Trickle Research

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

3Q-F21 Earnings Update

VEXT SCIENCE

Vext Science, Inc.

(symbol: VEXTF)

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

Report Date: 11/23/21

12- 24 month Price Target: $1.60

Allocation: 6

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

Closing Stock Price at Allocation Upgrade (Closing Px: 06/02/20): $.33

Closing Stock Price at Allocation Upgrade (Closing Px: 07/13/21): $.67

Closing Stock Price at This Update (Closing Px: 11/22/21): $.61

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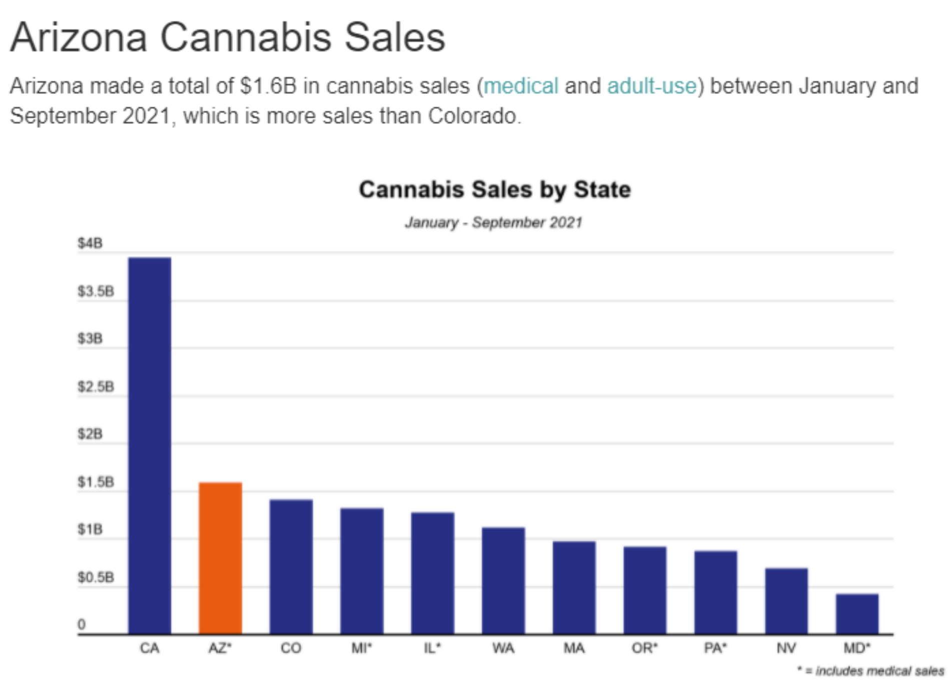
Disclosure: Portions of this report are excerpted from Vext's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text. Unless otherwise noted, all prices in this report are in US Dollars.

For 3Q-F21, VEXT reported revenues of $9.4 million versus our estimate of $9.6 million and they reported pre-tax operating income of $1.5 million versus our estimate of $2.4 million. In that regard, total operating expenses were $2.7 million versus our estimate of $2.26 million. Most of that difference was related to an adjustment to their accretion charges which were related to the purchase of assets associated with the management services provide to Organica. That charge was non-cash and non-recurring in nature. Collectively, the remainder of the operating expense line items were largely in line with our estimates. Ostensibly, the quarter was much what we expected, although as we have addressed ad nauseam in prior research, the accounting for the "relationship" with their customers makes the modeling difficult. Perhaps the best news from the conference call was that they continue to anticipate being able to reflect the business as their own starting January 1, 2022. Again, as we have noted, we think that event will provide a much better view of the Company's financial success and associated visibility, which we also think will lead to better valuations for the shares. That said, there were a few other constructive elements of the results and subsequent call that are worth considering.

