

*petal
& stem*

UP CLOSE



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GROWING OUR BUSINESS

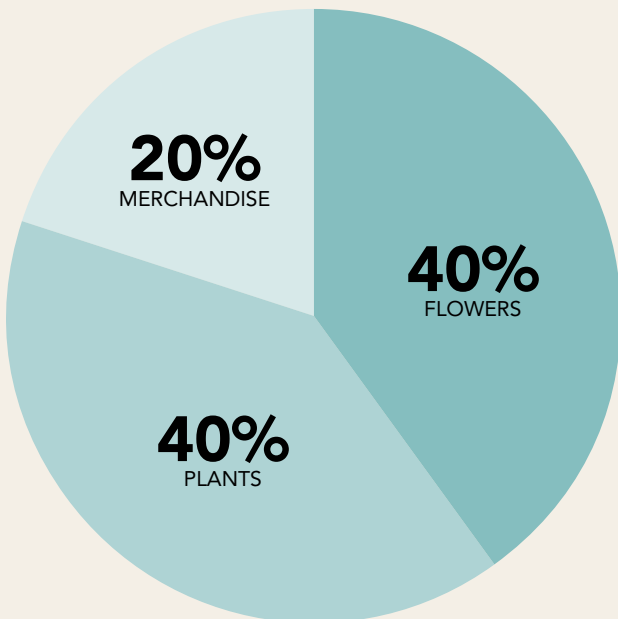
Petal & Stem thrives on a distinctive blend of tradition and innovation. Our mission is to **enrich lives with the beauty and vitality of plants and flowers** — across Canada and around the world via our industry-leading web and app-based experiences.

Founded by visionary horticulturist Johanna Petal in 1999, Petal & Stem has cultivated a legacy of excellence in growing and delivering beautiful, fresh, and thoughtfully-cultivated flower and plants arrangements – always looking to take advantage of new methods and technologies for creating the most impactful experience for our customers.

Today, our wide range of products remain sought out by discerning plant & flower lovers worldwide, as we deliver customized experiences and products to an ever-growing community of likeminded enthusiasts. *We are dedicated to making our customers' lives more vibrant, cheerful, and fragrant, wherever they are.*



Major Product Focus



Highlights

In 2025, we introduced the Petal & Stem – Roots, a set of guiding principles that establish best practices and reinforce how we run our businesses. They are:

- Operating Excellence – we continually invest in our flower & plant nurseries to enhance our efficiency and customer satisfaction.
- Sustainable Approach – we optimize our use of resources and focus on reducing waste throughout our supply chain and in our nurseries.
- Exceptional User Experience – our dedication to providing our customers with delightful, robust, easy-to-use Petal & Stem interactions across all parts of our business is a key driver of our industry-leading success.
- Quality and Innovations – our innovative, high-quality flower & plant products reflect changing customer needs and anticipate key market trends.



OUR STORY

Founded in 1999 by Johanna Petal, Petal & Stem blossomed from a small local shop in Vancouver into a trusted national name for plant and flower treasures. Our very first collection, Morning Dew Bouquets, brought the freshness of garden mornings straight to our customers' homes and occasions. By 2003, we had expanded to offer Verdant Vines, charming arrangements that celebrated the beauty of cascading greenery.

As our roots deepened, 2007 marked the launch of Bloom & Branch — our premium subscription line of floral statement pieces. It was also the industry's first major reorientation to using the internet across all key user interactions. Later, in 2012 we introduced Wildflower Wonders, a line celebrating the spontaneous colour and joy of nature's untamed blooms — perfect for all manner of gatherings, indoors and out —launched for the first time on our custom iOS & Android apps. And just this year we continued to build on this established approach, launching Luxe Blooms, a brand-new luxury flower & plant subscription service, aimed at our business and commercial customers.

Today, Petal & Stem continues to connect deeply with its customers — most often through its innovative, best-of-industry web and app-based experiences — with a focus on delivering beautiful, vibrant, and sustainably-managed plants, flowers, and arrangements for every important moment. With each product, we aim to make homes, occasions, and hearts feel a little more alive, one delivery at a time.

