Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Initiating Research Coverage

Vext Science, Inc.

(symbol: VEXTF)

(http://www.vapenmj.com/)

Report Date: 01/30/20

12- 24 month Price Target: $1.60

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 01/30/20): $.55

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Disclosure: Portions of this report are excerpted from Vext's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text. All prices in this report are in US Dollars.

<u>Company Overview</u>

Vext Science, Inc. ("VEXT") is a US-based Cannabis THC and Hemp cannabinoid products services company producing under contract for New Gen Holdings Inc. a wholly owned subsidiary of VEXT, THC cartridges, concentrates, edibles and accessories under the Vapen™ Brand, and Hemp based products under the Pure Touch Botanicals brand as well as the Vapen CBD brand. Based in Arizona, Vext Science, through New Gen Holdings has one of the leading THC concentrates, edibles, and distillate cartridge brands sold in the majority of the state's 100+ dispensaries. All products produced by New Gen are distributed statewide through Herbal Wellness Center (HWC), the entity that holds the Arizona license to sell and or distribute cannabis products in that State. HWC is one of Arizona's leading dispensaries while VEXT effectively manages the cultivation, extraction, edibles infusion and manufacturing processes which insures a product of the highest quality and purity. Product quality and purity are core to the Company's marketing strategy. Vext Science is executing its business growth by leveraging experience and expertise in extractions, product manufacturing, and marketing to expand in the U.S. and internationally through revenue and profit-sharing joint venture partnerships.

The Company was incorporated on December 11, 2015. Pursuant to a long form prospectus filed with and receipted by the British Columbia Securities Commission on May 3, 2019, the Company became a reporting issuer in Canada. On May 13, 2019, the Company was listed for trading on the CSE. On July 12, 2019, the Company's shares opened for quotation on the OTCQX® Best Market, under the symbol "VAPNF". On November 12, 2019, the Company changed its name to Vext Science, Inc. The Company's trading symbols concurrently changed to VEXT on the CSE and VEXTF on the OTCQX.

Prior to filing a long form prospectus and on December 31, 2018, the Company concluded a share exchange agreement where it agreed to acquire all of the issued and outstanding shares of New Gen Holdings Inc. (New Gen) in exchange for certain shares of the Company. New Gen was incorporated in the State of Nevada on July 8, 2014 and continued to the State of Nevada on December 28, 2016 New Gen has seven wholly-owned subsidiaries, of which five are currently operational, for the purpose of providing exclusive operating services to Herbal Wellness Centers Inc. (HWC), a non-profit company that holds licenses to cultivate, extract, and dispense connoisseur-grade cannabis brands and cannabis-related products in Arizona, thereby facilitating its business plan. New Gen manages the activities of its operating subsidiaries and has done so since incorporation.

The Company's mission is to leverage the expertise it has obtained through years of experience and commitment to quality and through that seek out licensed cannabis cultivators and to facilitate a "win-win" environment where the Company can enter new markets and efficiently provide the highest quality products to these new markets and relationally leverage the existing relationships present in those markets that have been established by the Company's selected partners. The overall strategic plan minimizes the cost of entry to new markets, significantly reduces the risk of entry and provides a quantified and recalculable return on investment into these markets.

The Company has expended approximately $6mm to enter 9 new markets that will see the business grow from $26mm in revenue in fiscal 2019 to over $70mm in revenues in 2020. EBITDA will remain consistent at approximately 25% of reported income. This makes VEXT a remarkable story, given the unsavory results of many large competitors who have failed to generate profits and rely wholly on external capital infusion for survival.

The Company will generate multiple revenues streams from enabling licensed cannabis operators to take advantage of their licenses. Cultivation of cannabis crops to enhance both crop quality and yields is accomplished through internally developed expertise and the use of clean technology and tools. Extraction techniques with technologies and packaging and manufacturing for retail and wholesale distribution will continue to comprise the services offered by New Gen. Also, New Gen may license brands that it develops to various license holders worldwide.

The Company achieved profitability in each of the past four fiscal years (2016 thru 2019). We believe it will continue to operate profitably based upon the expansion plan it has carefully crafted around its strategic JV model. Going forward revenues will be generated both in the initial State of Arizona but also by way of the JV agreements in Ohio, Oklahoma, Massachusetts, Nevada, California, Arkansas, Kentucky, Hawaii and Jamaica

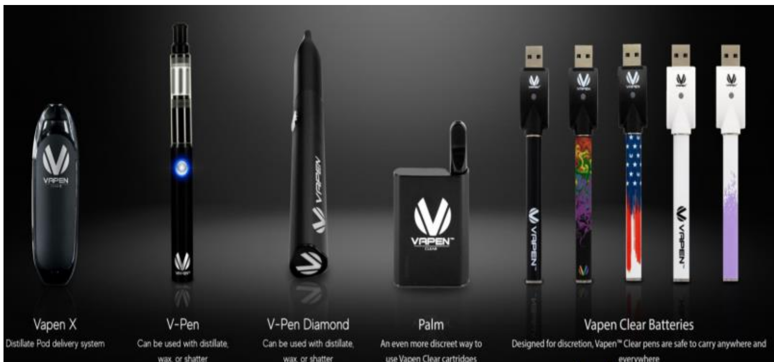
To date, all their business has been generated within the state of Arizona despite the state being a medical use only jurisdiction. Arizona voters rejected the legalization of recreational marijuana in 2016, but they will likely have new initiatives on the 2020 ballot that look like they could pass. Given the Company's considerable presence in the state (which we will elaborate on further in this report), we would view the passage of recreational use in Arizona as a marked catalyst for VEXT.

Lastly, as noted above, the Company's THC brand is called Vapen™. We believe the negative press surrounding "vaping", and that connection to the Company's brand has had a considerably negative impact on the stock. While we will address that issue below, we believe the street's reaction has created an opportunity in the shares as investors have perhaps interpreted that connection far more negatively, than the brand's customers.

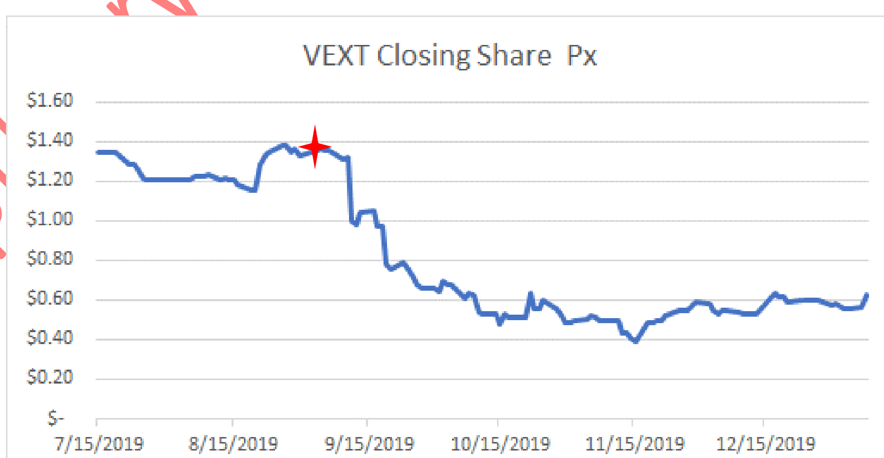
Product/Services Overview

Through several wholly and partially owned entities, VEXT provides a variety of services in the cannabis space, and those services include the provisioning of expertise and oversight in the cultivation, processing and branding of both hemp and marijuana. It also includes two brands which the Company owns and markets and those brands include a variety of sku's containing CBD and/or THC derivatives. Moreover, while the Company has until the end of 2019, operated exclusively in the state of Arizona, it has developed several ventures that will broaden its geographic footprint to include a number of other states. These ventures include VEXT providing various inputs and combinations therein to portions of the cannabis supply chain. We will attempt to delineate some of that below. They expect most of these new opportunities to contribute markedly to their 2020 results and they believe collectively, these new additions represent the basis for considerable growth in the business going forward.

