages of approximately 240 innocent Israeli civilians watching an outdoor music concert. This is the worst violence against the Jews since the Holocaust, Israel has taken the position that this was the straw that broke the camel's back. It is Israel's current position that it will have sovereignty over Palestine from the Jordan River to the Mediterranean Sea which is in direct conflict of Hamas' position that it should have sovereignty over the same land, that is basically all of Israel as it now stands.

It is obvious the United States has sided with Israel in this conflict. What is not as well known in North America is that Iran funds and trains several terrorist groups in the region including Hamas in Gaza, Hezbollah in Lebanon and Hizballah in Syria to the north as well as many others. Iran has issued undefined threats against the U.S. and Israel if the U.S. does not enact a ceasefire between Israel and Hamas. As this has not happened and probably cannot happen unless Israel changes its tune, there is a threat that Iran will respond by having its various terrorist groups enter the fray. If this happens the conflict will spread beyond Israel's borders and it will threaten world economic stability including crude oil delivery from the Middle East to Europe and North America.

The thing to watch out for moving ahead, is the involvement of Iraq. I'm not telling you any great secrets but we in the west aren't very good at understanding international affairs and I am as guilty as anyone. Last week the leader of Hezbollah spoke for the first time and said they are ready to escalate the fighting if Israel continues to fight in Gaza. What I do know is the situation between Hamas and Israel is potentially explosive outside of a war and could cause severe economic problems particularly as we enter the winter the months with reduced oil and gas supplies from Russia in any event.

Applications Watch

Health Canada issued three new licenses last week for an adjusted total number of licenses of 983. Last week, new licenses were issued to 1204476 B.C. LTD. of British Columbia micro-cultivation and micro-processing, 9454-5878 Quebec Inc. for micro-cultivation and HG C&E INDUSTRIES LTD. of Alberta for micro-cultivation and micro-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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