Allocation Upgrade Target Downgrade

Vext Science, Inc.

(symbol: VEXTF)
www.vextscience.com

Report Date: 01/12/23

12- 24 month Price Target: **$1.35

Allocation: *7

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 Allocation Upgrade & Target Decrease (Closing Px: 01/11/23): $.21

Prepared By:
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Trickle Research

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 a couple of reasons, while we have provided some updates in our general update overview(s), we have not updated VEXT individually for the past few quarters, so we are doing a bit of catch up here. Recall, at the beginning of fiscal year 2022 (January 1, 2022), they began reporting their operations as a fully owned and operated enterprise. As we noted along the way in the past coverage, prior to that date the collective enterprise(s) were owned by not-for-profit organizations as required under Arizona's cannabis laws. However, in conjunction with the passage of state initiatives allowing recreational marijuana sales, Arizona also amended the rules to allow for the for-profit ownership of cannabis related assets within the state. As a result, on January 1, 2022, VEXT began reporting the results of the enterprise as a fully owned and operated business. Prior to that time, they operated under a managed service agreement, with some additional nuances, that made it very difficult to evaluate the business. Succinctly, we believed (and stated so in prior research) that the visibility provided by their new reporting posture would be positive for the stock, as it would in our view, finally illuminate the strengths of the business and frankly the strength of management. In retrospect, we were half right… in our view, the new reporting *has* provided positive visibility with respect to the strengths of the business and its management, but it has not translated into higher stock prices. Rather, the stock traded down precipitously through 2022, which coincides with the start of the new reporting/ownership regime.

Clearly, the equity markets have been a rough place through calendar 2022, and some sectors have fared worse than others. Moreover, as is typically the case, volatile markets are particularly acute with respect to microcaps, and that has certainly been the case this time around. Further, the selling has been broadly indiscriminate leaving few places to hide outside of perhaps energy and some other resource names. Again, none of that is atypical for bear markets.

The above said, while we think it is fair to say that the selling in many names has been "indiscriminate" and broad, we are not sure that approach is reflective of the fundamentals of some of the microcap names we follow, or others we do not for that matter. We think VEXT is one of those and we will provide some added support for that notion, but to put it in simple terms, we think the stock is oversold.

To retrace a notion from above, clearly, some of the genesis of the malaise in the equity markets is the rising rate path the Fed has set in motion to mitigate inflation. In short, the Fed is pulling liquidity out of the economy and by extension the financial markets, which is *partially* responsible for the current bear market. More specifically, we would argue that like bear markets (and really in lock step with) declining liquidity tends to negatively impact many small public companies more acutely than many larger counterparts. From the 10,000-foot-view, that is not overly intuitive. Many small companies are not profitable, so they need to fund operations for some period and that often means the sale of their equity. Selling equity in an illiquid environment where share prices are already depressed is at best very expensive/dilutive and at worst not possible. Again, illiquid markets are challenging for small companies in that position. In addition, as a general asset class, small companies are viewed as riskier than their larger counterparts. As a result, bear markets and/or illiquid environments often push investors to more defensive postures, which means shedding riskier assets. Further, for equity investors who utilize margin leverage, non-marginable securities are often the first to go when liquidations to meet margin calls are necessary. To be clear, VEXT is profitable, so we assume the compression in the stock is not about the Company's liquidity. Moreover, we certainly cannot speak to the liquidity of its investors, but *we can* speak to some of the fundamentals that we think support our "oversold" conclusion above.

For the first 9 months of fiscal 2022 (ended September 30, 2022), VEXT reported Revenues of $27.2 million versus $27.9 for fiscal 2021. Virtually all that decline was related to the recent 3Q results. On the other hand, for the same periods, VEXT reported Net Income of $5.8 million versus $3.9 million despite the relative decrease in revenues. Further, adjusted EBITDA increased by roughly 36% (2022 vs. 2021) despite the lower revenue profile. On the face, we view those results as far more positive than negative.

In addition to the Arizona enterprise, VEXT recently provided an update on their efforts in Ohio, which we view as a marked milestone for the Company. The announcement of that addition is summarized below:

Vext Science Announces Proposed Acquisition of Ohio Operations and Related Financing Transactions - Will Create Fully Vertically Integrated Operator with Established Footprints in Arizona and Ohio

Dec 15, 2022, 19:03 ET

VANCOUVER, BC, Dec. 15, 2022 /CNW/ - Vext Science, Inc. ("Vext" or the "Company") (CSE: VEXT) (OTCQX: VEXTF) a cannabinoid brand leader based in Arizona, leveraging its core expertise in extraction, manufacturing, cultivation and marketing to build a profitable multi-state footprint, today announced that it has entered into definitive agreements (the "Purchase Agreements") to acquire Appalachian Pharm Processing, LLC, an Ohio limited liability company, together with its subsidiaries and affiliated companies (collectively, "APP") for total consideration of approximately $12.5 million, with $11 million paid in cash or promissory notes and $1.5 million, through the issuance of common shares of Vext ("Common Shares"), subject to certain customary adjustments (the "Proposed APP Acquisition"). The Proposed APP Acquisition is subject to regulatory approvals and other customary conditions precedent.

Concurrent with the Proposed APP Acquisition, Vext and APP have entered into a definitive agreement to acquire Buckeye Botanicals, LLC, an Ohio limited liability company operating a dispensary in Jackson, Ohio operating under the name Buckeye Botanicals ("Buckeye Botanicals") (the "Proposed Jackson Acquisition"), giving Vext a second retail storefront in Ohio to further strengthen its vertical position in the state. A cash payment of approximately $6.9 million, subject to certain customary adjustments, will be made by Vext upon closing of the Proposed Jackson Acquisition. The Company has already received approval from the Ohio Board of Pharmacy to transfer ownership of the license, and to operate under the name Herbal Wellness Center. The Proposed Jackson Acquisition is subject to customary closing conditions precedent.

The Proposed APP Acquisition and the Proposed Jackson Acquisition (together the "Proposed Transactions"), are expected to close by the end of the second quarter of 2023. All currency references used in this news release are in U.S. currency unless otherwise noted.