Before we look at some of the emerging initiatives, it may make some sense to provide some color with respect what we see as VEXT's product and services strength(s) and by extension, it's (broad) product base. While it may or may not be apparent from the legacy Arizona operations, it seems to us that one of VEXT's strengths is its processing expertise including its abilities in terms of packaging and providing a variety of delivery methods (flower, shatter/wax, edibles, vapes, inhalers, topical and others). That expertise has formed the basis for a broad product line that includes both THC and CBD offerings, which we think has created marked value for their Vapen brand. Following are some of the Company's illustrations showcasing that product line:



To revisit an issue we noted above, Arizona's medical marijuana space represents the Company's "flagship" market. They have operated there for a number of years now, and they have established the Vapen brand throughout the State. They believe the brand carries marked value and customer loyalty throughout that market and they believe they can ultimately advance the brand in other markets they intend to enter. Clearly, as the illustrations above suggest, the Vapen product line is comprehensive, which frankly is the result of considerable development and the tribal knowledge required to achieve that breadth. With that said, we think this may be a good spot to address what we believe has created a bit of a headwind for VEXT's shares over the past few months but remains quite topical to their brand strategy:



(Data from www.yahoo.com)

The red star above denotes the point in time when the entire cannabis market was impacted by continuing diminishing financial performance of the sector and when funding provided to many of the large players began to dry up. The Company had only recently been listed for trading on the Canadian Securities Exchange and was, at that time, only recently approved for DTC eligibility. This period of time also coincided with several vaping related illnesses and deaths associated with nicotine based "over the counter" vape protocols, which caused some negative spillover/reaction in the cannabis vaping sector as well. While we would argue that VEXT was in a much better financial position than many industry players in terms of ongoing capital needs to fund burn rates for instance, the industrywide correction combined with the vaping issues create a "perfect storm" for VEXT shares.

That said, the Company believes the negative impact of their Vapen name was largely isolated to the investor side of the story. Put another way, they do not believe it has impacted the value or perception of the brand *by and among their Arizona customers* and/or by extension their Vapen brand sales. In our view, the fact that many of their joint venture partnerships are built in part around the Vapen brand (and continue to advance towards commercialization) underscores that point. They continue to develop and promote the Vapen brand in Arizona as well as in other states they are poised to enter. If that view proves accurate (a notion we should be able to assess via coming quarterly product sales results) then it may follow that the stock's compression in the midst of the vaping issues may be overdone and that notion is a part of our bullish thesis regarding VEXT.

SERVICES AND PRODUCT MARKETS

As noted, the Company has made several announcements over the past few months indicating their plans to enter additional geographic markets. Those new markets include various iterations and ventures that we will briefly review below. We are advised by management that all of the following markets are now contracted with the Company and the Company has sufficient capital resources to commence operations throughout 2020.

As a guide to that narrative, the following table provides a visual of the expected endeavors:

State /Venture	Cultivation	Processing and/or Wholesale	Retail Products (Vapen Branding)	(THC) Marijuana	(CBD) Cannabinoids	New Venture Disclosure Date	VEXT Ownership
Arizona	X	X	X	X	X		100%
** New Ventures **							
Vapen-Kentucky LLC (Emerald Point)		X			X	6/5/2019	50%
Arkansas		X			X		50%
Hawaii (Archipelago Ventures)					X	8/7/2019	~ 8%
Nevada - Pegasus			X	X		6/24/2019	33%
Oklahoma - Texoma		X	X	X		10/29/2019	60%
California		X	X	X			50%
Ohio		X	X	X			37.5%
Massachusetts		X	X	X			50%

- **Arizona**

The Company's operations in Arizona represent their legacy (core) business. The Arizona operation is a "seed-to-sale" enterprise, but like most U.S. based cannabis related businesses, its function and form is dictated by state/local laws regarding the cultivation, processing and distribution of cannabis related products. In that regard, again like most states, Arizona has its own unique approach to the distribution of marijuana within the state, which for now is limited to the "medical" use of the products and associated derivatives. Further, Arizona requires that businesses engaged in the cultivation, processing and distribution of marijuana based products be owned by "non-profit" entities.

In Arizona, VEXT has an exclusive business relationship with a non-profit entity called Herbal Wellness Centers Inc. (HWC). In essence, while HWC holds licenses to cultivate, extract, and dispense cannabis-related products in Arizona, VEXT provides virtually all of the related business processes, operations and apparatus associated with the ultimate sale of cannabis products. New Gen Holdings Inc., Vext's wholly-owned operating subsidiary is a service provider to HWC. VEXT charges HWC a variety of fees for the provisioning of these services, and those fees are broken down into particular categories depending on their function. Briefly, those fees/services are as follows, they currently represent the entirely of VEXT's revenue line items and they are largely self-explanatory:

Management Fees - As the attached model reflects, these are flat fees VEXT charges to HWC each quarter.

Professional Fees - Professional Fees represent billings to HWC largely for the personnel required to cultivate, process and distribute products through established wholesale channels as well as through HWC dispensaries. These amounts are generally driven by the levels of personnel required to execute the various portions of the seed-to-sale operations.

Product Sales – These are ultimately driven by sell through of product via wholesale and HWC retail dispensaries. Recognize, this line item may not always tell us everything about sell through in a particular quarter, because there are some timing issues (supply chain for instance) that may impact this number quarter over quarter. Further, the vast majority of "Product Sales" involves Vapen branded sales and to a much lesser extent, Pure Touch Botanicals branded sales. Obviously, this line item provides the basis for the balance of the others, as well as any additional growth the Company can command from the Arizona medical marijuana space, as well as perhaps any growth it can attract from emerging national CBD opportunities. Succinctly, while we will speak to this further in this report, we think the Company has built some successful brand recognition and loyalty for the Vapen brand and again, the voracity of that claim will likely determine their growth in the legacy medical space, but may also provide a significant beachhead for expansion should Arizona vote to allow recreational marijuana in the future.

Equipment Leasing- This line is self-explanatory, and generally reflects within a narrow range from one quarter to the next depending on equipment utilization etc.

Property Leasing - Again, these are self-explanatory, and while largely constant they do include some small annual escalators.

We believe the Company's presence in Arizona should provide continued profitability and continued growth for the Company. Following the passage of Proposition 203 in 2010, Arizona's first dispensary began selling medical marijuana in December 2012, so they have been at it for some time now, which might suggest maturation of that market. That said, the state continues to experience growth in overall medical marijuana sales and it remains one of the country's most robust medical marijuana markets. We believe their seed-to-sale approach in the state is optimal and if their assessment that the recent vaping scrutiny has not diminished their brand at the consumer level, we expect them to continue to grow this core business and our model reflects that view.

Lastly, in terms of their Arizona operations, recognize, the next leg up in that market could be state adoption of recreational marijuana. To be clear, the state rejected recreational marijuana laws in 2016 when Proposition 205 failed although it garnered 48.7% of the vote while fighting strong opposition headwinds both from within and perhaps outside of the state. It appears likely that one or more pro-recreational initiatives could end up on Arizona voters' 2020 ballots. While we don't feel like we have the visibility to suggest how that might impact VEXT since the form and function of an initiative of that nature is not known at this time, we are inclined to believe that the passage of recreational marijuana would be a net positive for legacy medical players in the state such as VEXT. If that follows, we will view passage of recreational legislation in 2020 as a potential catalyst for VEXT.

As mentioned, while VEXT's business has to this point been focused entirely in Arizona, the Company has announced a number of initiatives aimed at other states, and those plans include both marijuana and CBD iterations. Further, while the Company's Arizona operations include an integrated (seed-to-sale) approach, its looks to us like most of the new initiatives will likely be less comprehensive and may focus on one or more but perhaps not all of the seed-to-sale process. For instance, we think the Company has developed particular expertise on the processing side, which includes a variety of delivery methods (vapes, edibles, proprietary inhalers and others). The table below provides a snapshot of the new initiatives the Company has announced and the types and scope of each of those endeavors. As the associated narrative suggests, some these new ventures are better defined (or at least disclosed) at this point.

- **Kentucky**

VEXT describes their new Kentucky relationship as follows:

> *Emerald Pointe Hemp is an eighth-generation family-owned, farming business, that has a proven record of growing hemp for many years. Emerald Pointe Hemp has initially dedicated 100 acres of their 6,000-acre farm to the cultivation of hemp specifically dedicated to Vapen-Kentucky, for its extraction and wholesale distribution operations. Vapen-Kentucky will process hemp for refined, high purity CBD oil, utilizing the industrial hemp grown by Emerald Pointe. Vapen MJ and Emerald Pointe Hemp will share equally in the net profits generated from the CBD extraction and wholesale distribution business of Vapen-Kentucky. All products produced through Vapen-Kentucky will bear the "Vapen" brand.*

As the above narrative notes, this deal will likely enable the Company's CBD endeavors and more specifically also leverage its processing strengths. Succinctly, the signing of the 2018 Farm Bill in late 2018 was a watershed event for the hemp/CBD industry(s). Among other things, the bill allowed for the broad cultivation of hemp, as well as the legalization of its possession, sale and transport across state lines. As anyone paying even remote attention to the industry can attest, since the passage of the 2018 Farm Bill, the proliferation of CBD based products has been marked. We think this particular arrangement may provide some color into VEXT's strategy (at least as we see it), which we think is to add synergistic pieces across the cannabis spectrum (THC, CBD and others cannabinoids), across the cannabis supply chain (cultivations, processing, distribution) and across varying jurisdictions (where legally appropriate) to help build their Vapen brand and ultimately become a larger more integrated player in the space. Again, we think doing a deal with a cultivator in Kentucky to add processing expertise to produce high quality CBD they can wholesale across the country illustrates the strategy. To that point, the news release that included the narrative above also notes, *"…Through our relationship with Emerald Pointe Hemp, we will have direct control over raw materials for our Vapen CBD products and with that the unlimited capacity to expand our sales strategies for CBD domestically and internationally."*

We believe, VEXT will own 50% of this venture but will not control the venture. Accordingly, VEXT will report its proportionate share of the revenue, expenses and net profits. . They have indicated that they believe the initial 100 acre venture could generate US$20 million in gross revenue and that that VEXT's "share" of the venture could approximate $3 million to $4 million in annual profit. Those metrics depend on a number of moving targets, not the least of which is forward processed CBD oil prices (which we are cautious about). However, we would note that guidance is in line with past modeling we have done in the space in terms of cultivation and processing yields (based on 100 acres) and the anticipated margins therein. That is not to say they will most certainly hit those numbers however we do believe they are in line with current industry metrics. Further, we are modeling contributions from this arrangement to begin in the 1H F2020 as we believe they completed the first harvest in Q4 2019 and began processing shortly thereafter.