First, the Company made a reference on the call that we think many people would find surprising. Specifically, through September 2021, Arizona became the second largest cannabis market in the U.S., finally surpassing Colorado. Again, we were a bit surprised by that, but only with respect to the timing, as Arizona has been on an impressive trajectory since it legalized recreational marijuana in January (2021). While perhaps it goes without saying, we think that is quite constructive for VEXT, and it has been a cornerstone of our thesis since we initiated the coverage. We retrieved the Arizona statistics from a recent report on the market from Headset, which is an aggregator/interpreter of cannabis market data, and that report is available here: A high-level overview of the Arizona cannabis market | Headset . Here are a couple of interesting excerpts:

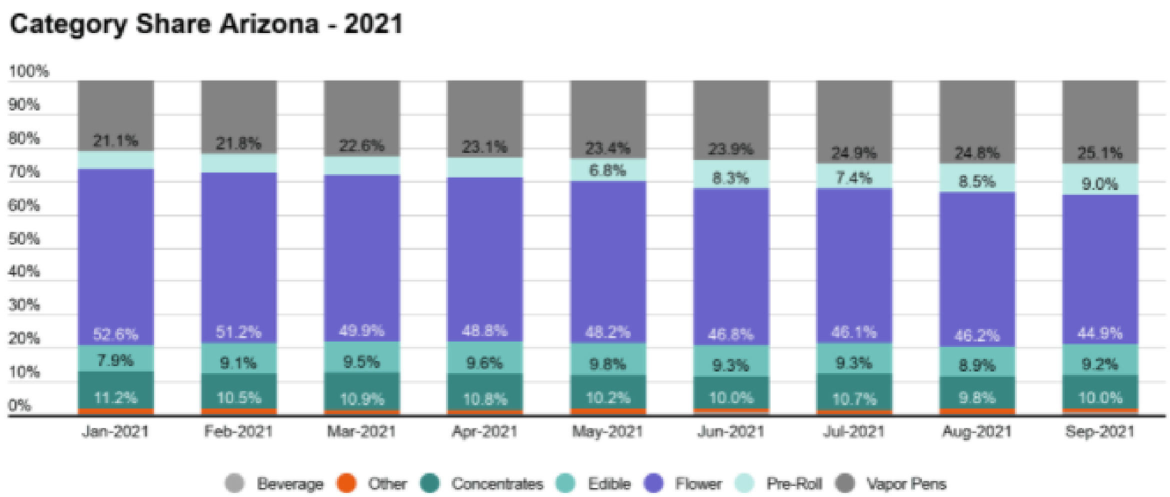


A high-level overview of the Arizona cannabis market | Headset

Aside from the above graphic regarding Arizona's rank in the overall U.S. market, the aforementioned report also provides some interesting data from *within* the Arizona market that we thought was quite topical to VEXT.

For instance, the table below illustrates the market share of various product types through September of calendar 2021. As another publication regarding the Arizona market from www.azmarijuana.com notes:

"*While Flower is the largest category in Arizona, market share has decreased from 52.6% in January to 44.9% in September. **Market share to Vapor Pens has increased from 21% to 25% from January to September**, and Pre-Rolls has increased from 5% to 9% in the same period. Further, there was a sharp decrease in average item pricing (AIP) of Flower from January to September (-21%), indicating an oversupply of inventory in the category or potentially an adjustment to pricing to match consumer expectation. This runs in contrast to the 7% increase in AIP for Vapor Pen items over the last nine months".* Arizona Has Sold More Marijuana in 2021 Than Colorado (azmarijuana.com).



A high-level overview of the Arizona cannabis market | Headset

First, as the market narrative above references, despite seeing marked increases in cannabis revenues since the first of the year, Arizona has also experienced some market disruption in the form of oversupply and by extension, flower prices. We do not find that particularly surprising as we suspect providers were trying to gauge (guess) the demand from new recreational consumers. From that perspective, we would expect those inefficiencies to get wrung out of the system as market visibility improves with time. To translate, we think supply and pricing will be less volatile as we move forward. In addition, we thought the observation regarding both expanding market share and better pricing for vapor pens and other branded products, also fit well with another element of our initiating

thesis which was/is the value (and perhaps differentiation) of the Company's Vapen Brand and the value-added products they have developed within it. We would add one item that the Company noted on the call that is relevant to Q3 and the Arizona market, which is that unlike some cannabis markets, summer is a seasonally weak period for the state, as winter provides more vacation traffic and presumably more recreational sales.