THE PETAL & STEM EXPERIENCE

At Petal & Stem, our approach is straightforward: we work hard every day to inspire you with our beautiful plant and flower arrangements, delivered straight from our expertly managed nurseries across Canada, and beyond. It's simple: you trust us to produce only the freshest, most vibrant, and expertly arranged blooms, and in return, we hope to earn your trust. A life-brightening floral experience might just be one of many small pleasures in the rush of your day — but it's such an important one, isn't it?

When a user launches our app, or visits us on the web, it is our mission to provide them with a uniquely positive experience: easy-to-use shopping, customization and ordering, combined with fast, efficient, and trusted customer service. Everything we do is in preparation for these customer interactions; we've enjoyed great success over the years as we've curated these systems, and we are always on the lookout for improvements, both incremental and dramatic, that move the needle in ever more positive ways.

PETAL & STEM VALUES

Community

It all starts with the hard work of our plant and flower growers and their shared commitment to social and environmental initiatives in their growing communities. It flourishes with our Direct Trade relationships, supporting communities where our plants and flowers are grown and distributed. When our plants and flowers are carefully nurtured – slowly in small batches – it brings out the best in every bloom. And your smile when you see your first blossom? Well, that’s good too.

Service

Our company approaches customer service with a genuine commitment to building trust and long-term relationships. Every interaction is guided by empathy, attentiveness, and a focus on exceeding our customer’s expectations. We prioritize timely responses, seamless user interface design, and proactive communication to ensure that customers always feel heard and valued. By combining knowledgeable team members with a dedication to continuous improvement, we strive to turn every point of contact into a positive experience that reflects our core values and strengthens our reputation for exceptional service.



Technology

Our company prioritizes technology as a vital tool to enhance the success of our business. By continuously improving our digital solutions, we streamline our operations and provide our clients with efficient, innovative services tailored to their specific needs. Our commitment to leveraging technology ensures that we remain at the forefront of industry advancements, offering seamless experiences that complement our empathetic and attentive customer service approach. With a focus on continuous improvement, we empower our knowledgeable team to utilize these technological resources effectively, turning every interaction into an opportunity to build trust and strengthen our reputation for reliability.

Ethics

Direct Trade refers to the practices of plant and flower buyers who create direct relationships with the growers they buy from, rather than using intermediaries. When we cannot grow the products in our own nurseries, we partner with other nurseries who work directly with growers where our plants and flowers can be harvested. This gives us the opportunity to choose growers based upon their social and environmental sustainability practices, as well as the quality of the plants and flowers. And we can visit the farms we work with to see the impact of our plant and flower buying on the growing communities.





PRESIDENT'S MESSAGE

Dear Fellow Shareholders,

2025 was a year of positive change for our company, Petal & Stem. With a refreshed management team in place, we set out to achieve two important objectives. First, we challenged ourselves to complete our stunning post-pandemic turn-around efforts and drive the company to even higher year-over-year profitability. Second, we focused on solidifying the long-term strategy of evolving into a truly international, branded plant and flower company. Finally, since our public offering we've been pleased to see our stock price steadily drive growth and profitability. I am very pleased with our results achieved to date.

During the year, we were able to build key foundational elements to drive future growth in each of our business channels. We also experienced revenue growth and reported earnings per share of \$0.26. This financial performance is evidence of the traction achieved as a result of our turn-around efforts. What motivates us even more is the work that took place during the year, which will have significant benefits in the future and truly make Petal & Stem Canada's (and increasingly, the world's) preferred plant and flower delivery experience.