- **Nevada**

VEXT describes their new Las Vegas (Nevada) relationship as follows:

> *"The company has signed a Letter of Intent (LOI) with Pegasus, to establish a partnership for Cannabis THC production and extraction in Las Vegas, Nevada. The partnership, which is expected to be*

consummated in the next thirty (30) days and begin operation in the Fall of 2019, calls for products to be sold at wholesale under the Vapen Brand to Nevada Dispensaries. Expected products include: Vapen THC Cartridges Vapen Extracts (Connoisseur Concentrates) Vapen Kitchens Edibles – Snacks, candies, gummies, chocolate bars "The proposed partnership is a new and significant geographic market for the Vapen MJ Brand," commented Thai Nguyen, founder and chief executive officer of Vapen MJ Ventures. "Cannabis, in Nevada, became legal for recreational use, effective January 1, 2017, following a successful ballot initiative in 2016. We are excited to introduce our Vapen Brand to Las Vegas, as this market continues to grow. Pegasus operates a successful cultivation center, distributing its "Virtue" Brand, a complimentary, high-quality, connoisseur brand, like the Vapen Brand, to dispensaries in Las Vegas. The addition of the "Vapen" Brand to existing Virtue products, will be a natural fit for Virtue's established distribution channel and provide a full cannabis line of products to the existing customer base." Vapen MJ will provide management services and standard operating procedures for production and extraction, including the hiring and training of critical employees. Vapen MJ will also be responsible for the bulk tolling (extraction) for other brands. Pegasus and their partners are supplying funding for the equipment, working capital and biomass to the partnership.

As we understand it, Pegasus has created and developed "Virtue" one of Nevada's "top cannabis brands". As a bit of background, while Nevada voters ratified the use of medical marijuana in 2000, it took the state 15 years to open its first medical marijuana dispensary. Nevada voters affirmed recreational use in 2016, which lead to its legalization on January 1, 2017. The first recreational sales of marijuana in Nevada commenced July 1, 2017. Pegasus harvested their first Nevada crop (and selling the resulting product) in early 2017 so they were early players in the state's recreational space, which may explain the success they have had in terms of establishing a premium brand.

Pegasus' focus has largely been on the cultivation of premium marijuana flower and the subsequent sale of flower based products including individual rolls, multi-pack rolls and other rosin infused flower products. As such, *this* combination will leverage Pegasus' presence, cultivation capabilities and established distribution relationships in Nevada, with VEXT's processing/extraction expertise to provide Vapen branded products that Virtue does not offer (edibles for instance) collectively providing what they refer to as a "full line" of cannabis products. We believe this arrangement will make contributions in 1H 2020 and beyond.

We think this relationship is likely prototypical of the subsequent THC relationships we expect to evolve. That is, the addition of VEXT processing and extraction expertise along with the addition of the broad Vapen brand into established distribution markets that their incumbent partners have managed to penetrate on some level.

The Company owns 33 1/3 interest in the net profits generated from the Nevada partnership.

- **Hawaii**

VEXT describes their new Hawaii relationship as follows:

VEXT's Hawaii partnership will "create a vertically integrated supply chain for Hawaiian hemp production and formulation with Archipelago™ Ventures, the strategic joint venture with Legacy Ventures and Arcadia Biosciences. Legacy brings growth capital and strategic advisory in Hawaiian and Asian markets, as well as access to Legacy's equity partner, Vapen CBD, a wholly owned subsidiary of Vapen MJ Ventures. As proven leader in extraction, product formulation and sales of cannabis oils and distillate products, Vapen CBD will be responsible for the construction and operation of Archipelago's Hawaiian hemp extraction facilities. These facilities will give farmers an opportunity to convert their operations into high-grade CBD hemp production, creating new sources of jobs and revenue on the islands. ... The joint venture combines Arcadia's extensive genetic expertise and resources with Legacy's *proven experience in extraction and distribution. This partnership leverages Hawaii's unique geographic and climate advantages for growing hemp year-round and provides access to key international markets".*

Like Kentucky, the Hawaii venture is CBD based and VEXT's participation is largely on the processing side. The Company's contribution to the Hawaii operation was $300,000 represented by equipment supplied to the partnership. The Company will earn 8.25% of the net profits generated from the partnership and will record the net profits on an identical basis to Nevada. However, we don't believe this arrangement is nearly as comprehensive/favorable for VEXT as the other arrangement. Further, we also think this arrangement is likely to be more along the lines of a tolling operation. Again, while noteworthy, we don't think this operation will provide nearly the contribution that the other ventures will likely contribute. However, it does provide further validation to part of our general thesis here, which is that VEXT carries some recognized/actionable expertise in the processing/extraction portion of the cannabis supply chain, and that includes both marijuana (THC) and hemp (CBD) iterations.

- **Oklahoma**

VEXT describes their new Oklahoma relationship as follows:

The Company has signed a THC production and extraction partnership with Texoma Herb Company in Oklahoma. Texoma has a licensed retail dispensary, greenhouse and outdoor growing operations in Kingston, OK. Oklahoma is one of the fastest growing medical marijuana markets in the U.S. according to the August 2019 Annual Marijuana Business Factbook report, based on the average number of patients as a percentage of the population. The new, state-of-the-art extraction and production facility is anticipated to be fully operational and selling Vapen branded product wholesale to licensed Oklahoma dispensaries throughout the state by the end of 2019. Vapen MJ will provide the Vapen brand, standard operating procedures (SOPs), and back office support for the partnership. The partnership with Texoma will facilitate the launch of Vapen branded product including a line of THC concentrates, edibles and extraction products to dispensaries in the state of Oklahoma. "We are strategically adding capacity in a new market that has one of the fastest-growing medical marijuana patient populations. We will be launching Vapen branded products that deliver our high quality and purity standards," commented Thai Nguyen, Founder and Chief Executive Officer of Vapen MJ. "Our partner Texoma, with outdoor growing capability in the state of Oklahoma as well as greenhouse operations, has built a solid reputation for quality cannabis products. This relationship underscores our commitment to expanding through partnerships in new markets as we execute to our growth strategy to expand our U.S. presence and increase our brand awareness."

Like Nevada, this arrangement is a marijuana (THC) partnership. Their Oklahoma partner Texoma Herb Company has an established cultivation operation but no processing/extraction capabilities. However, *unlike* their Nevada partner, Texoma Herb Company owns a retail dispensary but as we understand it, does not have its own brand/brand strategy. As a result, the partnership will provide turnkey processing and extraction, but also the full Vapen brand to both Texoma's existing dispensary as well as (presumably/potentially) to other dispensaries throughout the state. VEXT will also be supporting a new 10 acre outdoor grow. Another salient point to recognize in terms of the difference between Nevada and Oklahoma is perhaps the difference in their respective legislations, which we view as an important part of our thesis. Specifically, unlike Nevada, where both medical and recreational marijuana are legal, Oklahoma is a medical only state. As we will expand upon in the Industry Overview, we think that provides both advantages and disadvantages for each respective partnership.

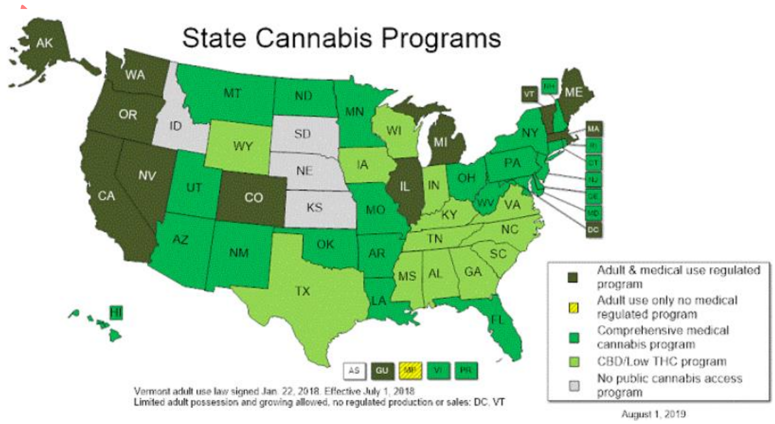
The above table references the new initiatives the Company has disclosed, while those we provided the narrative on are those that VEXT has provided specific announcements regarding. We suspect we will see additional announcements regarding these and perhaps other new initiatives as they evolve.