Transaction Highlights

Completion of the Proposed Transactions is anticipated to result in a number of benefits to Vext, including but not limited to the following:

Gives Vext 100% ownership of a vertically integrated footprint in the attractive Ohio market which has consistently exceeded revenue forecasts and continues to see an increased number of registered patients. Management of Vext believes the state has the potential to become a very attractive adult-use state in the future.

Creates a larger, diversified entity with fully vertically-integrated cultivation, manufacturing and retail capabilities across two limited license states with significant potential.

Will enable the Company to introduce a broader range of Vapen products to the Ohio market at scale. The Company's wholly-owned Vapen brand is consistently one of the top brands in the Arizona market.

Positions Vext as a preferred partner for out-of-market brands looking to establish a presence in Arizona and Ohio.

Financing

- *Ohio Loan*

  Concurrently with the execution of the Purchase Agreements, Vext entered into a loan agreement with an Ohio-based lender for an aggregate loan commitment of $10 million (the "Ohio Loan"). The Ohio Loan bears interest at an initial rate equal to the 5-year treasury rate + 5.00%, subject to a floor rate of 7.50%, and is secured against all of Vext's assets in the State of Ohio (including the assets of APP) and certain assets in the State of Arizona. The proceeds of the Ohio Loan are expected to be used for construction and improvements associated with AP Product's (as defined below), cultivation facility (and may be funded by Vext to AP Products pursuant to the RLOC (defined below)), and other general corporate purposes.

- *Rate Lock on Existing Credit Facility*

  As previously announced, Vext entered into an agreement with a California-based lender for a $22.2 million credit facility comprised of two term loans. Effective November 7, 2022, the Company amended its arrangement with the same lender to swap the floating interest rate on the first term loan at $17.185 million 20-year from WSJ Prime + 2.75%, with a floor price of 6.25%, to a fixed rate of 9.59%. The second term loan is a $5 million five-year second lien secured term loan and will continue bearing interest at WSJ Prime + 2.75%, with a floor price of 6.25%.

- *Ohio Footprint Highlights*

  Upon closing of the Proposed Transactions, Vext is expected to gain strategic access to the rapidly growing Ohio medical cannabis market through ownership of:

- *An operating Tier 1 cultivation facility in Jackson, Ohio, with an initial cultivation area of up to 25,000 square feet with the potential to expand up to 50,000 square feet. As recently announced, the Company, in association with APP, has received all necessary approvals and is fully-funded to build-out this cultivation space. Vext has been advised by APP that first harvest in this facility is expected to be achieved by the first quarter of 2023.*
- *APP currently has a fully operational manufacturing facility in Jackson, Ohio, adequate to meet the Company's needs for the foreseeable future.*
- *A cannabis dispensary in Columbus, Ohio which has been operating under the name Strawberry Fields since March 2021. The Company intends to apply to the Ohio Board of Pharmacy for an ownership transfer in January 2023.*
- *A cannabis dispensary in Jackson, Ohio, which has been operating under the name Buckeye Botanicals. The Company has already received approval from the Ohio Board of Pharmacy to transfer ownership of the license and to operate the dispensary as Herbal Wellness Center, aligned with the Company's Arizona retail branding.*

Management Commentary and Board Update

Commenting on the Proposed Transactions, Eric Offenberger, CEO of Vext noted, "We have consistently viewed Ohio as the focus for the next leg of Vext's growth. Ohio is a large, growing medical market with the potential to move to adult use, and its highly regulated, vertical market structure makes the state very attractive from a long-term return on capital perspective. While the overall macro backdrop will remain challenging for many operators, Vext's track record of constantly innovating and offering a broad range of value-priced products has made Vapen one of Arizona's top brands. These acquisitions will enable us to continue translating this success over to the Ohio market through the addition of a fully operational vertical footprint with plenty of room to scale. With an unwavering focus on delivering profitability and cash flow, Vext has the foundation to grow in this environment both organically and through highly selective, accretive M&A, with an eye to driving returns and shareholder value. David and his team are strong operators with a long history in the Ohio market, and I would like to welcome them to the team."

David Johns, Managing Director of Appalachian Pharm Processing commented, "Ohio's medical cannabis market continues to expand and mature. The state has already exceeded revenue projections in 20221 and given its potential adult-use upside, we believe it has the capacity to become one of the most attractive markets in the country. The combination of our established cultivation, manufacturing and retail presence with Vext's experience as a profitable operator and the strength of the Vapen brands that are already available on 95% of dispensary shelves in Ohio, will enable us to establish a firm foothold in this high growth market, while being well positioned to take advantage of any regulatory developments as Ohio moves closer to adult-use. Vext has been a great partner from the beginning of our relationship, and I know I speak on behalf of our entire team when I say that we are looking forward to growing this platform together into one of the most successful operators in the Ohio market."

The Company also announced today that the Board has accepted the resignation of Mr. David Eaton from the Board effective December 15, 2022 and after the Company's Annual General Meeting. In conjunction with Mr. Eaton's departure, Mr. David Johns has been appointed to the Board, effective December 15, 2022. Mr. Johns has demonstrated experience in the services and IT industry and sits on the boards of several companies. He is currently the Managing Director of APP in Ohio, which produces THC and CBD infused medical marijuana products for patients across the state.

Eric Offenberger, CEO of Vext commented, "As we take this step to consolidate vertical operations in Ohio, I would like to thank David Eaton for his leadership and advice over the years and welcome David Johns to the Board. With his extensive leadership and technical experience, as well as his expertise leading APP in Ohio, David Johns is an outstanding addition to the Vext team and Board."

