

Trickle Research

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



Earnings Update – Q2F25



Vext Science, Inc.

(symbol: VEXTF; VEXT.CN)

Report Date: 08/22/25

12- 24 month Price Target: US\$.80

Allocation: 8

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

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

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

Closing Stock Price at Allocation Upgrade & Target Decrease (Closing Px: 01/11/23): US\$.21

Closing Stock Price at Target Decrease (Closing Px: 12/20/23): US\$.20

Closing Stock Price at Target Decrease and Allocation Increase (Closing Px: 06/05/23): US\$.17

Closing Stock Price at This Update (Closing Px: 08/21/25): US\$.19

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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 Q2F25, Vext reported revenues of \$13.4 million, a pre-tax gain of \$264,000 and eps of <\$.01>. Those results compare to our estimates of \$13 million, a pre-tax loss of <\$2.2> million and eps of <\$.01>. As is typically the case here, there were some particular line items that created some of the differences.

Obviously, revenues were slightly higher than our estimate, but margins for Q2F25 were markedly higher than we projected (39% vs. 34%). However, as we addressed in our Q1F25 update, Vext's margin variability has more to do with how expenses are recognized/categorized. Recall our narrative from that update:

...because cannabis remains a Schedule I narcotic on the federal level, its federal taxation is largely predicated on Internal Revenue Code Section 280E. Section 280E "disallows all deductions or credits for any amount paid or incurred in carrying on any trade or business that consists of illegally trafficking in a Schedule I or II controlled substance within the meaning of the federal Controlled Substances Act and includes businesses that sell marijuana, even if they operate in states that have legalized the sale of marijuana. Section 280E does not, however, prohibit a participant in the marijuana industry from reducing its gross receipts by its properly calculated cost of goods sold to determine its gross income".

Without getting too far down the rabbit hole, 280E is a bit of an enigma throughout the industry, and operators have different ways of dealing with expenses around the law, as well in turn as the taxes they remit to the federal government in conjunction with their treatment of those expenses. Again, we are not going to delve into the different approaches, rather, we will stick to Vext's treatment of the issue. In short, as we understand it, the Company uses both American and Canadian tax experts that analyze their specific books and records then feed it into their formula, algorithm, black box, etc. to derive Vext's tax liability around 280E. Historically, that approach has yielded a tax recovery in quarters with negative earnings results, which get reconciled/adjusted in the year end audited filings around the number that the tax experts' formula comes up with. Again, our chance of projecting that accurately one quarter to the next, or even at year end is low. However, conceptually, we think the best approach is perhaps to apply a tax rate to gross profit, as 280E essentially disallows all operating expenses beyond (and perhaps including some) COGS. That is our approach to the issue. Succinctly, because 280E creates an outsized (perhaps even untenable) tax burden on cannabis companies, there is an abundance of creative accounting across the industry aimed at mitigating it. In our opinion, that accounting makes the associated financial statements less transparent and more complex to evaluate, certainly by standard metrics like earnings. By extension, it makes comparative analysis amongst industry participants less valuable as well, as participants approach 280E in different ways. That brings us to the overriding issue we alluded to above, which is operating cash flow.

First, start with the assumption that if for tax purposes under 280E Cost of Goods Sold are the only expense the Company is allowed to charge against taxable income, it follows that operators will try to reflect, allocate, move etc. as many expenses as possible into COGS, which means that gross margin is probably not a good indicator of the Company's success and/or progress. Consequently, beyond the added Ohio wholesale revenues we noted above, the compression in gross margin for Q1F25 by itself is of no particular consequence, and if anything may result in a lower federal tax burden. To that end, comparing the operating statement with the cash flow statement for 1QF25, it is apparent that COGS included about \$1.6 million of (non-cash) depreciation, which has been consistent over the past several quarters.

In addition to the above, for Q2F25, the Company recognized Income Tax Expense of \$1,742,000, which (for now) is also a non-cash item. This is another 280E issue. To that end, the narrative out of Washington seems to be suggesting that the federal government may be preparing to reschedule cannabis. While it is unclear to us how rescheduling will impact the industry, the one thing we do know is that rescheduling would ostensibly remove the

280E issue and the lack of visibility that goes with it. Certainly the elimination of 280E would represent a positive catalyst for the industry at large.

That noted (again), the Company attempts to neutralize some of that accounting noise by referencing “Operating Cashflow” as a more representative metric of their progress. In Vext’s case, Operating Cashflow roughly amounts to EBITDA minus the impact of “Biological Asset” and “Fair Value of Inventory” adjustments, which are both non-cash line items. For Q2F25, they generated “*\$4.2 million of operating cash flow compared to \$(0.6) million in Q2 2024 and \$3.1 million in Q1 2025, with a Cash Flow Margin of 31% - among the highest in the industry*”. That is an outstanding number in terms of both growth and volume. As the Company adds additional retail stores, which have all been identified and are in the process of being added, they will effectively double the Ohio capacity. As our model reflects, we expect those additions to be markedly additive in the coming quarters.