We have identified five key levers across our business channels that will drive future revenue and profit growth. We are confident about the tremendous opportunity in each of these areas:

- Drive the average unit volume of nursery and warehouse locations
- Increase plant and flower availability in more places around the world
- Grow our new Luxe Blooms premium plant and flower subscription service
- Gain stronger presence in the business and commercial sectors
- Expand new unit growth through strategic partnerships

The Petal & Stem brand has always represented outstanding quality and customer service. To build on the commitment we've made, we are introducing several exciting enhancements and improvements to our web and app-based shopping experiences. One of our notable 2025 successes was the launch of our improved plant & flower care product collection – our customers love these products, and this initiative will help to guide our future product selections; premium varieties, sourced and grown carefully and sustainably, that will be customizable to meet our customers' individual choices. We will apply this mindset to expand into categories such as home decor, gardening, as well as seasonal plant and flower arrangements. This product innovation is one of the cornerstones of our online & app sales strategy.

Our commercial business continues to grow and is now greater than 10% of our overall revenues. Through our enhanced distribution, our products are now found in approximately 200 Canadian restaurants and over 100 international retail, commercial and event outlets. In addition to our core consumer business, we also continued to build and grow our custom commercial business, which will greatly increase the market for our premium plants and flowers.

I would like to thank our team for all of their efforts in 2025, as well as thank our shareholders for their continued support.

Sincerely,

Larry Ipsum

Chairman and CEO

A handwritten signature in black ink that reads "Larry Ipsum". The signature is written in a cursive, flowing style.

BLOOMING PHOTOGRAPHER

Agustin is a freelance photographer we have partnered with at Petal & Stem who takes the photos of the flowers seen on our website. We were looking to update the product images on our website so that our users can be pleased by the high-quality photos of our selections. In return, we also help Agustin with his own business, as he purchases bouquets for engagement and wedding photography. Couples often approach him for their photoshoot, and he recommends they buy flowers at Petal & Stem, as we offer a wide variety of floral options. He also understands which flowers work best depending on the couple's preferences and the location of their photoshoot. His goal is to help his clients, and our mission is to enrich lives with the beauty of flowers, which is why our partnership thrives.

"I really enjoy working with Petal & Stem because they show great care to their customers and products. They perfectly complement my approach to taking photos, as their items are eye-catching, decorative pieces that enhance and beautify my images. My clients also share their experiences with me on how Petal & Stem employees truly understand what they are looking for and offer perfectly-picked bouquets."

— Agustin Monge





MANAGEMENT DISCUSSION & ANALYSIS

The following discussion should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this report, particularly under the heading "Risk Factors."

Overview

We are the largest plant and flower operator in Canada based on the number of nurseries, warehouses, and sales. As of December 31, 2025, we had 18 nurseries and warehouses in 4 provinces. Our shopping experiences – in person and online – are loved by our guests even as we strive to provide them with more extraordinary experiences that makes their day better. We grow and source the highest-quality flowers and plants in Canada and our skilled horticulturists oversee the growth of every harvest, to bring out the best in every plant and flower.

We deliver our shopping experiences with our unique blend of expertise and authentic connection in a delightful and welcoming digital environment. We will continue our efforts to increase our brand awareness through marketing efforts and introducing new products. As our comparables increase, we expect our operating margins to continue to improve (as we expect to have a greater ability to leverage our operating structure).

We intend to continue strategically expanding our nursery and warehouse locations predominately in our existing markets. During fiscal year 2025, we opened 4 new locations.

In addition, our B2B segment sells our products to stores, offices, hotels, entertainment venues and other commercial customers. During our fiscal year ended January 3, 2025 the B2B segment experienced sales growth of 54% compared to the prior fiscal year. Our growth strategy for the commercial segment is to continue to build our relationships with existing and add new points of distribution for our premium plant and flower arrangements.

Our goal is to continue our growth into an internationally recognized premium plant and flower delivery brand by opening new company-operated locations, while adding select international locations through licensing, and expanding our points of distribution within our commercial segment.

Product Performance

Product/Services	2024/2025		2023/2024	
	Quantity (in Thousands of Units)	Value (1,000s CAD)	Quantity (in Thousands of Units)	Value (1,000s CAD)
Plants	6743	7426.51	6272	7347.58
	3503	11738.45	3742	12816.83
	511	921.74	544	12816.83
Flowers		1849.64		1050.34
		800.60		650.32
		1235.22		1122.77
Merchandise/Other		2017.72		1604.92

Outlook

Following positive returns in the past three years, the company is set to roll out an ambitious national expansion plan in the second quarter of 2026. The 5-year plan involves moving the company from a national to international service of flower and plant delivery. Within 5 years we expect to have a nursery and warehouse in all 10 provinces.