Biography – David Johns

Prior to joining APP, David was the SVP and CIO at Ascena Retail Group Inc, where he successfully implemented large-scale IT transformation and project efforts. Previously, David led the Global Information Technology, Global Business Shared Services and Corporate Services Sourcing functions at Owens Corning, a Fortune 500 company specializing in building materials and composite systems. He joined Owens Corning in 1994, and in this latest role as SVP and CIO, David had oversight for all Owens Corning business shared service centers, manufacturing technology, project portfolio management, sourcing and information systems. Prior to his experience at Owens Corning, David held technology positions with Honeywell, Inc. and Time Warner. In both of these roles, he orchestrated major computer systems development and management activities at both the division and corporate *levels. David holds a Bachelor of Science in Computer Science Engineering from The Ohio State University and a Master of Business Administration from the University of Dayton. David was a scholarship athlete while at The Ohio State University. He was inducted into the CIO Hall of Fame in 2009 and was named one of Computerworld's Premier 100 information technology leaders for 2012.*

Terms of the Proposed Transactions

- *Proposed APP Acquisition*

Pursuant to the Purchase Agreements, Vext, through its wholly-owned subsidiary, Vapen Ohio, LLC ("Vapen Ohio"), will acquire all of the outstanding membership interests (not already owned by Vext) of each of Appalachian Pharm Processing, LLC, Appalachian Pharm Products, LLC ("AP Products") and APP1803, LLC ("APP1803") for aggregate consideration of approximately $12.5 million, consisting of:

an aggregate of $750,000 in cash paid upon execution of the Purchase Agreements and a further $1,250,000 in staged payments on or before January 6, 2023;

an aggregate of $3.0 million principal amount of unsecured promissory notes (the "Initial Promissory Notes") issued by Vapen Ohio upon execution of the Purchase Agreements;

an aggregate of approximately $6 million principal amount of unsecured promissory notes (the "Closing Promissory Notes") to be issued by Vapen Ohio on the earlier of (i) closing of the Proposed APP Acquisitions and (ii) January 1, 2023; and

an aggregate of 8,999,989 Common Shares, at a deemed price of $0.156 per share, issued upon execution of the Purchase Agreements (the "Share Consideration").

The Initial Promissory Notes bear simple interest, from the date of issuance, at a rate of 8% per annum and the outstanding principal plus accrued interest shall be repaid six months after closing of the Proposed APP Acquisition. The Closing Promissory Notes will bear simple interest, from the date of issuance, at a rate of 8% per annum, and will be subject to interest only payments for a period of two years from the date of issuance and thereafter, will require quarterly payments of principal and interest on a 20 year amortization schedule and will mature on December 31, 2026.

In connection with execution of the Purchase Agreements, Vext converted the outstanding $4 million loan payable by APP1803 for a 50% economic interest and 48% voting interest in APP1803 and such loan was thereafter terminated in accordance with its terms.

Pursuant to the Purchase Agreements, Vext also entered into a management services agreement (the "MSA") and revolving line of credit agreement (the "RLOC") with AP Products. Under the MSA, Vext will provide certain management, staffing, administrative and other services to AP Products prior to completion of the Proposed APP Acquisition in consideration of a service fee of a minimum of US$50,000 per month, plus an additional amount determined based on the weight of medical marijuana cultivated and produced by AP Products for such month and reimbursements of the Vext's costs and expenses in connection with the MSA. Under the RLOC, Vext has agreed to provide AP Products with up to $15 million in funding (including, for greater certainty, all outstanding amounts previously funded by Vext in connection with Vext's joint venture arrangement with APP) to be used by AP Products for the build out and operations of AP Product's cultivation facility. The loans under the RLOC accrue simple interest at the rate of 8% per annum and will be subject to interest only monthly payments beginning January 31, 2024, and thereafter, will be repayable in full on the earlier of (i) 48 months after *the last advance and (ii) 12 months after termination of the Purchase Agreement with respect to AP Products.*

The Proposed APP Acquisition is subject to certain customary conditions precedent, including without limitation, receipt of all necessary regulatory approvals, and is expected to close by the end of the second quarter of 2023 and, pending receipt of regulatory approvals, may close in one or more closings. Copies of the Purchase Agreements will be filed on Vext's issuer profile on SEDAR at www.sedar.com.

Proposed Jackson Acquisition

Jackson Pharm, LLC ("Jackson Pharm"), a wholly owned subsidiary of Vext, entered into definitive agreements to acquire one hundred percent (100%) of the membership interest in Buckeye Botanicals (collectively, with all ancillary transaction documents, the "Buckeye Botanicals Purchase Agreements") for aggregate consideration of $6.9 million, which will be paid from a portion of Vext's newly acquired financing commitment.

Pursuant to the Buckeye Botanicals Purchase Agreements, Jackson Pharm submitted regulatory transfer documents to transition one hundred percent (100%) of the membership interests of Buckeye Botanicals to Jackson Pharms with the Ohio Board of Pharmacy, including the management and control rights to the underlying medical marijuana dispensary license allocated to Buckeye Botanicals (collectively, the "Regulatory Transfer").

On or about December 12, 2022, the Ohio Board of Pharmacy officially approved the Regulatory Transfer and issued a Certificate of Operation to Jackson Pharm authorizing it to operate the Buckeye Botanicals medical marijuana dispensary under the name "Herbal Wellness Center" in Jackson, Ohio, giving Vext one hundred percent (100%) ownership and management and control rights to the underlying medical marijuana dispensary license. In connection with the Regulatory Transfer, Vext, through Jackson Pharms, will perfect its control through a negotiated two-week plan of transition with a target completion date of on or about January 2, 2023, for purposes of performing final inventory reconciliation, converting systems, making operational adjustments, installing signage, and other related matters. Following the completion of the transition plan, Vext is anticipating to launch Buckeye Botanicals as a new Herbal Wellness Center dispensary on or about January 3, 2023. Closing of the Proposed Jackson Acquisition is subject to certain customary conditions precedent, including without limitation, payment of the $6.9 million cash consideration, subject to customary adjustments.

About the Ohio Market

Ohio is the seventh largest state in the U.S., with approximately 11.7 million residents. The Ohio medical cannabis program is a limited license market with distinct licenses for cultivation, processing, and retail. As of October 31, 2022, the Ohio Medical Marijuana Control Program reported over 317,018 registered medical patients, and as of November 27, 2022 the state generated approximately $1.09 billion in total medical cannabis product sales. As of November 2022, there are currently 131 operational dispensaries, 37 operating cultivators, and 46 operating processing facilities across the state3.