In short, VEXT continues to successfully operate and grow its integrated footprint in Arizona, which we believe currently represents one of the more attractive markets in the U.S. At the same time, as the Company addressed in their call, they are now turning their sites to another market they have had in the que for some time now and are beginning to rationalize. That market is Ohio.

Currently, Ohio is a medical cannabis state, but the political winds look to be blowing in the direction of recreational legalization as well. Recent legislative updates from the state suggest that *Republican members* of the state legislature have recently introduced a bill to legalize recreational marijuana. That said, VEXT management noted on the call: "*Ohio reminds us of Arizona in many ways and has the return on capital characteristics we look for"*. Along with that observation we would note, the population of Ohio is approximately 11.8 million people, or about 165% that of Arizona (7.15 million people).

Recall, the Company initially engaged in Ohio through a letter of intent with a processing partner, which has led to the Vapen brand "*being stocked on most dispensary shelves and selling well in Ohio*". Further, through other joint ventures, the Company and its partners have recently been granted ownership of an operating manufacturing facility in Jackson, Ohio, as well as receiving a level one cultivation license (through another JV partner). The cultivation license allows for the buildout of *"up to twenty-five thousand square feet with the potential to expand up to fifty thousand square feet following further application and approval"*. On the retail side, VEXT has *"an LOI in place that will enable the transfer and operating of a retail license*" and they can apply for the transfer of that license in July (2022). Recall, they procured that provisional dispensary license via their JV partner in July 2021, which at the time required a 12-month period before it could be fully transferred, so that clock has been ticking. To translate, the Company is well on its way to participating (in conjunction with the joint ventures) in a fully integrated footprint in Ohio through calendar 2022. While this is speculation on our part, it looks to us like the timing of VEXT's full integration of its Ohio assets could very well coincide with the ramping of recreational sales in Ohio. As we think management accurately suggested on the call, Ohio should provide an additional valuation leg to the story, but we are not sure the street has assimilated that just yet.

To summarize, the quarter was much what we expected, but if we are being completely honest, we are biding our time with sharpening our research models until they can finally start reflecting the ownership (and subsequent reporting) of the Arizona operations starting January 1, 2022. Further, aside from the visibility benefits that will provide, we expect that portion of the business to continue to expand and further leverage their integrated footprint, which should also speak to better valuations. In addition, Ohio should provide sequentially improving contributions moving through 2022 and beyond, however, we have modeled only modest contributions from Ohio to this point. We suspect contributions from Ohio will be significantly greater than we are currently reflecting, and we will be updating our model as we gather a few additional data points.

We reiterate our price target and our allocation. Further, we view the recent weakness in the stock as disconnected from the fundamentals and as such would view additional weakness as an opportunity to increase our allocation.