AUDITOR'S REPORT

To the Shareholders of Petal & Stem:

We have audited the consolidated balance sheets of Petal & Stem as at December 31, 2025 and the consolidated statements of operations and retained earnings, shareholders equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2025. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2025 in accordance with Canadian generally accepted accounting principles.

Smith & Smith, LLP

Vancouver, BC, Canada,

January 27, 2026



Consolidated Balance Sheets

As at December 31

(C\$ thousands)	2025	2024
Assets		
Current		
Cash	\$ 8,533	\$ 12,448
Accounts receivable	23,021	29,004
Accrued revenue	4,518	4,325
Income taxes receivable	2,270	–
Inventory [note 2]	37,869	43,421
Future tax asset [note 7]	–	3,661
Foreign exchange asset [note 18]	4,305	–
Assets held for sale [note 13]	519	3,089
Other current assets	4,354	5,227
Total current assets	88,483	106,767
Property and equipment [note 5]	49,396	52,551
Intangible assets [note 4]	11,990	14,806
Goodwill	51,585	51,629
Income tax credits recoverable – long term	11,773	6,234
Future tax asset [note 7]	1,348	1,231
Other assets [notes 6 and 18]	484	1,043
Total assets	215,059	234,261

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

Description of Business

Petal & Stem Company ("Petal & Stem" or the "Company") is a retailer and distributor of high quality flowers, plants, and related arrangements and merchandise. The Company is a majority-owned subsidiary of P&S Holding Company Limited.

Principles of Consolidation

The Company's consolidated financial statements include the accounts of Petal & Stem Canada, affiliates that it controls and a third party finance company (which exists for purposes of the Company's revolving credit facility) where the Company is the primary beneficiary in a variable interest entity. The affiliates are P&S Retail, a partnership in which the Company owns a 49% interest and that operates six locations, and Petal & Stem Development Company, Inc., a licensor of Petal & Stem branded nurseries. The Company controls the daily operations of Petal & Stem Development Company, Inc. and accordingly consolidates their results of operations. The Company provided a loan to its partner in P&S Technologies for all of the partner's equity contribution to the venture. Consequently, the Company bears all the risk of loss but does not control all decisions that may have a significant effect on the success of the venture. Therefore, the Company consolidates the P&S Technologies, as it is the primary beneficiary in this variable interest entity. Prior to December 31, 2009, the Company owned a 50% interest in P&S Ventures, L.L.C. ("Ventures"), a partnership that operated one nursery. On December 31, 2009, the Company purchased the outstanding 50% interest in Ventures for \$0.1 million. Prior to December 31, 2024, because the Company controlled the daily operations of Ventures, the results of operations were consolidated. All material intercompany balances and transactions between Petal & Stem Canada and P&S Ventures, L.L.C., P&S Technologies, Petal & Stem Development Company, Inc. and the third party finance company have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements. Actual results may differ from those estimates, and such differences may be material to the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Property and Equipment

Property and equipment is stated on the basis of cost less accumulated depreciation. The Company capitalizes direct costs associated with the site selection and construction of new nurseries, including direct internal payroll and payroll related costs. The Company did not have any of these capitalized costs during the year ended December 31, 2025 and capitalized approximately \$0.2 million of such costs during the year ended December 28, 2024. These costs are amortized over the lease terms of the underlying leases. Depreciation of property and equipment is computed using the straight-line method over the assets' estimated useful lives of two to 20 years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the related initial lease term, excluding renewal option terms, which is generally five to ten years, unless it is reasonably assured that the renewal option term is going to be exercised.