Source: https://medicalmarijuana.ohio.gov/Documents/ProgramUpdate/program%20update.pdf (accessed December 15, 2022)

Fairness Opinion

The Company's board of directors (the "Board") received a fairness opinion from Eight Capital that, as of the date of such opinion, and based upon and subject to the assumptions, limitations and qualifications *set forth therein, the consideration to be paid by Vext pursuant to the Agreements is fair, from a financial point of view, to the Company.*

Advisors

Eight Capital acted as financial advisor to Vext and its board of directors. McMillan LLP and Bianchi & Brandt acted as legal counsel to Vext. Gordon Bibart, LLC acted as legal counsel to APP.

Recall, Ohio is a medical use and limited license cannabis state. in the context of applicable state law, the Ohio acquisition essentially started as a joint venture, with the idea that ultimately, VEXT may be able to acquire the entire enterprise pending the transfer/letting of appropriate licenses to VEXT. As the announcement of this acquisition notes, they have managed to achieve the transfer of most of those applicable licenses, clearing the way for VEXT's acquisition/ownership of the assets. To reiterate, this is in our view, a major milestone for VEXT.

The Ohio assets will ultimately include an operating footprint that is similar to the current Arizona operating footprint. Per the release, the Ohio assets include "*an operating Tier 1 cultivation facility in Jackson, Ohio, with an initial cultivation area of up to 25,000 square feet with the potential to expand up to 50,000 square feet. As recently announced, the Company, in association with APP, has received all necessary approvals and is fully-funded to build-out this cultivation space. Vext has been advised by APP that first harvest in this facility is expected to be achieved by the first quarter of 2023. Further, APP currently has a fully operational manufacturing facility in Jackson, Ohio, adequate to meet the Company's needs for the foreseeable future"*. Again, the current cultivation space as well as the available cultivation expansion, the current production facility/capacity, two operating dispensaries and established distribution of VEXT/Vapen branded products across most of the dispensaries in Ohio, are quite similar to the integrated operation in Arizona.

In terms of the rollout and contribution of Ohio as a wholly owned asset of VEXT, we are modeling the following around our understanding of the acquisition timeline and the revenue recognition associated with it.

The appropriate license transfers for cultivation, processing and the Jackson dispensary are completed. Further, as referenced above, they are expecting first harvest in the current quarter (Q1F23). Despite the anticipated 2QF23 closing, we believe the Company may be able to consolidate the approved/transferred assets. Thereafter, we have assumed the transfer and associated consolidation of the second dispensary (Columbus) in Q3F23. Clearly if our assumptions regarding the timing of the transfers, closing and consolidation(s) are inaccurate, our models will prove equally aggressive.

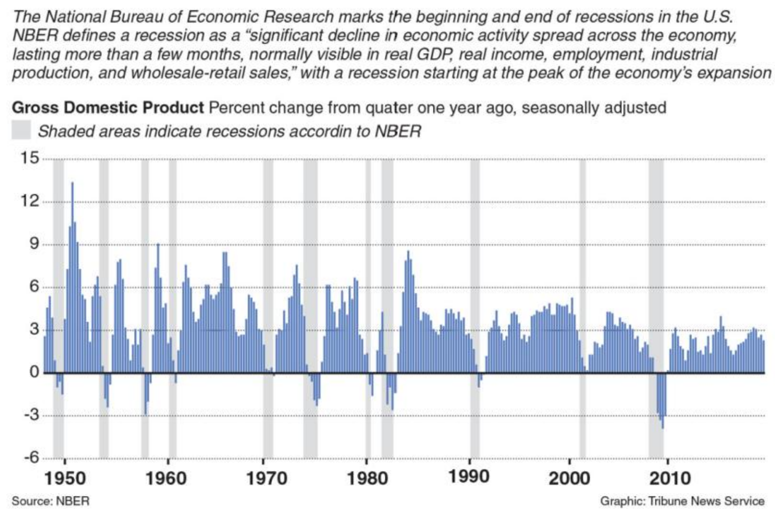
Given the above timeline, we are modeling combined (Arizona and Ohio) VEXT revenue of $67.7 million, and EPS of US$.07 for fiscal 2023. Further, we also modeling adjusted EBITDA of $26 million for fiscal 2023. If that assessment proves reasonably accurate, adjusting for the additional debt added for the Ohio acquisition(s), VEXT is currently trading at projected adjusted EBITDA of 1.4X Enterprise Value. We think the stock is oversold.

Beyond the timing of Ohio, there are some additional macro items we have tried to address in our new modeling that we think will impact industry results for the foreseeable future and as such are worth delving into. (Note; some of our macro analysis is supported by data and charts from Headset, which is a *"leading cannabis data & market intelligence solution with a focus on consumer insights, purchasing behavior & retail trends"*. The research/data can be accessed on their site: www.headset.io.)

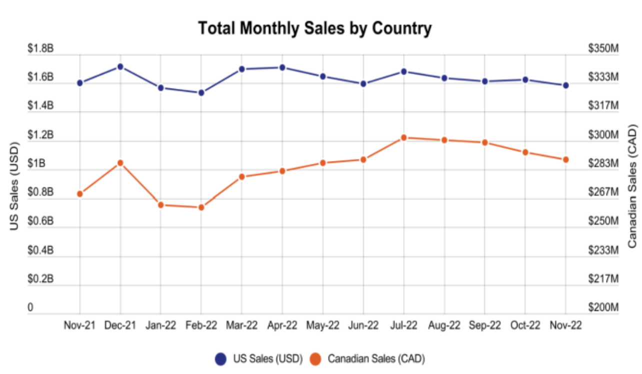
To clarify, as most of our readers are aware by now, we are generalists, so we follow companies in multiple industries. By definition, that means we are not industry "experts", but rather, we tend to be of the view that while certainly all industries differ from one another in various ways, they are all also typically subject to the same rules of supply and demand as well as to other macro issues (government oversight and regulation for instance) so from *that perspective*, they are perhaps *not all that different.* Extending that thought, some of our readers will also recognize that while we reside in Colorado (arguably, along with California, "ground zero" for cannabis legalization), we have always carried a more guarded view of the cannabis industry than many. Some of the macro issues we will cover below are manifestations of some of those concerns we have had along the way.