To summarize, over the past few years VEXT has developed and refined a handful of assets that we think are topical to the emerging cannabis industry. These assets include aptitudes and expertise along the entire seed-to-sale cannabis supply chain, with particular emphasis on processing and extraction, although we also think they have demonstrated marked strengths in various packaging and delivery form factors, including new innovations like their patented inhaler (pictured above) which we find quite intriguing. As we see it, their presence in Arizona has provided them a platform to hone and develop those aptitudes, and by extension develop their Vapen brand, which as the illustrations above suggest, is broad and deep. Moreover, unlike many other cannabis players, they have been able to develop these assets with (relatively) small capital contributions, while at the same time achieving what is perhaps also atypical consistent profitability. (they actually have roughly $16 million in retained **earnings**). With those assets in their quiver, they are now clearly positioning to "take that show on the road", by deploying various pieces and configurations of their expertise as well as their Vapen brand into new markets. If they are able to execute those additions in the same profitable manner as they have been able to execute in Arizona, we think that could lead to markedly improved (additional) profitability and by extension better valuations for the Company.

Industry Overview

Trickle Research is headquartered in Colorado, which we consider to be "ground zero" for the legalization of marijuana. That being the case, we have reviewed several cannabis related companies both public and private, and in that regard, over the past few *years*, we have also visited the operations of and modeled a number of those enterprises on behalf of bankers and investors who have asked us to do so on their behalves. From that perspective, while we certainly do not consider ourselves to be "experts" in the space, we think we have a reasonable working knowledge of the industry and some of its metrics and nuances. Further, our research is microcap centric and generalist and as such we have written companies from a variety of industries. Given those two factors, it might be reasonable to conclude that we have provided research on a number of public cannabis companies. **We have not.** To date, the only cannabis related company we have covered is Denver, Colorado based GrowGeneration Corp. (Nasdaq: GRWG), which operates a number of hydroponic and organic gardening stores that in part service cultivators in the space. We terminated that coverage some time ago when they eclipsed our price target. There are a variety of reasons we have been cautious to cover the space.

Some of our *initial* caution regarding the space has had to do with the obvious divisions between state and federal laws regarding cannabis. Obviously, that was a concern that many industry participants, investors, banks, financiers, legislators and others rightfully shared. To that end, while the federal government has yet to yield legalization, some of the risks associated with that dichotomy, real or perceived, have subsided and certainly some of that dynamic has been the result of public opinion and further legalization of one kind or another by a large portion of the states in the union. That fact is illustrated in the graphic below from the Nation Conference of State Legislatures:



https://www.ncsl.org/research/health/state-medical-marijuana-laws.aspx

Succinctly, while we certain can't quantify the degree to which regulatory risks have improved, we feel confident in suggesting that they have.

Along with the federal legalization risks, we have generally had another related concern when it came to coverage in the space. While the "safety in numbers" rationale via increased adoption by individual states has perhaps mitigated some of the federal concerns, that same factor has also led to a patchwork of regulations that has added marked complexity to the analysis of the industry, especially for companies operating in multiple jurisdictions. Those complexities have included nuances regarding who could own various portions of the supply chain (cultivators, processors, dispensaries) including combinations therein. For instance, as we recall, in some states cultivators could not own dispensaries, whereas in others they had to own dispensaries. More topically, as we noted above, in VEXT's "home state" of Arizona, only non-profits can get licenses for the various portions of the industry. As generalists, it has been hard to justify spending the time required to sort through all of these jurisdictional complexities before even trying to understand individual businesses within them. To be sure, while many of those complexities remain, we also tend to think that visibility around them seems to be improving. In any case, those complexities can create opportunity for those willing to work through them. We think VEXT's handful of new markets reflect some of that dynamic.

Regarding the legalization on a state-by-state basis, we think there are some clear distinctions that have emerged as the industry has evolved. For example, as the illustration above notes, states have taken various paths towards varying degree of legalization of cannabis derivatives. These include iterations of no legalization of any kind at all, to legalization of medical use only and ultimately legalization of both medical and recreational use. Further, with the passage of the 2018 Farm Bill, which essentially legalized hemp cultivation and its interstate commerce, has led to a new proliferation of CBD based products across the country. Most states have taken the phased in approach to marijuana (THC) legalization, which has been to legalize medical use first, establishing an infrastructure to regulate, tax and maintain the process, and then perhaps legalizing recreational use sometime thereafter. That said, as many states have discovered (Arizona being one of them) the leap from medical only to recreational use is not a foregone conclusion. We think that is another nuance that creates some opportunities and associated risks for those looking to grow their businesses through multi-state expansion. That clearly encompasses some of VEXT's strategy.

We think the medical use vs. recreational use issues are quite germane to the industry's growth and evolution. As we just suggested, many states have managed to legalize medical use but are finding recreational legalization perhaps more challenging. We suspect that dynamic will continue as states wrestle with the "pros and cons" of recreational use. Drilling down, medical marijuana has garnered support from some advocates as a pain management alternative to much maligned opioids, as well as a medical option for ailments that lack effective treatment options (seizures for instance). On the other hand, the benefits of *recreational* use may be less attractive in the face of other health and social concerns surrounding marijuana use. For example, referencing Nevada (since that is one of VEXT's newest recreational markets) statistics indicate that the state has experienced a higher incidence of both crashes as well as cannabis related hospital visits since recreational legalization. Marijuana related DUI arrests appear to be on the rise as well.

Further, we also know that recreational states seem to be having more trouble controlling black market marijuana than perhaps their medical only counterparts. For instance, NBCnews.com recently noted that *"the United Cannabis Business Association, a (California) statewide group of legal marijuana businesses, found that about 2,835 illicit sellers, including storefronts and delivery services, are operating statewide. That's more than three times as many illegal sellers as legal ones- 873"*.

From another interesting perspective, industry research suggests that registered medical cannabis cardholders in Nevada numbered about 9,500 as of July 2015, and that number grew to approximately 27,000 two years later. However, in the year following recreational legalization, the number of registered medical card holders fell to roughly 18,000, as according to the Nevada state taxation department, *"some patients have deemed the retail market more conducive to their needs"*. The point is, we think market participants in medical only states may enjoy some advantages that their recreational counterparts do not, not the least of which may be better margins and perhaps less competition in general, as the medical markets are by definition more regulated. On the face, we tend to think recreational legalization generally changes the playing field and obsoletes marked portions of existing legacy medical markets.

While the above may address some of the challenges we are seeing in some of the medical to recreational transitions, some of the other benefits are frankly staggering. According to the Boston Globe, *"Nevada has consistently reported booming sales as a result of voters who approved legalizing recreational marijuana sales in 2016. The association said cannabis sales were also up from $529 million in fiscal year 2018 to approximately $639 million in fiscal year 2019, an increase of $110 million".* According to a recent presentation from KushCo. Holdings, Inc. (OTC: KSHB) Roth Capital estimates that for 2020, domestic retail sales of cannabis will exceed $20 billion in 2020 and will reach *$80 billion by 2026*. To be sure, estimates of that nature are frankly all over the board, so we won't belabor the point with a litany of other statistics reflecting the projected growth of cannabis sales (and associated tax collections), especially following recreational legalization(s) in other states. However, they have been, one state to the next, compelling to the point of generally exceeding the expectations of state tax collectors and legislators.

Clearly, despite some of the challenges and growing pains of the industry, it continues to post robust growth and appears to be poised to continue to do so. While federal prohibitions continue to pose risks, we tend to believe that as states continue to add iterations of legalization (and in turn collect and depend on increasing tax receipts) those risks likely get smaller. In short, we have a hard time believing that this genie is going back in the bottle. As a matter of fact, we tend to believe that federal legalization may prove a *greater* risk for smaller incumbent players in the industry than the lack thereof. Our perspective in that regard, is that federal legalization will almost certainly attract large well established players in perhaps associated industries (pharma, tobacco, alcohol etc.). That sort of scenario would shuffle the deck in terms of the status quo, although the endgame therein might be consolidation of established players. That notion brings us to another concern we have had about the industry over the years, which is valuation.