The Company has certain asset retirement obligations, primarily associated with leasehold improvements, whereby at the end of a lease, the Company is contractually obligated to remove such leasehold improvements in order to comply with the lease agreement. At the inception of a lease with such conditions, the Company records an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the

obligation. The liability is estimated based on a number of assumptions requiring management's judgment, including store closing costs and discount rates, and is accreted to its projected future value over time. The capitalized asset is depreciated using the estimated useful life for depreciation of leasehold improvement assets. Upon satisfaction of the asset retirement obligation conditions, any difference between the recorded asset retirement obligation liability and the actual retirement costs incurred is recognized as an operating gain or loss in the Company's financial statements in the period incurred.

Total asset retirement obligation expense in fiscal 2025 and fiscal 2024 was less than \$0.1 million and \$0.2 million, respectively, and is included in costs of sales and related occupancy costs and depreciation and amortization. As of January 2023, 2024 and December 28, 2025, the Company's net asset retirement obligation asset included in property, plant and equipment, net of accumulated depreciation and amortization, was \$0.0 million and \$0.1 million, respectively, while the Company's net asset retirement obligation liability included in asset retirement liability was \$1.1 million and \$1.0 million, respectively.

Stock Compensation

The Company maintains stock option plans, which provide for the granting of non-qualified stock options to officers and key employees and certain non-employees. Stock options have been granted at exercise prices equal to the fair market value of the Company's common stock as of the dates of grant. Options vest generally over four years and expire ten years from the grant date. The Company recognizes expense related to the fair value of our stock-based compensation awards. The estimated grant date fair value of each stock-based award is recognized in income on a straight-line basis over the requisite service period (generally the vesting period). The estimated fair value of stock options are calculated using the Black-Scholes option-pricing model. The estimated fair value of restricted stock is calculated using the trading value of the underlying stock on the date of the grant. Stock-based compensation expense for fiscal years 4 and 2025, totaled approximately \$1.0 million and \$0.8 million, respectively.

Nursery Preopening and Closing Expenses

Costs incurred in connection with start-up of new nurseries are expensed as incurred. When a nursery is closed, the remaining carrying amount of property and equipment, net of expected recovery value, is charged to operations. For nurseries under operating lease agreements, the estimated liability under the lease is also accrued.

Revenue Recognition

The Company recognizes retail nursery sales for products and services when payment is tendered at the point of sale. Sales tax collected from customers is presented net of amounts expected to be remitted to various tax jurisdictions. Accordingly, sales taxes have no effect on the Company's reported net sales in the accompanying statements of operations.

Revenue from the sale of products to commercial, franchise or on-line customers is recognized when ownership and price risk of the products are legally transferred to the customer, which is generally upon the shipment of goods. Revenues include any applicable shipping and handling costs invoiced to the customer, and the expense of such shipping and handling costs is included in cost of sales.

Territory development fees are recognized upon substantial performance of services for a new territory or nursery, which is generally upon the opening of a new nursery. Royalties based upon a percentage of reported sales are recognized on a monthly basis when earned. Cash payments received in advance for territory development fees or initial franchise fees are recorded as deferred revenue until earned.

All revenues are recognized net of any discounts, returns, allowances and sales incentives, including coupon redemptions and rebates. The Company periodically participates in trade-promotion programs such as consumer coupon programs that require the Company to estimate and accrue the expected cost of such programs. Coupons are recognized as a liability when distributed based upon expected consumer redemptions.

The Company maintains liabilities based on historical experience and management's judgment at the end of each period for the estimate expenses incurred, but unpaid for these programs.

Advertising

Advertising costs are expensed as incurred. Production costs for radio and television advertising are expensed when the commercials are initially aired. Advertising expenses aggregated approximately \$8.3 million and \$5.6 million, for the years ended December 31, 2024 and December 31, 2025, respectively.