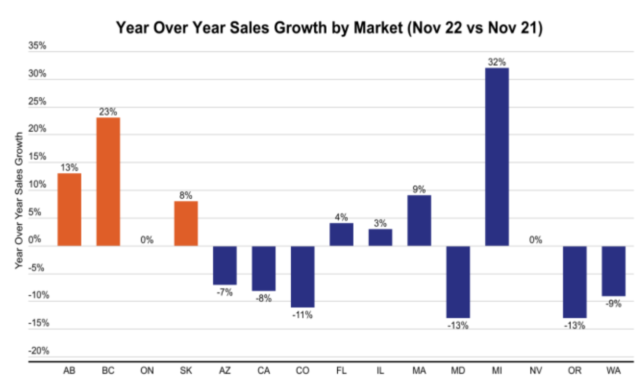
- **Economy and Recession**

The chart below reflects the periods of U.S. recession since 1950:

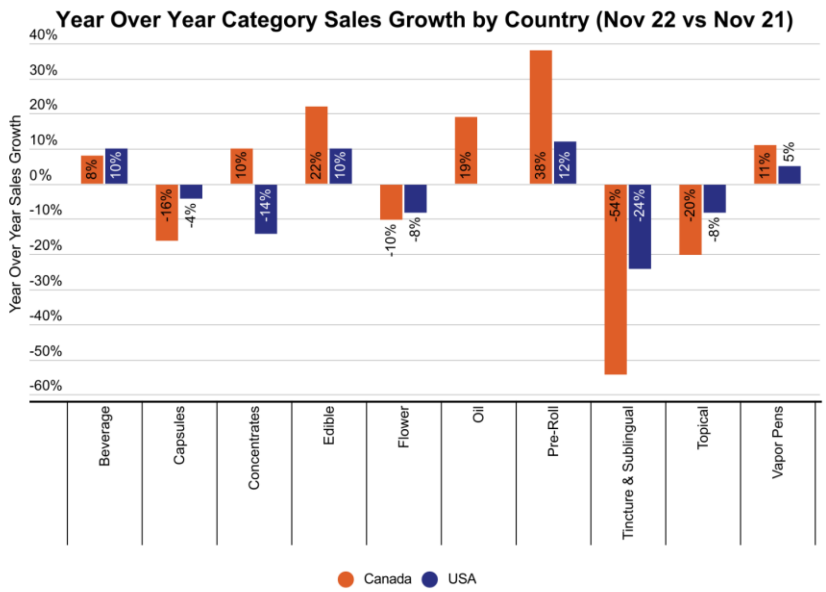


Without delving into the chronological minutia of state-by-sate legalization of medical and/or recreational cannabis, we would submit that if we look back at the emergence of the legal cannabis industry in the U.S., it has largely occurred through what is perhaps the longest economic expansion of the past 75 years. Put another way, the U.S cannabis markets have never encountered a recession. That is a topical notion because we think most have assumed that the cannabis industry would largely prove uncorrelated to recession. We believe that view has probably emanated from the fact that historically, the alcohol industry has proven to be quite resilient to economic downturns. Succinctly, for a variety of reasons, cannabis may not be quite as resilient to recession as its alcohol counterpart. That may provide some explanation for slowing cannabis sales growth across the U.S. through 2022, especially in more mature markets like California, Colorado and Washington (as well as Arizona), and it may have implications for 2023 if we do in fact experience the recessionary backdrop many are predicting. To be fair, we think some of the muted sales growth may be related to comparisons to robust results stemming from the pandemic, which apparently supported cannabis sales. However, again, our sense is that slowing economic activity may negatively impact the industry more than many industry pundits envisioned.





As an extension to the above, recent cannabis sales results also include some additional data points that we think are worth considering. The chart below (also from Headset: Cannabis trends in 2022: A year in review | Headset), reflects that sales declines were not universal across product categories. Specifically, in the U.S. for instance, flower and concentrate sales were down 8% and 14% respectively, while some of the other categories (edibles, beverages and vapor pens for example) continued to reflect YoY growth. While perhaps anecdotal, we think the relative performance of these categories in the context of the economic environment may provide some color to our notion that cannabis may not be as resilient to economic contraction as some believe.

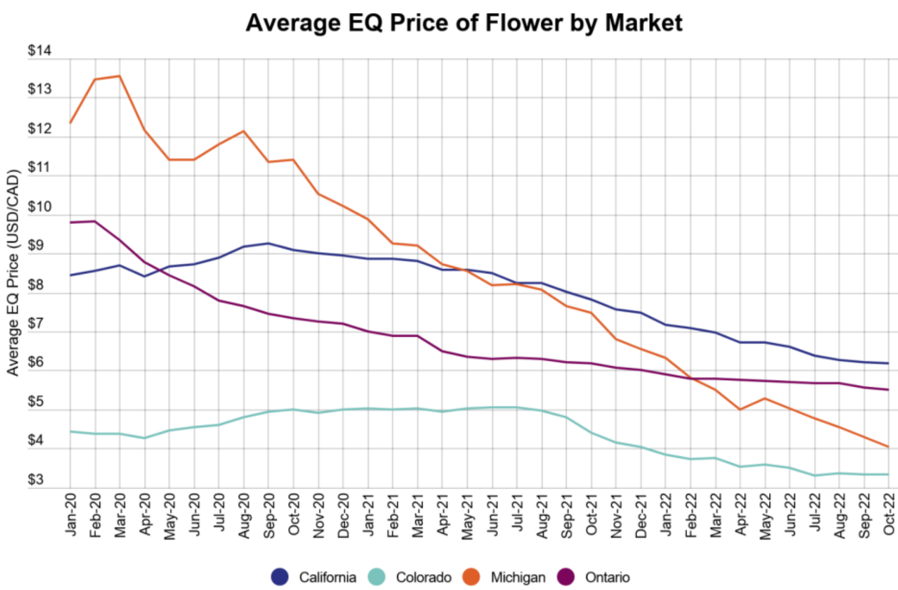


First, our (unscientific) sense is that the predominant flower and/or concentrate consumer is likely to be a more "seasoned" cannabis user. We do not view that as a huge leap of faith since most pre-legalization ("seasoned") users consumed either flower or concentrates because that was what was generally available at the time, so it follows that they are likely more comfortable with smoking cannabis than perhaps newer consumers. Moreover, flower and concentrates tend to act more quickly on the user, and they are typically cheaper on a THC equivalent basis than many of the processed alternatives such as edibles.