The stark adoption/growth of the cannabis industry has certainly not gone unnoticed. While subject to the ebbs and flows of most emerging industries, cannabis has in general managed to attract considerable capital which has driven the growth of the industry. Here again, like many emerging industries, that land grab has provided some valuations that may or may not have been derived with the sharpest of pencils. As fundamental analysts, we are always of the view that valuation matters. As such, our perspective over the past few years has been that many of the (public) names we have previewed in the space, while promising, have generally carried valuations that we have had a hard time justifying given some of our aforementioned concerns about the industry as well as the nascent nature of their businesses. That brings us to the chart below of one of the marijuana indexes. Succinctly, 2H 2019 was rough for the industry (VEXT included). We think the stark compression in the space has mitigated some of our valuation concerns and that (among some other issues that we think set it apart) has attracted us to VEXT.

https://marijuanaindex.com/#

Aside from the above there are a few other industry shaping items that we addressed but deserve some additional color.

The Agricultural Improvement Act of 2018, (the "2018 Farm Bill") was signed on December 20, 2018. With regards to the cannabis industry, it was perhaps a watershed event. In essence, while the 2014 Farm Bill opened the door for the federal legalization of hemp production, the 2018 Act provided for its widespread cultivation as well as for the sale and distribution of derivative products. Since its passage, the CBD industry has proliferated rapidly as a myriad of cultivators, processors and CBD brands have populated the space. Much like the marijuana side of the cannabis industry, the initial growth has been robust and projections for industry growth are markedly bullish. With that said, also like marijuana, (which admittedly has a much more onerous regulatory environment because of its psychoactive profile), the CBD industry will ultimately yield winners and losers, as well as additional challenges that will be germane to sorting them out. Recognize, some of VEXT's new ventures are aimed solely at the CBD space.

While again, we view the passage of the 2018 Farm Bill as a watershed event for CBD, subsequent federal scrutiny has also cast a shadow on the industry. Succinctly, the FDA has weighed in on CBD with the perspective that it is largely unstudied and as such its efficacy (if any) is unproven and further, its safety is equally unknown. That is not a particularly good profile for something that the FDA does at least on some levels have the ability to regulate. On the other hand, CBD is gathering support from some federal legislators (bipartisan at that) that may counterbalance some of the FDA's scrutiny. That is clearly a positive development for the industry in the face of the FDA's position. We are not sure what all of that means, but our sense is that that there will continue to be a path forward for CBD, but it may have some additional boundaries and that probably compromises visibility. Whatever its form, we think it will continue to provide marked opportunities for optimal operators. Here again, there will be winners and losers as typical consumer product characteristics; quality, distribution and effective branding will likely carry the day. More importantly in our view, hemp and marijuana, which are different species of the cannabis family and have until recently been largely been lumped together, may be heading down separate and perhaps even competing paths. This is just our view, but we tend to think that the medicinal value of "cannabis" may conceivably have more to do with the CBD and/or the other 100+ cannabinoid elements of "cannabis" than perhaps the psychoactive THC predominant in marijuana. The point is, we think the path forward, especially from a medicinal standpoint, will likely entail far more research to better understand the efficacy of cannabis and its combinations. From that perspective, we think the industry may look much different in the coming years than it does today.

In terms of the marijuana side of the equation, we think regulation and taxation will continue to have a marked impact on the trajectory, the function and the form of the industry. Without getting too far into the weeds, regulation has already created some supply and demand bottlenecks that have impacted the industry. We don't expect that to change any time soon since that is the nature (sometimes even the goal) of regulation. Further, taxation and its social benefits, are an important reality to the legalization argument. However, we think it is reasonable to suggest that the impact of taxation on pricing has and will likely continue to create challenges for the industry. California's burgeoning black market is in our view, proof of that notion. That creates further problems in terms of safety concerns that result from the growing unregulated elements of the industry. We would argue that the recent problem with vape delivery systems (that have negatively impacted VEXT) are a function of that dynamic. Succinctly, the evidence to this point seems to support the idea that black market additives may be responsible for the illnesses and deaths related to vaping. To that end, the excerpt below is from a recent opinion penned by Philip Morris Intl. CEO: Andre' Calantzopoulos:

> *"… thanks to rapid advances in science and technology, better alternatives now exist for those adults who would otherwise continue to smoke: Smoke-free products, including e-cigarettes and heated tobacco products, can be a much better choice than cigarettes. The burning of tobacco produces the vast majority of harmful chemicals in cigarette smoke, and by eliminating the burning process—as is the case with smoke-free products—the levels of harmful chemicals generated can be significantly reduced compared with cigarette smoke. Whether a product reduces emissions of harmful chemicals compared to cigarette*

> *smoke has to be scientifically assessed for each product. **… The available evidence—ours and others'—shows that switching completely to scientifically substantiated smoke-free alternatives, although not risk-free, can be a better choice than continuing to smoke cigarettes.** We consistently invite the scientific community and regulators to study our science, verify our results, and conduct their own independent research—and it is encouraging that over the last few years, numerous independent studies have confirmed key elements of our research…"*

We think this excerpt speaks volumes to the advantages of delivery systems like those VEXT is developing and branding. Its new inhaler is a good example of that. It also raises another issue we touched on above.

Calantzopoulos further notes:

> *"We (Philip Morris) are in the process of a full-scale business transformation. In fewer than five years, we have shifted our global commercial expenditure from 8% on smoke-free products to 60%. As a business—and we do not deny that there's a business opportunity—our commitment to go smoke-free is clearly demonstrated by the numbers. Our smoke-free products represented already nearly 14% of our total net revenues in 2018 up from 0.2% in 2015, and we have the ambition to achieve 38-42% by 2025".*

Succinctly, as the cannabis industry evolves, we expect larger players to get more involved. In our view, while we submit that specter can be viewed positively and/or negatively for small incumbents, we think that may prove to be the exit for those with innovative, established brands like VEXT is developing through its Vapen brand.

Operating Overview

As we addressed briefly above, the legacy business (Arizona) involves a handful of revenue line items, some of which are largely pre-determined and fixed in nature (rents, leases, management fees etc.). The major exception to that is the "Product Sales" line item. Since 2018, these "fixed" revenues excluding the product sales have generated roughly $3.3 million of revenues per quarter. To reiterate, since VEXT does not own/operate a dispensary, this line item essentially represents "wholesale" product sales to HWC, the not for profit, dispensary. Approximately 30% of HWC's revenue is generated as wholesale sales of Vapen branded product to other dispensaries in the state.

To put the Company's Arizona operations in perspective, it may be helpful to review some of the states industry statistics. Industry data (https://bdsanalytics.com/) suggest that through June (2019) dispensary sales were $334 million, which likely extrapolates to something round $670 million annually. Succinctly, VEXT's current $20 million - $25 million annual revenue run rate from Arizona operations represents a relatively small portion of the state's growing industry. Further, we believe there are currently about 100 dispensaries in the state, (of which Herbal Wellness Center is one), which would suggest that dispensaries *average* about $6 million in annual sales, so we think Herbal Wellness represents a top tier player relative to that average since (as a non-profit) their revenues should approximate the fees and product costs they pay to VEXT. In our view that is an important distinction because we tend to think that if Arizona's medical marijuana market continues to grow and/or recreational marijuana becomes legal, Herbal Wellness and by extension VEXT will likely continue to benefit from their share of that growth. We think that bolsters our notion that legalization of recreational marijuana in Arizona would likely be a highly positive catalyst for VEXT.

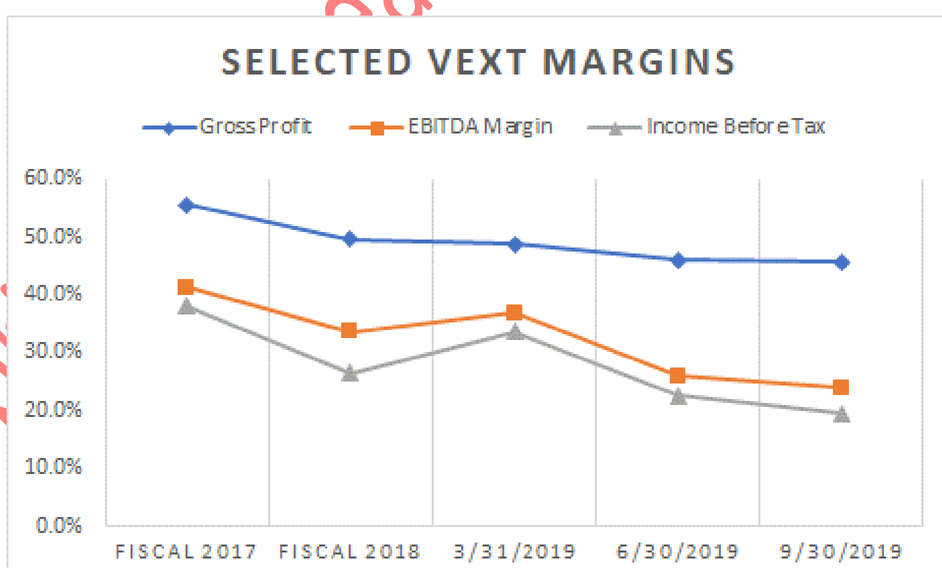
In addition to the above statistics, the cited data also note some other number we see as topical to VEXT. First, for 1H-2019, all Arizona dispensaries realized 14% sales growth over 1H-2018. For June 2019, flower products represented 43% of overall revenue, and those sales **increased 11%** over the prior year period. The report also notes, "*the Concentrates product category contributed 39 percent of revenues in June. The $22 million in*

Concentrate sales represented an ***18 percent increase*** *compared to the prior June",* while *"sales of Ingestibles generated $7 million in sales in June 2019 and contributed 12 percent of total revenues for the month. Year-over-year sales for June increased by 20 percent. Year-to-date, the $44.1 million sold in ingestibles was* ***27 percent greater*** *compared to the same period in the prior year. The Ingestibles category includes both the Edible and Sublingual subcategories".* To unpack that a bit, these product mix results are very similar to the numbers that VEXT experiences in terms of sales by category. However, what we find particularly germane to VEXT's opportunity is that the data suggest that non-flower products, categories in which we believe VEXT has particular strengths through their Vapen brand, are growing faster than the flower related category(s). Here again, we view this as a positive element to the story.