Aside from Ohio, which is clearly the major growth driver here, the cannabis industry in Arizona continues to grind lower, still searching for a bottom. The “good news” there, is that the Company appears to be faring better than the state’s averages, which we think is a testament to management’s respective aptitudes. It does sound as if the state is beginning to find the bottom, although, we have been wrong about that more than once along the way, and we could be again. On the other hand, we have avoided modeling much of that, so that scenario could provide a basis for some upside surprises if they do happen to become a reality.

To summarize, all in the quarter was quite positive in our view, and guidance around new Ohio retail stores is constructive. We continue to be of the view that management is dialed in here and their ability to generate what looks to us like continued *and growing* levels of positive operating cash is providing a clear basis for markedly better valuations. As a result, we reiterate our 12-24 price target of \$.80, as well as our elevated allocation of 8 with the view that (as we also noted in our Q1F25 update) coming results will vindicate each. Despite more than doubling the share price since that update 90 days ago, with the shares trading at roughly *1/4th of our price target*, we continue to believe Vext represents one of the deeper values of the companies currently in our coverage universe.

Projected Operating Model

Vext Science, Inc.						
Projected Operating Model (\$USD)						
By: Trickle Research LLC						
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2025	6/30/2025	9/30/2025	12/31/2025	Fiscal 2025	Fiscal 2026
Sales	\$ 11,560,970	\$ 13,407,023	\$ 13,802,878	\$ 16,142,502	\$ 54,913,373	\$ 68,582,310
Cost of Goods	\$ 7,603,206	\$ 8,201,023	\$ 10,196,196	\$ 10,304,041	\$ 36,304,466	\$ 41,225,488
Gross Profit Before Fair Value Adjustments	\$ 3,957,763	\$ 5,206,000	\$ 3,606,682	\$ 5,838,461	\$ 18,608,906	\$ 27,356,822
Unrealized Change in Fair Value of Biological Assets	\$ (840,731)	\$ (1,061,000)	\$ (1,299,130)	\$ (1,316,746)	\$ (4,517,608)	\$ (5,215,585)
Realized Change in Fair Value of Inventory Sold	\$ 2,520,224	\$ 1,395,000	\$ 2,078,609	\$ 2,106,794	\$ 8,100,627	\$ 8,351,197
Gross Profit	\$ 2,278,270	\$ 4,872,000	\$ 2,827,203	\$ 5,048,413	\$ 15,025,887	\$ 24,221,210
Operating Expenses:						
Accretion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization	\$ 2,066,099	\$ 2,261,000	\$ 2,074,352	\$ 2,074,352	\$ 8,475,802	\$ 8,297,406
Depreciation	\$ 95,731	\$ 199,000	\$ 132,163	\$ 132,163	\$ 559,056	\$ 528,651
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Based Compensation	\$ 24,454	\$ 100,000	\$ 100,000	\$ 100,000	\$ 324,454	\$ 400,000
Salaries, Wages and Commissions	\$ 1,123,006	\$ 1,489,000	\$ 1,434,109	\$ 1,494,988	\$ 5,541,102	\$ 6,150,381
General and Administrative Expense	\$ 1,111,462	\$ 1,300,000	\$ 1,164,086	\$ 1,234,275	\$ 4,809,823	\$ 5,057,469
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expense	\$ 4,420,752	\$ 5,349,000	\$ 4,904,709	\$ 5,035,777	\$ 19,710,238	\$ 20,433,907
Other Expenses /Gains:						
Share of Profit/Loss of Joint Ventures	\$ 904,013	\$ -	\$ (50,000)	\$ (50,000)	\$ 804,013	\$ (200,000)
Foreign Exchange Gain (Loss)	\$ 1,900	\$ (3,000)	\$ -	\$ -	\$ (1,100)	\$ -
Interest (Income) Expense	\$ 765,074	\$ 926,800	\$ 558,324	\$ 483,152	\$ 2,733,350	\$ 1,073,198
Other	\$ (256,407)	\$ (1,664,968)	\$ -	\$ -	\$ (1,921,375)	\$ -
Total Other Expenses	\$ 1,414,580	\$ (741,168)	\$ 508,324	\$ 433,152	\$ 1,614,888	\$ 873,198
Net Income Before Taxes	\$ (3,557,062)	\$ 264,168	\$ (2,585,830)	\$ (420,515)	\$ (6,299,238)	\$ 2,914,106
Income Tax Expense	\$ (223,172)	\$ 1,742,000	\$ (250,000)	\$ 2,028,495	\$ 3,297,323	\$ 2,519,863
Net Income After Taxes	\$ (3,333,890)	\$ (1,477,832)	\$ (2,335,830)	\$ (2,449,010)	\$ (9,596,561)	\$ 394,242
Unrealized Gain (Loss) on Foreign Exchange Translation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Comprehensive Income						
Total Comprehensive Income	\$ (3,333,890)	\$ (1,477,832)	\$ (2,385,830)	\$ (2,499,010)	\$ (9,696,561)	\$ 194,242
Basic Earnings per Common Share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ 0.00
Diluted Earnings per Common Share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ 0.00
Weighted Average Common Shares Outstanding	247,490,274	247,580,747	247,580,747	247,580,747	247,558,129	247,580,747
Weighted Average Diluted Shares Outstanding	247,490,274	247,580,747	247,580,747	247,580,747	247,558,129	247,580,747

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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.