In addition to seasoned consumers being comfortable with smoking cannabis, some analysis suggests that for many there is still a stigma related to cannabis use that negatively impacts the industry. We think some of the post-legalization form factors that have emerged (edibles, beverages vape pens etc.) tend to be more acceptable to those that may be impacted by that stigma. Generally, these processed alternatives (albeit more expensive) are more discreet and more predictable from a dosing and "high" perspective, making them a better choice for nascent and/or more casual cannabis users. In short, just as the categories of cannabis products probably support different consumer types (seasoned cannabis users who prefer flower or concentrates for instance), those differences may also include some correlated socioeconomic factors as well. That is, maybe flower and concentrate customers *in the aggregate* have less disposable income than collective consumers of other processed categories. In that case, one might expect a contracting economic environment to negatively impact flower and concentrate sales more than edibles and vape pens. Further, and again this is just our sense, but we suspect more seasoned users might also be more likely to buy cannabis in the black market than their nascent/casual user counterparts. Here again, in that case, tighter economic environments and less resulting disposable income, might incentivize some users to seek cheaper black-market alternatives, which brings us to our next bullet point.

- **Pricing**

Beyond what looks like a slowing economy, we think portions of the industry are experiencing pricing pressures that frankly, support some of the ongoing concerns we have had about the industry for some time now. Here again (although not surprisingly) the price compression seems to be more pronounced in more mature markets, and especially those that have ultimately legalized recreational use. The chart below (again from Headset) reflects some of this compression in three of the larger U.S markets. (Incidentally, Arizona's price compression for the same periods was marked as well).



To segue a bit, the chart above may seem a bit counterintuitive through a period when nearly every other product on the planet was/is experiencing rising prices. While there may be multiple reasons why several of these jurisdictions are experiencing pricing pressure, we are of the view that much of that pressure comes from the black market (illegal) cultivation of cannabis flower in many of these states. While we are not sure anyone really knows the correct number, there are informed people and groups that believe for instance that over half of California's cannabis sales and/or consumption come from illegal grows. We think it is fair to say that for several reasons, California's problems with illegal cannabis may be the most acute amongst legal cannabis states, however, it is a problem for most of these jurisdictions. Moreover, there is evidence that suggests that illegal cannabis from some states (California for instance) is making its way into *other states* as well. To reiterate, this is not a surprise to us, nor to many others we suspect. The reality is that illegal producers hold considerable comparative advantages over their legal competitors, which include the avoidance of regulations as well as favorable pricing power derived from the avoidance of considerable tax structures. The table below reflects some of the impact of those comparative advantages (or disadvantages for those on the legal side of the ledger), and as it reflects, they are considerable in some jurisdictions:

In Which States Are Dispensary Prices Most Expensive Compared to Street Prices

Based on Average Price of an Ounce for Midlevel Marijuana

Rank	State	Dispensary Price	Street Price	% Saved
1	California	$299	$218	27%
2	Arizona	$290	$254	12%
3	Washington	$238	$210	12%
4	Oregon	$214	$191	11%
5	Michigan	$301	$274	9%
6	Colorado	$223	$219	2%

Is It Cheaper to Buy Weed on the Street or at a Dispensary? - Priceonomics

Recognize, there are other reasons for the proliferation of illegal cannabis beyond taxation and associated price advantages. However, whatever the reasons, in our view, if legal cannabis industries in applicable states are to thrive, regulators are going to need to better deter illegal operations. Each legal jurisdiction has garnered marked tax revenue from legal operations, so committing some of those resources to preserve the industry(s) and the tax revenues associated with them seems paramount to us. While we consider illegal operations to be a serious headwind for legal operators, there is evidence that regulators in at least some jurisdictions, are beginning to understand and address the issue in a more robust fashion. We believe success in that regard, would lead to improved pricing environments for legal operators. In the meantime, as the table above reflects, the pricing advantages for illegal players are problematic.

- **Seasonality**

With respect to the Arizona market, we have always assumed that it would likely experience some seasonality, although our expectation has been that seasonality would be more pronounced around the recreational side of the market. In short, unlike some legal recreation states, winter is Arizona's "tourist season". Moreover, Arizona's extreme heat in the summer likely exacerbates the seasonality, and we think this past summer's extraordinary heat likely added to that scenario, which we think played a role in lower sales in Q3.

Aside from the above, we also think the 2022 numbers in Arizona include some other nuances that it may make sense to keep in mind as we move forward. First, recall that recreational use of cannabis has only been legal in Arizona since 2021. Our sense is that initial upticks in sales around that catalyst for some period of time was expected. The question is, once the novelty of recreational use wanes, what does the "normalized" recreational cannabis market in Arizona look like? In our view, part of the answer to that is tied to the seasonality issue we noted. In addition, while there is/has been some reciprocity amongst some medical use jurisdictions, those rules collectively include some caveats that certainly do not make reciprocity seamless. As a result, we think the adoption of recreational use, especially in states with robust tourist industries (Arizona's "snowbirds" for instance) likely increases the seasonality impact of cannabis sales in those jurisdictions, since visitors may then be able to purchase recreational cannabis but could not purchase medical use cannabis. In terms of VEXT, our sense is that seasonality negatively impacted Q3 and is likely to do so in the future as well as Arizona recreational sales continue to "normalize". On the other hand, we also tend to think that Ohio's seasonality issues may act to counter some of Arizona's in that the respective tourist seasons likely run counter to one another. Again, we have attempted to work seasonality into our model, which we have not done in the past.

Given the macro issues we addressed above, our sense is that Arizona's cannabis market in 2022 was subject to a handful of these issues (as well as perhaps others) that have probably provided some "noise" that require some attention. Again, we have attempted to include (and smooth) some of these macro issues in our forward modeling and attempted to ascertain their ongoing impact. Obviously, we will continue to monitor the impact of these variables on the business as we move forward.