As an extension to our "positive element to the story" assertion, additional industry information notes that *"a June analysis that the dispensary association commissioned from Rounds Consulting Group in Tempe estimates that sales growth in Arizona's medical-marijuana industry should stay above 10 percent annually through 2027, though it will slow from the current pace".* We have used that notion as a basis for some of our modeling of VEXT's Arizona operations, but again, we are also modeling non-flower products to capture an increasing share of that growth, which should prove advantageous for VEXT.

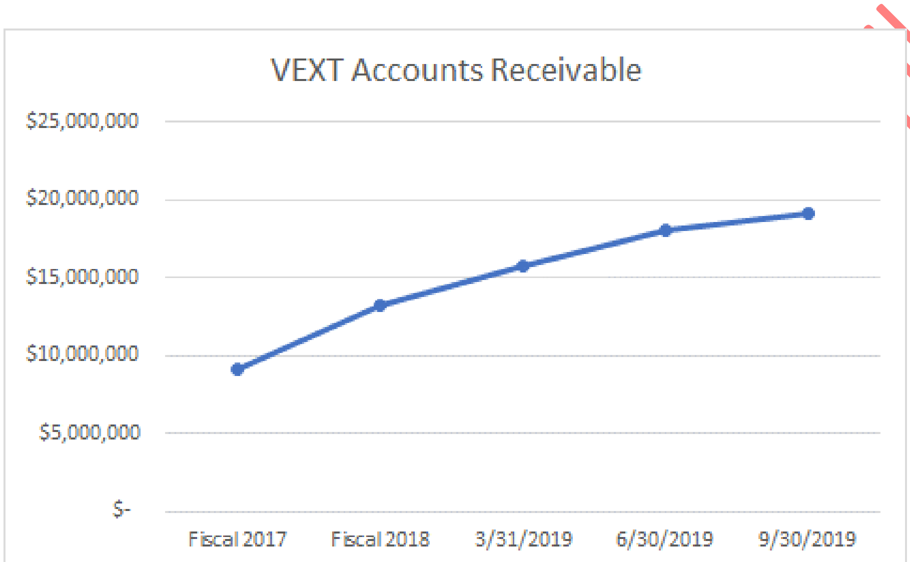
Beyond Arizona, the Company is guiding towards significant contributions form varying portions of the new partnerships through 2020. As a result, their guidance is for revenues in excess of $45 million for 2020. We have attempted to add new partnership contributions that we feel like we have some visibility around. That approach may initially understate some of the new pieces. Our model also reflects significant growth over our projected 2019 results.

Recognize, VEXT went public in May 2019, and the prospectus they filed provided 2018 numbers while the quarterly filings since that time have provided the financial results for the first 3 quarters of 2019. The selected historic margin from those available periods is below:



The Company is guiding to EBITDA margins in the 30% to 35% for 2020. That number is predicated in part on operating leverage derived from scale (their higher revenue estimates), and in the context of our projections, we think that would be commensurate with gross margins in the 40% to 45%, which are in line with their historic performance. Clearly, the Company's ability to achieve EBITDA margins in that range will depend on their ability to successfully scale the business through their new ventures. We expect 2020 to be telling on multiple operating fronts.

The above said, there is another operating item that requires some color because we think the issue may be providing some headwinds with respect to the valuation of VEXT. Further, while the basis for those headwinds might be valid, we think 2020 may prove (positively) telling for this issue as well. the chart below reflects the levels of VEXT's receivables at the end of each period noted:



Specifically, the Company's receivables are owed largely by their non-profit partner in Arizona, Herbal Wellness Center. In short, this receivable has been growing period over period because Herbal Wellness Center has not been able to generate a level of business large enough to pay all of the associated fees charged by VEXT. Management fees charged to HWC on a quarterly basis are the primary contributor to the growing receivable. The receivable has continued to grow one quarter to the next. For instance, the receivable at 09/30/19 was roughly $10 million higher than it was at the end of 2017. That number is slightly larger than the Company's pre-tax profits for the same period. To translate, the collectability of the A/R will depend on the ability of Herbal Wellness to achieve better (higher) operating results that allow for the full payment of VEXT's billings from one period to the next. Further, Herbal Wellness will need to operate beyond that level (essentially above operational breakeven) in order to reduce the levels of VEXT's receivable one quarter to the next. Moreover, we have argued that VEXT represents a profitable enterprise in an industry that has collectively had some trouble getting profitable and, that the level of its profitability relative to its stock price (its earnings multiple) is low compared to most companies in the space and frankly many public companies in general. However, we submit, the street may view the "quality" of VEXT's earnings as poor given the nature of the receivables, and therefore appropriately reflective of the lower multiple. Here again, we believe 2020 will show positive progress on that notion, which could provide the basis for more robust earnings multiples. We would add, we believe the value of (limited) cannabis licenses in Arizona provide a basis for the collectability of the outstanding A/R, so we are not concerned about its *ultimate* collectability, but we submit it remains an issue with respect to assessing profitability.

The Company recently completed a capital raise which consisted of US$5.5 million of 10% non-convertible senior secured debentures. The offering included the issuance of roughly 900,000 warrants exercisable at CDN$1.00

per share. Recognize, some of the new endeavors required capital contributions from VEXT for both working capital and/or equipment, so this raise was paramount to the execution of some of those deals.

Lastly, the company has not disclosed enough definitive information about each of the new partnerships for us to ascertain how each will be addressed from an accounting standpoint. We have done our best to reflect those situations where have some of that visibility, but we have not tried to model those which we do not. From that perspective, this initial model may understate some of those contributions. We should get more clarity on this as filings or other announcements reflecting those contributions become available. Clearly, our model will require some modification to reflect those additions (among other things) as we move forward. To edify, our current model does not include projections from all of the new partnerships, but its does include projections from what we believe will be the biggest of those, at least initially. If our model proves reasonably accurate, (although it is admittedly incomplete with respect to some of the new partnerships), we are confident that those results will support the higher valuations we are arguing for the Company. Moreover then, further visibility on those new additions we have not modeled could provide a basis for yet higher valuations beyond our current projections. The model will be fluid through 2020.

Risks and Caveats

We touched on many of the associated risks in the Industry Overview above so will try to be summative in that regard.

The lack of federal legalization continues to be topical to the industry. While we think some of those risks have abated as more states have legalized cannabis it remains a wild card. Obviously, the passage of the 2018 Farm Bill was quite additive to the hemp/CBD side of things, the FDA's recent saber rattling suggests that risks remain there as well. Further, while we think the industry would in general embrace federal legalization of marijuana that sort of event could provide incumbents with marked competitive challenges from much larger players that may currently be on the sidelines waiting for that legal status. For investors in the space, be careful what you wish for.

As we suggested above, we think the path for the industry is likely to be more research into the efficacy and the safety of cannabis related products. The results of those types of studies will continue to shape the industry and could carry positive and/or negative attributes. Further, as we know from the biopharma space, research of that nature is expensive and onerous and there again, is probably more conducive to larger well financed players.

While this may be an adjunct of the prior paragraph, technology and innovation will continue to impact the industry, which may ultimately lead to the further commoditization of parts or perhaps all of the cannabis supply chain. That may prove good for some and bad for others, but generally, that sort of scenario often leads to margin pressure. We suspect lower sustained margins could prove substantially detrimental to many incumbent players in the space. While one of our attractions to VEXT is its history of profitability, (something that has eluded many in the industry), lower margins will create challenges to that end.