Projected Operating Model

Vext Science, Inc. Projected Operating Model By: Trickle Research LLC					
	(actual) 3/31/2021	(actual) 6/30/2021	(actual) 9/30/2021	(estimate) 12/31/2021	(estimate) Fiscal 2021
REVENUES					
Management Fees	$ 1,800,000	$ 2,100,000	$ 1,350,000	$ 1,800,000	$ 7,050,000
Professional Fees	$ 3,122,053	$ 2,649,714	$ 2,352,062	$ 3,206,623	$ 11,330,452
Product Sales	$ 3,641,085	$ 3,254,852	$ 3,244,440	$ 3,664,789	$ 13,805,166
Equipment Leasing	$ 554,907	$ 1,260,425	$ 2,223,548	$ 855,000	$ 4,893,880
Property Leasing	$ 42,246	$ 110,783	$ 229,650	$ 100,000	$ 482,679
Total Revenues	**$ 9,160,291**	**$ 9,375,774**	**$ 9,399,700**	**$ 9,626,412**	**$ 37,562,177**
COST OF SALES					
Cost of Goods	$ 2,472,081	$ 2,216,540	$ 2,378,440	$ 2,495,721	$ 9,562,783
Salaries Wages and Contractors	$ 2,064,835	$ 2,447,776	$ 2,229,736	$ 2,226,269	$ 8,968,617
Property & Equipment Leasing, Utilities and Property Tax	$ 19,655	$ 15,210	$ 50,762	$ 36,657	$ 122,284
Amortization	$ 443,833	$ 479,033	$ 639,449	$ 437,496	$ 1,999,811
Total Cost of Goods Sold	**$ 5,000,404**	**$ 5,158,559**	**$ 5,298,387**	**$ 5,196,144**	**$ 20,653,495**
Gross Profit	**$ 4,159,886**	**$ 4,217,215**	**$ 4,101,313**	**$ 4,430,268**	**$ 16,908,682**
OPERATING EXPENSES					
Advertising & Promotion	$ 134,513	$ 137,741	$ 110,095	$ 149,828	$ 532,177
Amortization & Accretion	$ 332,960	$ 473,912	$ 1,032,664	$ 375,759	$ 2,215,295
Bank Charges and Interest	$ 158,840	$ 171,277	$ 243,994	$ 168,324	$ 742,435
Consulting	$ 139,743	$ 219,638	$ 160,161	$ 141,427	$ 660,969
Insurance	$ 42,208	$ 56,628	$ 89,833	$ 87,665	$ 276,334
Office and General	$ 355,872	$ 252,262	$ 56,062	$ 341,620	$ 1,005,816
Professional Fees	$ 325,025	$ 151,846	$ 221,060	$ 283,296	$ 981,227
Rent, Property Tax and Utilities	$ 53,847	$ 13,312	$ 145,307	$ 41,989	$ 254,455
Repairs and Maintenance	$ 113,231	$ 35,089	$ 93,153	$ 122,301	$ 363,774
Research and Development	$ 42,883	$ 37,036	$ 39,387	$ 36,866	$ 156,172
Shared Based Compensation	$ 424,953	$ 220,410	$ 171,479	$ 140,996	$ 957,838
Salaries, Wages and Commissions	$ 294,596	$ 273,482	$ 263,095	$ 381,592	$ 1,212,765
Travel, Entertainment & Training	$ 55,709	$ 42,992	$ 29,913	$ 84,148	$ 212,762
Total SG&A	**$ 2,474,380**	**$ 2,085,625**	**$ 2,656,203**	**$ 2,355,809**	**$ 9,572,017**
Operating Income (Loss)	**$ 1,685,506**	**$ 2,131,590**	**$ 1,445,110**	**$ 2,074,459**	**$ 7,336,665**
Loss on Acquisition/disposal					
Interest Income (Expense)	$ 160,767	$ 196,983	$ 203,552	$ (62,000)	$ 499,302
Contribution from Joint Ventures	$ -	$ (102,938)	$ (2,602)	$ (116,540)	$ (222,080)
Investment Income	$ (303,157)	$ -	$ (212,675)	$ 17,684	$ (498,148)
Other					$ -
Income Before Tax	**$ 1,537,976**	**$ 2,308,501**	**$ 1,508,414**	**$ 1,913,603**	**$ 7,268,494**
Income Tax	**$ 398,900**	**$ 433,636**	**$ 538,308**	**$ 478,401**	**$ 1,849,245**
Net Income - After Tax	**$ 1,139,076**	**$ 1,874,865**	**$ 970,106**	**$ 1,435,202**	**$ 5,419,249**
					$ -
Other Comprehensive Income (Loss)	**$ 265,803**	**$ -**	**$ (109,872)**	**$ -**	**$ 155,931**
Less: Non-Controling Interests	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Comprehensive Income (Loss)	**$ 1,404,879**	**$ 1,874,865**	**$ 860,234**	**$ 1,435,202**	**$ 5,575,180**
Basic Earnings per Share	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.04**
Weighted Average Earnings per Share	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.04**
Basic Shares Outstanding	**99,951,301**	**136,712,134**	**136,712,624**	**137,256,964**	**127,658,256**
Weighted Average Shares Outstanding	**99,951,301**	**148,436,272**	**146,414,401**	**149,901,593**	**136,175,892**

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences.

VEXT has paid fees to present at Trickle's Co-Sponsored Investor Conference.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.