To summarize, we think the cannabis industry is getting more challenging. To be fair, some of those challenges are coming from what we think is an increasingly more difficult macroeconomic environment that is making it tougher on most industries. On the other hand, as we addressed above, there are also specific industry challenges that are emerging most notably in some of the early legalization states, especially those that have subsequently legalized recreational use. That said, every industry has its specific obstacles, but they also have specific opportunities and generally, those who are best able to take advantage of the opportunities are those who can also best manage around the obstacles. Put another way, we think the ultimate fundamental "winners" in the cannabis industry will not by default be those with the most licenses or other similar metrics that have historically driven valuation in the space, but rather those with managers who best negotiate the macro and micro nuances they are faced with. That brings us back to why we continue to cover VEXT.

Through the first 9 months of 2022, VEXT reported revenues of US$27.2 million and after-tax net income of US$5.8 million. If our estimates for Q4F22 prove reasonably accurate, we think fiscal 2022 will reflect revenues of around $35 million and after-tax net income of about $6.8 million. VEXT's current outstanding share count at 09/30/22 was 71,155,467 shares, but the fully diluted number includes the conversion of 672,747 multiple voting shares owned by Founder and Executive Chairman Jason Nguyen into 6,727,470 common shares for a total of 138,430,167. That share base puts the current market capitalization of the stock at approximately US$30 million. If we add the Company's cumulative debt at 09/30/22 and then subtract the cash, it places the Enterprise Value of VEXT at approximately US$40 million. Therefore, based on our estimate of fiscal 2022 after tax earnings of US$6.8 million, the stock is currently trading at just under 6 times Enterprise Value. Recognize, again if our 2022 fiscal projection proves reasonably accurate, VEXT will report a 5% decrease in revenues (largely related to some of the issues we covered above) ***while at the same time reporting a 42% increase in after tax net income***. To put that into perspective, "back in the day" a general rule of thumb was that p/e ratios were assumed to be something near fair value when they approximated the earning growth rate. In other words, a 42% earnings growth rate would equate to a p/e ratio of 42X. Obviously, *on that basis* VEXT would be trading something closer to US$2.00 per share. We reiterate, we think the stock is oversold.

On the other hand, we submit, we do not expect VEXT to growth earnings by 42% into the foreseeable future. Rather, revisiting the macro inputs modeling approach we covered above, we are expecting VEXT's 2023 **Arizona comps** to be down relative to 2022 largely because we are not modeling improvements in pricing from 2H-2022 levels, which means we are assuming lower pricing for the full year versus 2022, which saw better prices in earlier portions of the period. In addition, we are anticipating a contracted economic backdrop relative to 2022 as well. Clearly, if those inputs are indeed collectively softer it will likely negatively impact the comps. Frankly, we think the price of the stock has clearly baked in lower expectations. That said, there are a couple of major elements to the story that beg consideration here.

First, while we understand the compression in the stock around some of the noted macro headwinds, we think the street may be overlooking the more topical point, which is that despite the headwinds VEXT management has been able to post impressive results in the face of the challenges. In our view, those kudos should include not only their ability to negotiate the environment, but also the integrated operating strategy they put in place some time ago, which we think has provided them some of the flexibility that has allowed them to weather the storm(s). For instance, as they noted on their call, they were able to mitigate some of the negative impact of the quarter by utilizing excess processing capacity and adding some tolling business. Further, despite the revenue compression in Q3, the Company still managed to maintain gross margins of 60%, which we think in part was due to their ability to make adjustments in product mix, discounting etc. While we submit, gross margin was lower than the two prior periods, it was markedly higher than all four reporting periods in 2021. Again, we think management has done a good job of establishing operating flexibility and by extension manipulating the various levers of the business to optimize results. In addition, they were also able to make quick adjustments to (cash) operating expenses, which took some of the pressure created by lower revenues and lower *gross* margins off *net* margins.

Second, as we alluded to above, we think some of the macro challenges we have raised (black market price compression for instance) are more prevalent in mature recreational markets. Given that Ohio is a limited license, medical only state, our expectation is that for at least some measurable period, Ohio operators will enjoy the protections of that regulatory environment. Consequently, we think the addition of VEXT's Ohio operations could "smooth" some of the challenges they are seeing in Arizona. The Ohio addition(s) will almost certainly be considerably additive to VEXT's results for the foreseeable future and to reiterate, we expect that to begin in the current quarter, and accelerate through F2023. To be clear, our new valuation/target assumptions are based in part on these additions.

To conclude, we think some of the fundamental realities of the cannabis industry are starting to set in and that is perhaps especially true in more mature recreational markets. That comment sounds more ominous than perhaps it is. Setting aside the miscalculations of governments trying to "manage" the free market, all that comment really means is that the winners in mature cannabis markets are likely to look like the winners in every other industry; those that manage and operate their enterprises around sound business practices. In case it is not clear, if that is the criteria for success, we continue to like VEXT's chances. Given some of the macro challenges we covered above, we have lowered some of our expectations for VEXT's Arizona operations, especially for fiscal 2023. At the same time, we are including new expectations for the addition of Ohio, which again we expect to be markedly additive. Collectively, we are looking at those nuances as something like one step back and two steps forward. As a result, we are establishing a new (lower) 12-24 month price target for VEXT shares of **US$1.35. That target represents a projected year end 2023 Enterprise Value to projected 2023 adjusted EBITDA of about 7.75X, and around 5.9X the respective 2024 metrics. In light if that target in relation to the current stock price, we are raising our allocation from 6 to *7 as well.