We argued above that the vaping scare has negatively impacted VEXT's share price. We don't know if that has definitively translated into weaker sales and/or if that impact if any, will have short term or long term implications. We think that is a particularly germane risk to VEXT because they have taken the position that while the impact has been negative from an investment perspective, they don't believe it has negatively influenced their customers base. Make no mistake, their expansion plans are heavily focused on the value and continued growth of the Vapen brand. While vape related delivery systems are not the majority of the brand offering, it's hard to imagine how (given the vernacular) further scrutiny and perhaps even regulatory actions of vape technologies in general will be good for VEXT.

As with many small emerging companies, VEXT's success likely depends on the efforts of a small group of key players. The loss of any or all of these individuals would likely have a negative impact on the Company.

We think the Company's accounts receivable balance from what has historically been its only customer is the "elephant in the room" in this story. It may not be the most visible, but it is certainly one of the more topical. Recognize, we have made the argument the Company's profitability (which has not been typical in the space) is one of our attractions to the Company. The Company highlights that in their presentations as well. However, the accuracy of that claim depends on their ability to ultimately collect all the revenues they have booked, and that largely depends on Herbal Wellness Center's ability to operate at a level that can pay all the fees etc. that VEXT charges them. They have not reached that threshold as of yet. As we noted, if our math serves us, we think they can reach that threshold in 2020, but until they do, VEXT's profitability in Arizona will be subject to scrutiny. Countering this comment is the fact that HWC's licenses are arguably valued at in excess of $30mm and therefore on a liquidation basis Vext's A/R may be adequately covered.

As the stock chart at beginning of this report illustrates, VEXT share have been volatile. Further, as with many microcap stocks, VEXT shares are thinly traded and generally illiquid despite trading in both U.S. and Canadian markets. That will likely remain topical for the foreseeable future. That may be particularly germane in this case because founders and insiders own roughly 75% of the shares outstanding.

While we have used our best efforts to construct a model that we think fairly represents the Company's potential level of business including reasonable margin and other germane operating metrics. That said, many small emerging companies lack visibility, especially with respect to operating results in the near and even intermediate terms. That notion certainly applies to VEXT and especially with respect to the timing and the breadth of the many new ventures they are adding. To translate, while we think we have used reasonable and defensible methodologies to arrive at our operating projections, they will almost certainly be wrong. Further, our price target and valuation assumptions are based on our models. while we attempt to mitigate our price target and valuation conclusions with appropriate discounts to address poor visibility, if our operating assumptions prove substantially overstated, then our target assumptions may prove equally overstated. We will look to improve that process and its accuracy as additional important data points emerge and operating visibility improves.

These are just some of the more visible risks we see in VEXT. There are potentially others we have overlooked or perhaps could not identify at this time.

Valuation, Summary and Conclusion

We spent some time in the Industry Overview of this report covering a handful of reasons why we have largely avoided the cannabis space. To reiterate, that posture came in the face of the fact that we are located in Colorado which we deem as "ground zero" for cannabis regulation and along the way we have reviewed, modeled and visited a number of cannabis enterprises and have never committed to actually covering one. Until now. That said, we fully admit that some of our enthusiasm for the space and VEXT specifically, is related to the compression in the space through 2H 2019. We won't apologize for that because, *all other things being equal,* we would rather initiate a stock at a lower valuation than a higher one.

To edify, we understand the basis for the cannabis "gold rush" that has attracted capital/investment and driven associated valuations in the space. Clearly, the trajectory of the industry across states that have legalized marijuana for medical and/or recreational use has been extraordinary even as federal laws still put it in the same "Schedule 1" bucket as heroin and LSD. Imagine what the industry would have done (will do) if legalization on a federal level were a reality? On the other hand, **it is not** federally legal. That fact assures continued risks to the industry and fosters the continued complex patchwork of state and local laws that impact its success and the enterprises within it. As an extension to that point, in our view that patchwork of regulation, on a variety of levels, has also led to a somewhat counterintuitive notion about the industry. While cannabis sales continue to rise, many of the players in the space have had a difficult time actually achieving the profitability many anticipated they would or for that matter, any profitability at all.

To the contrary, VEXT *has managed to achieve profitability*, although as we addressed above, the quality of those earnings is a reasonable critique. We think results through 2020 will likely validate the *quality* of those earnings as their Arizona operations continue to advance.

As we covered above, we think the Company cut its teeth in Arizona and as a result has developed expertise through the entire cannabis supply chain from "seed-to-sale". To step back, while the industry has certainly become more sophisticated, its patchwork nature has fostered a fragmented constituency that it seems to us still collectively lacks the expertise and/or resources to execute integrated strategies and associated branding. We think that notion embodies the Company's expansion opportunities. To edify, their partners are generally enterprises that have managed to master a portion of the industry but are looking to leverage that expertise to participate in other portions of the supply chain. While they have established a profitable, growing and integrated core business in Arizona, their larger growth prospects will now be determined by these new partnerships, and their expectations in that regard are considerable.

As we alluded to above, we believe the Company is expecting their business to more than double over 2019 results. As we see it, a reasonable portion of the 2020 growth the Company is expecting is related to the new ventures in Kentucky and Arkansas. These are each CBD processing deals where their partners are largely providing hemp biomass. For those familiar with the metrics of the space, we believe that these two partnerships will collectively provide about 600 acres worth of biomass, which if our math is reasonable, supports the marked growth numbers they are anticipating. In our view, their success in achieving this guidance will largely rest on their ability to develop markets for their full spectrum and islet CBD oils, which will in turn be predicated on the (anticipated) continued growth of (and pricing in) those markets. They expect the other partnerships to contribute as well. As our operating model indicates, we are projecting more modest, albeit still marked growth for 2020 over 2019.

As we also addressed above, some of the growth strategy is based on the expansion of the Vapen brand. Aside from the revenue/receivable issue, this is one of the pivotal parts of the story. To reiterate, the Company believes that the recent scrutiny/health concerns of vaping products has not hurt the brand at the consumer level. They do however realize that it has impacted the investment community, which as we understand it, precipitated the name change. The degree to which they are correct about that assessment (that it has not compromised the brand at the consumer level) remains to be seen. From our perspective, the answer to that probably depends on how regulators, legislators, etc. deal with this issue going forward. That said, on the face, history typically dictates that the further we get from these types of events, the less impact they continue to have. Further, as we noted above, there are data that support the safety profile of vaping products vis-à-vis smoking as well as regulated vaping product versus their black market counterparts. Moreover, vernacular aside, keep in mind that vape products are not that majority of the Company's brand offering, and they have even introduced alternatives (their inhaler) that may ultimately replace some of that business anyway. We don't deny that this remains a risk in the deal, but we also think some of that was baked into the compression in the shares.

Circling back to Arizona, we mentioned that Arizona voters will likely reconsider recreational legalization this coming November. We don't know how to handicap that so we won't try, but if that were to pass, we would view that as highly positive for VEXT given the beachhead they have established in the state. We think that would likely provide a marked catalyst for the stock if that were to occur later in the year. *In our opinion (based on our initial modeling), recreational legalization in Arizona could add another $.30 to $.40 per share to our price target, which represents a good portion of the entire valuation of the stock today. Obviously, that comment involves some blue sky.*

To summarize, for a variety of reasons, over the past few years we have had some reservations about covering names in the cannabis space. Some of those concerns have abated while others remain. Further, some new risks have also emerged as the industry as evolved. On the other hand, the industry clearly has marked potential, some of which has already been demonstrated by tangible sales/growth, and as a result, the space has attracted considerable capital and investment that has helped drive that growth. As we addressed, the investment in the space created some lofty valuations along the way, but recent compression in cannabis share prices largely across the board have reshuffled that deck to where in our view, there may be some likely opportunities in the aftermath. We think VEXT may represent one of those. Succinctly, we think the cannabis industry regardless of its unique characteristics and nuances, will ultimately be like most new emerging industries in that some in the space will succeed while others (probably more) will fail. Winners will likely be determined by the same metrics they are in most businesses; business acumen, innovation, efficiency, access to capital, marketing, branding, adaptability, location-location-location a little luck, etc. Here again, all things considered, we are encouraged by what VEXT has been able to develop/achieve (on *relatively* modest amounts of capital) and we think the current valuation in the context of those achievements coupled with the expansion plans they have put in motion, could result in markedly better results. Consequently, we are initiated coverage of VEXT with an allocation of 4 and a 12-24 month price target of $1.60. As we noted, our model is likely to be quite fluid as visibility surrounding the new partnerships improves. We will revisit both our model and our resulting allocation and target assumptions as new data points emerge.