Operating Leases and Rent Expense

Certain of the Company's lease agreements provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than the date of initial occupancy. Rent expense is recorded on a straight-line basis over the initial lease term and renewal periods that are reasonably assured. The difference between rent expense and rent paid is recorded as deferred rent and is included in "accrued expenses" and "deferred rent liability" in the consolidated balance sheets. Contingent rents, including those based on a percentage of retail sales over stated levels, and rental payment increases based on a contingent future event are accrued over the respective contingency periods when the achievement of such targets or events are deemed to be probable by the Company.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Though the validity of any tax position is a matter of tax law, the body of statutory, regulatory and interpretive guidance on the application of the law is complex and often ambiguous. Because of this, whether a tax position will ultimately be sustained may be uncertain. The Company's recognition of an uncertain tax position is dependent on whether or not that position is more likely than not of being sustained upon audit by the relevant taxing authority. If an uncertain tax position is more likely than not of being sustained, the position must be recognized at the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained.

2. Impairments, Nursery Closings and Asset Disposals

Based on an operating cash flow analysis performed throughout the year combined with operational judgment on the future potential of individual nurseries, the Company commits to a plan to close unprofitable nurseries. If the nursery assets are deemed to be impaired, the Company records a charge to reduce the carrying value of the property and equipment to estimated fair value. There were no impairment charges taken in fiscal year 2025. In fiscal year 2024 the Company recorded depreciation expense of \$7.5 million for the impairment of 37 nurseries.

Upon closing of the nurseries, the Company will accrue for estimated lease commitments and other expenses associated with the closings. The Company also writes off the carrying value of property and equipment that is abandoned or disposed of in connection with nursery remodels, relocations or general property and equipment impairment. Closing and disposal charges consist of the following (in thousands, except nursery numbers):

	2025	2024
Nursery closures	1	2
Amount charged to operations for closed nurseries:		
Lease costs associated with lease termination cash impact		\$125
		\$4,448
Lease reserve – non cash impact	202	(175)
Net book value of closed nursery property and equipment	16	840
Nursery closing expense and disposal of assets.		\$343
		\$5,113

The Company completed a reorganization of general and administrative departments and eliminated some positions during fiscal year 2023. The severance costs related to these actions was \$1.8 million and was included in general and administrative expense. All related severance amounts were paid in fiscal 2018. In 2023, the Company's CEO resigned his position and received a lump sum severance benefit of \$1.4 million which was paid in fiscal 2024.

3. Recent Accounting Pronouncements

Effective July 1, 2025, the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") became the single official source of authoritative, nongovernmental generally accepted accounting principles ("GAAP") in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the Securities and Exchange Commission. Our accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the footnotes to our consolidated financial statements have been changed to refer to the appropriate section of ASC.

In May 2025, the FASB issued guidance intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This new accounting rule is effective for fiscal years and interim periods ended after June 15, 2025. The Company adopted this standard effective June 28, 2025.

In June 2025, the FASB issued guidance which amends certain ASC concepts related to consolidation of variable interest entities. Among other accounting and disclosure requirements, this guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity.

The Company will adopt this guidance in its first annual and interim reporting periods beginning January 4, 2025. The Company has not determined the impact that this guidance may have on its financial statements.

4. Restricted Cash

At December 31, 2025 and December 31, 2024, cash of \$0.6 million and \$0.3 million, respectively, was pledged as collateral on outstanding letters of credit related to lease commitments and was classified as restricted cash in the consolidated balance sheets.

5. Derivative Financial Instruments

The Company evaluates various strategies in managing its exposure to market-based risks, such as entering into hedging transactions to manage its exposure to fluctuating dairy commodity prices.

The Company records all derivatives on the consolidated balance sheets at fair value. For those cash flow hedges that have been designated and qualify as an effective accounting hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income ("OCI") and subsequently reclassified into net earnings when the hedged exposure affects net income. For those cash flow hedges that are not designated or do not qualify as an effective accounting hedge, the entire derivative gain or loss is recorded in earnings as incurred.

As of December 31, 2025, the Company had accumulated net derivative losses of \$7 thousand in other comprehensive income, all of which pertains to hedging instruments that will be realized within 12 months and will also continue to experience fair value changes before affecting earnings. The Company's cash flow derivative instruments contain credit-risk-related contingent features. At December 31, 2024, the Company, in the normal course of business, has not posted any collateral related to these contingent features.