Projected Operating Model

(Assuming the Integration of Ohio)

Vext Science, Inc.
Projected Operating Model
By: Trickle Research LLC

	(actual) 3/31/2022	(actual) 6/30/2022	(actual) 9/30/2022	(estimate) 12/31/2022	(estimate) Fiscal 2022	(estimate) 3/31/2023	(estimate) 6/30/2023	(estimate) 9/30/2023	(estimate) 12/31/2023	(estimate) Fiscal 2023	(estimate) Fiscal 2024
Sales	$10,791,133	$ 8,765,798	$ 7,673,101	$ 8,214,413	$35,444,445	$13,998,588	$15,714,303	$18,163,460	$19,821,317	$67,697,668	$ 90,030,494
Cost of Goods	$ 2,741,020	$ 3,094,582	$ 3,048,671	$ 3,077,834	$11,962,107	$ 5,637,441	$ 6,200,411	$ 6,921,726	$ 7,411,464	$26,171,042	$ 34,429,257
Gross Profit Before Fair Value Adjustments	$ 8,050,113	$ 5,671,216	$ 4,624,430	$ 5,136,578	$23,482,337	$ 8,361,147	$ 9,513,892	$11,241,734	$12,409,853	$41,526,626	$ 55,601,237
Gross Margin	75%	65%	60%	63%							
Unrealized Change in Fair Value of Biological Assets	$ (1,316,601)	$ (1,541,307)	$ (874,591)	$ -	$ (3,732,499)	$ -	$ -	$ -	$ -	$ -	$ -
Realized Change in Fair Value of Inventory Sold	$ 100,449	$ 1,085,247	$ 622,550	$ -	$ 1,808,246	$ -	$ -	$ -	$ -	$ -	$ -
Gross Profit	$ 9,266,265	$ 6,127,276	$ 4,876,471	$ 5,136,578	$25,406,590	$ 8,361,147	$ 9,513,892	$11,241,734	$12,409,853	$41,526,626	$ 55,601,237
Operating Expenses:											
Accretion	$ 12,372	$ -	$ -	$ -	$ 12,372	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ 722,521	$ 786,983	$ 788,865	$ 785,688	$ 3,084,057	$ 1,266,760	$ 1,262,851	$ 1,258,962	$ 1,255,092	$ 5,043,664	$ 4,982,055
Depreciation	$ 266,877	$ 258,385	$ 105,807	$ 126,603	$ 757,672	$ 125,970	$ 125,340	$ 124,714	$ 124,090	$ 500,114	$ 490,187
Interest	$ 322,900	$ 337,407	$ 620,835	$ 665,000	$ 1,946,142	$ 1,280,025	$ 1,270,200	$ 1,260,522	$ 1,250,989	$ 5,061,735	$ 4,911,455
Share Based Compensation	$ 85,696	$ 104,762	$ 660,488	$ 75,000	$ 925,946	$ 75,398	$ 300,000	$ 400,000	$ 120,000	$ 895,398	$ 486,394
Salaries, Wages and Commissions	$ 1,175,252	$ 1,095,720	$ 954,791	$ 959,504	$ 4,185,267	$ 1,983,679	$ 2,319,939	$ 2,773,033	$ 3,055,386	$10,132,038	$ 13,957,646
General and Administrative Expense	$ 1,570,180	$ 1,089,044	$ 1,076,012	$ 1,087,504	$ 4,822,740	$ 1,289,951	$ 1,350,001	$ 1,435,721	$ 1,493,746	$ 5,569,418	$ 6,351,067
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expense	$ 4,155,798	$ 3,672,301	$ 4,206,798	$ 3,699,300	$15,734,197	$ 6,021,782	$ 6,628,331	$ 7,252,951	$ 7,299,302	$27,202,367	$ 31,178,804
Other Expenses /Gains:		$ 2,184,764	$ 2,030,803								
Share of Profit/Loss of Joint Ventures	$ (177,399)	$ (190,783)	$ (53,014)	$ (50,000)	$ (471,196)	$ (50,000)	$ (50,000)	$ (50,000)	$ (50,000)	$ (200,000)	$ (200,000)
Foreign Exchange (Gain) Loss	$ 212	$ 580	$ 45	$ -	$ 837	$ -	$ -	$ -	$ -	$ -	$ -
Interest (Income) Expense	$ -	$ -	$ 148	$ 30,013	$ 30,161	$ 57,564	$ 61,788	$ 59,504	$ 59,201	$ 238,057	$ 371,118
Other	$ -	$ 10,164	$ (2,893)	$ -	$ 7,271	$ -	$ -	$ -	$ -	$ -	$ -
Total Other Expenses	$ (177,187)	$ (180,039)	$ (55,714)	$ (19,987)	$ (432,927)	$ 7,564	$ 11,788	$ 9,504	$ 9,201	$ 38,057	$ 171,118
Net Income Before Taxes	$ 4,933,280	$ 2,274,936	$ 613,959	$ 1,417,291	$ 9,239,466	$ 2,346,929	$ 2,897,350	$ 3,998,286	$ 5,119,751	$14,362,315	$ 24,593,551
Income Tax Expense	$ 1,475,051	$ 322,725	$ 190,425	$ 396,841	$ 2,385,042	$ 657,140	$ 811,258	$ 1,119,520	$ 1,433,530	$ 4,021,448	$ 6,886,194
Net Income After Taxes	$ 3,458,229	$ 1,952,211	$ 423,534	$ 1,020,449	$ 6,854,423	$ 1,689,789	$ 2,086,092	$ 2,878,766	$ 3,686,221	$10,340,867	$ 17,707,357
Unrealized Gain (Loss) on Foreign Exchange Translation	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Comprehensive Income	$ 3,458,229	$ 1,952,211	$ 423,534	$ 970,449	$ 6,804,423	$ 1,639,789	$ 2,036,092	$ 2,828,766	$ 3,636,221	$10,140,867	$ 17,507,357
Basic Earnings per Common Share	$ 0.03	$ 0.01	$ 0.00	$ 0.01	$ 0.05	$ 0.01	$ 0.01	$ 0.02	$ 0.03	$ 0.07	$ 0.12
Diluted Earnings per Common Share	$ 0.02	$ 0.01	$ 0.00	$ 0.01	$ 0.05	$ 0.01	$ 0.01	$ 0.02	$ 0.02	$ 0.07	$ 0.11
Weighted Average Common Shares Outstanding	138,131,413	138,168,090	138,270,384	138,430,167	138,250,014	147,430,167	147,430,167	147,430,167	147,430,167	147,430,167	147,430,167
Weighted Average Diluted Shares Outstanding	143,889,147	143,889,147	140,006,991	138,430,167	141,553,863	147,430,167	147,430,167	147,430,167	148,216,098	147,626,650	155,559,224

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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.