Projected Operating Model

Vext Science, Inc.										
Projected Operating Model										
By: Trickle Research LLC										
	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2019	**6/30/2019**	**9/30/2019**	**12/31/2019**	**Fiscal 2019**	**3/31/2020**	**6/30/2020**	**9/30/2020**	**12/31/2020**	**Fiscal 2020**
REVENUES										
Management Fees	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 4,800,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 4,800,000
Professional Fees	$ 1,479,618	$ 1,794,628	$ 1,621,127	$ 1,551,126	$ 6,446,499	$ 1,642,379	$ 1,634,127	$ 1,641,331	$ 1,650,192	$ 6,568,030
Product Sales	$ 3,228,888	$ 3,268,566	$ 2,158,941	$ 3,462,558	$ 12,118,953	$ 3,344,675	$ 3,447,593	$ 3,574,178	$ 3,705,811	$ 14,072,256
Revenues from Joint Ventures				$ 149,253	$ 149,253	$ 719,871	$ 6,427,423	$ 12,834,113	$ 13,045,164	$ 33,026,572
Equipment Leasing	$ 351,422	$ 193,581	$ 354,478	$ 222,982	$ 1,122,463	$ 273,037	$ 296,798	$ 529,838	$ 800,778	$ 1,900,451
Property Leasing	$ 240,000	$ 240,000	$ 240,000	$ 240,000	$ 960,000	$ 240,000	$ 240,000	$ 240,000	$ 240,000	$ 960,000
Total Revenues	**$ 6,499,928**	**$ 6,696,775**	**$ 5,574,546**	**$ 6,825,919**	**$ 25,597,168**	**$ 7,419,962**	**$ 13,245,942**	**$ 20,019,460**	**$ 20,641,945**	**$ 61,327,309**
COST OF SALES										
Cost of Goods	$ 1,725,665	$ 1,893,090	$ 1,443,595	$ 2,083,284	$ 7,145,634	$ 2,014,912	$ 2,074,604	$ 2,148,023	$ 2,224,370	$ 8,461,908
Cost of Joint Venture Sales				$ 111,938	$ 111,938	$ 509,560	$ 4,456,461	$ 8,824,551	$ 8,982,839	$ 22,773,411
Salaries Wages and Contractors	$ 1,403,570	$ 1,515,906	$ 1,354,822	$ 1,538,767	$ 5,813,065	$ 1,503,403	$ 1,534,278	$ 1,572,253	$ 1,611,743	$ 6,221,677
Property & Equipment Leasing, Utilities and Property Tax	$ 20,914	$ 20,268	$ 19,115	$ 27,313	$ 87,610	$ 26,723	$ 27,238	$ 27,871	$ 28,529	$ 110,361
Amortization	$ 178,374	$ 187,411	$ 207,414	$ 223,065	$ 796,264	$ 313,786	$ 321,599	$ 337,224	$ 337,224	$ 1,309,832
Total Cost of Goods Sold	**$ 3,328,523**	**$ 3,616,675**	**$ 3,024,946**	**$ 3,984,367**	**$ 13,954,511**	**$ 4,368,383**	**$ 8,414,179**	**$ 12,909,922**	**$ 13,184,705**	**$ 38,877,189**
Gross Profit	**$ 3,171,405**	**$ 3,080,100**	**$ 2,549,600**	**$ 2,841,552**	**$ 11,642,657**	**$ 3,051,579**	**$ 4,831,762**	**$ 7,109,538**	**$ 7,457,240**	**$ 22,450,120**
OPERATING EXPENSES										
Advertising & Promotion	$ 192,460	$ 372,517	$ 201,004	$ 265,340	$ 1,031,321	$ 268,428	$ 272,225	$ 276,174	$ 280,281	$ 1,097,109
Amortization	$ 34,232	$ 34,755	$ 34,960	$ 35,632	$ 139,579	$ 35,632	$ 35,632	$ 35,632	$ 35,632	$ 142,530
Bank Charges and Interest	$ 19,704	$ 16,085	$ 21,243	$ 21,313	$ 78,345	$ 20,723	$ 21,238	$ 21,871	$ 22,529	$ 86,361
Insurance	$ 26,184	$ 22,723	$ 17,431	$ 23,463	$ 89,801	$ 23,345	$ 23,448	$ 23,574	$ 23,706	$ 94,072
Office and General	$ 64,597	$ 210,632	$ 238,728	$ 251,564	$ 765,521	$ 248,617	$ 251,190	$ 254,354	$ 257,645	$ 1,011,806
Professional and Consulting Fees	$ 196,670	$ 311,080	$ 467,138	$ 551,630	$ 1,526,518	$ 541,021	$ 550,283	$ 561,676	$ 573,523	$ 2,226,503
Rent, Property Tax asnd Utilities	$ 21,776	$ 48,531	$ 64,781	$ 69,626	$ 204,714	$ 68,447	$ 69,476	$ 70,742	$ 72,058	$ 280,723
Repairs and Maintenance	$ 81,760	$ 162,702	$ 34,358	$ 51,626	$ 330,446	$ 50,447	$ 51,476	$ 52,742	$ 54,058	$ 208,723
Research and Development	$ 36,562	$ 8,897	$ 11,994	$ 12,925	$ 70,378	$ 12,689	$ 12,895	$ 13,148	$ 13,412	$ 52,145
Shared Based Compensation	$ 67,393	$ 122,060	$ -	$ -	$ 189,453	$ -	$ -	$ -	$ -	$ -
Salaries, Wages and Commissions	$ 120,671	$ 113,484	$ 275,117	$ 360,815	$ 870,087	$ 355,510	$ 360,142	$ 365,838	$ 371,761	$ 1,453,252
Travel, Entertainment & Training	$ 121,670	$ 144,730	$ 97,449	$ 201,877	$ 565,726	$ 198,340	$ 201,428	$ 205,225	$ 209,174	$ 814,168
Total SG&A	**$ 983,679**	**$ 1,568,196**	**$ 1,464,203**	**$ 1,845,810**	**$ 5,861,888**	**$ 1,823,199**	**$ 1,849,433**	**$ 1,880,978**	**$ 1,913,781**	**$ 7,467,391**
Operating Income (Loss)	**$ 2,187,726**	**$ 1,511,904**	**$ 1,085,397**	**$ 995,742**	**$ 5,780,769**	**$ 1,228,379**	**$ 2,982,329**	**$ 5,228,561**	**$ 5,543,460**	**$ 14,982,729**
Loss on Acquisition										
Interest Income (Expense)					$ -	$ (137,500)	$ (137,500)	$ (137,500)	$ (137,500)	$ (550,000)
Income from Joint Ventures					$ -	$ -	$ -	$ -	$ -	$ -
Income Before Tax	**$ 2,187,726**	**$ 1,511,904**	**$ 1,085,397**	**$ 995,742**	**$ 5,780,769**	**$ 1,090,879**	**$ 2,844,829**	**$ 5,091,061**	**$ 5,405,960**	**$ 14,432,729**
Income Tax	**$ 526,309**	**$ 332,842**	**$ 305,626**	**$ 248,935**	**$ 1,413,712**	**$ 272,720**	**$ 711,207**	**$ 1,272,765**	**$ 1,351,490**	**$ 3,608,182**
Net Income - After Tax	**$ 1,661,417**	**$ 1,179,062**	**$ 779,771**	**$ 746,806**	**$ 4,367,056**	**$ 818,160**	**$ 2,133,622**	**$ 3,818,295**	**$ 4,054,470**	**$ 10,824,547**
					$ -					**$ -**
Other Comprehensive Income (Loss)			**$ (25,013)**	**$ -**	**$ (25,013)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Less: Non-Controling Interests						**$ -**	**$ (45,227)**	**$ (76,560)**	**$ (67,455)**	**$ (189,243)**
Totla Comprehensive Income (Loss)	**$ 1,661,417**	**$ 1,179,062**	**$ 754,758**	**$ 746,806**	**$ 4,342,043**	**$ 818,160**	**$ 2,178,849**	**$ 3,894,856**	**$ 4,121,925**	**$ 11,013,790**
Basic Earnings per Share	**$ 0.02**	**$ 0.02**	**$ 0.01**	**$ 0.01**	**$ 0.06**	**$ 0.01**	**$ 0.03**	**$ 0.05**	**$ 0.05**	**$ 0.14**
Weighted Average Earnings per Share	**$ 0.02**	**$ 0.02**	**$ 0.01**	**$ 0.01**	**$ 0.06**	**$ 0.01**	**$ 0.03**	**$ 0.05**	**$ 0.05**	**$ 0.14**
Basic Shares Outstanding	**75,054,661**	**77,493,635**	**75,919,152**	**78,279,152**	**76,686,650**	**$ 78,279,152**	**$ 78,279,152**	**$ 78,279,152**	**$ 78,279,152**	**78,279,152**
Weighted Average Shares Outstanding	**75,054,661**	**77,493,635**	**79,136,664**	**78,279,152**	**77,491,028**	**$ 78,279,152**	**$ 78,456,818**	**$ 78,942,950**	**$ 79,502,001**	**78,795,230**

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.