6. Fair Value Measurements

Generally Accepted Accounting Principles defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

- Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

7. Inventories

Inventories consist of the following (in thousands):

	2025	2024
Flowers	\$ 5,615	\$ 4,652
Plants	4,029	2,843
Merchandise	3,634	2,723
	\$13,278	\$10,218

At December 31, 2025 the Company had fixed price inventory purchase commitments, primarily for flowers & plants, aggregating approximately \$15.1 million. These commitments are for less than one year.

8. Property and Equipment

Depreciation expense on furniture, fixtures and equipment and amortization expense on leasehold improvements totaled \$16.2 million and \$27.1 million for the years ended December 31, 2024 and December 31, 2025, respectively, of which \$1.0 million, is included in cost of sales and related occupancy costs for both years and \$1.1 million and \$1.3 million, respectively, are included in general and administrative expense on the Company's statements of operations.

9. Revolving Credit Facility

The Company maintains a sale leaseback arrangement with a third party finance company whereby from time to time the Company sells equipment to the finance company, and, immediately following the sale, it leases back all of the equipment it sold to such third party. The Company does not recognize any gain or loss on the sale of the assets. The maximum amount of equipment the Company can sell and leaseback is \$9.0 million and the expiration of the agreement is June 30, 2025. Annual rent payable under the lease arrangement is equal to the amount outstanding under the lease financing arrangement multiplied by the applicable Federal Funds effective rate plus a specified margin or the lenders prime rate plus a specified margin.

The finance company funds its obligations under the lease financing arrangement through a revolving credit facility that it entered into with a commercial lender. The terms of the revolving credit facility are economically equivalent to the lease financing arrangement such that the amount of rent payments and unpaid acquisition costs under the lease financing arrangement are at all times equal to the interest and principal under the revolving credit facility. The Company consolidates the third party finance company as the Company is the primary beneficiary in a variable interest entity due to the terms and provisions of the lease financing arrangement. Accordingly, the Company's consolidated balance sheets include all assets and liabilities of the third party finance company under the captions property and equipment and revolving credit facility, respectively. The Company's consolidated statements of operations include all the operations of the finance company including all interest expense related to the revolving credit facility. Notwithstanding this presentation, the Company's obligations are limited to its obligations under the lease financing arrangement and the Company has no obligations under the revolving credit facility. The third party finance company was established solely for the purpose of facilitating the Company's sale leaseback arrangement. The finance company does not have any other assets or liabilities or income and expense other than those associated with the revolving credit facility. At January 3, 2025 and December 28, 2025, there was no property and equipment leased under this arrangement. The lease financing arrangement has been structured to be consistent with P&S principles.

On February 19, 2025, the Company entered into a new three year credit facility, structured similarly to the P&S compliant facility described above. The amount available under the new agreement is \$25.0 million, consisting

of \$15.0 million immediately available and an option to increase the amount available by an additional \$10.0 million under terms to be mutually agreed. Interest payable under the new revolving credit facility is equal to the amount outstanding under the facility multiplied by the applicable LIBOR rate plus a specified margin.

10. Equity and Stock Based Compensation

The Company maintains stock compensation plans which provide for the granting of non-qualified stock options and restricted stock to officers and key employees and certain non-employees. Stock options have been granted at prices equal to the fair market values as of the dates of grant. Options vest generally in four years and expire in ten years from the grant date. Upon the exercise of an option, new shares of stock are issued by the Company. The Company's share-based compensation expense for fiscal years 2024 and 2019, were \$1.0 million and \$0.8 million, respectively.

The Company receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the stock is sold over the exercise price of the options. The Company reports excess tax benefits from the award of equity instruments as financing cash flows in the Consolidated Statements of Cash Flows when a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes.

The per share weighted-average fair value of stock options granted during the years ended January 2023, 2024 and December 28, 2025 was \$1.19 and \$1.10, respectively, on the date of grant using the Black-Scholes option-pricing model to estimate fair value of share-based awards with the following weighted average assumptions:

	2025	2024
Expected dividend yield	0%	0%
Weighted average risk free interest rate	1.91%	2.95%
Expected life	5 years	5 years
Volatility	61%-65%	31%-59%

The Company uses historical information to estimate the volatility of its share price and employee terminations in its valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is estimated based on historical exercise behavior and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

At December 31, 2024, there was \$2.0 million of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted-average period of 4.4 years.

11. Leasing Arrangements and Commitments

The Company leases nurseries and distribution facilities and office space under operating leases expiring through March 2025. Most lease agreements contain renewal options and rent escalation clauses. Certain leases provide for contingent rentals based upon gross sales.

12. Income Taxes

Net operating loss carryforwards totaled \$30.4 million at January 3, 2025. The net operating loss carryforwards will begin to expire in 2024, if not utilized. Additional equity offerings or certain changes in control in future years may further limit the Company's ability to utilize carryforwards. After consideration of all the evidence, both positive and negative, management has recorded a valuation allowance against its deferred income tax assets at December 31, 2025 and December 31, 2024 due to the uncertainty of realizing such deferred income tax assets.

Deferred income taxes reflect the tax effect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and amounts used for income taxes. December 31, 2025.

At December 31, 2025, the Company had \$2.9 million of total unrecognized tax benefits, of which \$0.2 million, if recognized, could have a favorable impact on the effective income tax rate in future periods. This determination could be affected if the Company were to change its position with respect to recognizing income tax benefits for future deductions.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company anticipates that it is reasonably possible that the total amount of unrecognized tax benefits related to the timing of certain occupancy deductions could decrease in the range of \$0.1 million to \$0.2 million during the next 12 months due to the closure of tax years by expiration of the statute of limitations.

For federal purposes, tax years prior to 2008 are closed for assessment purposes; however, the years remain open to examination as a result of net operating losses being generated and carried forward into future years. Tax years in which a net operating loss was generated will remain open for examination until the statute of limitation will close on tax years utilizing net operating loss carryforward to reduce the tax due. Generally, the statute of limitations will close on tax years utilizing net operating loss carryforwards three years subsequent to the utilization of net operating losses. For state purposes, the statute of limitations remains open in a similar manner for states where the Company generated net operating losses.

13. Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan for substantially all employees. Amounts expensed for company contributions to the plan aggregated approximately \$0.1 million for the year ended December 31, 2025. The Company did not make a contribution for the year ended December 31, 2025.

14. Segment Reporting

Segment information is prepared on the same basis that the Company's management reviews financial information for decision-making purposes. We have three reportable operating segments: retail, commercial and franchise. "Unallocated corporate" includes expenses pertaining to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment and are not included in the reported financial results of the operating segments. All of the segment sales are from external customers.

Nurseries and Warehouses

The Company's Nursery & Warehouse segment represents 86.5% and 90.2% of total net sales for fiscal years 2024 and 2025, respectively. The Warehouse operated 12 company-operated facilities located in 6 provinces as of December 31, 2024. The warehouses offer customers quick delivery access to high-quality premium plant and flower arrangements, and other branded merchandise and related products.

Commercial

The Company's commercial segment represents 10.5% and 7.1% of total net sales for fiscal years 2024 and 2025, respectively. The commercial segment sells high-quality premium plant and flower arrangements (pre-arranged or custom) to stores, offices, hotels, entertainment venues and on-line customers.





CORPORATE INFORMATION

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Annual Meeting

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Warehouse and Nursery Locations

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Edmonton

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Ottawa

50 Rideau Street

Toronto North

220 Yonge Street

Toronto West

128 Rathburn Rd

Montreal

4434 Rue Sainte-Catherine

Quebec

555 Rue Saint-Joseph

Regina

2125 11th Ave

Winnipeg

106 Osborne Street

Vancouver Gastown

161 Robson Street

Vancouver North

5251 Oak Street

Victoria

1150 Douglas Street



OUR LEADERS

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CEO & President
Petal & Stem International



Brian Cox
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Big Buy Co., Inc.



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Dan R. Fuetez
Director since 1993
Previous Chairman of the
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Laverne D. Staynere
Director since 2009
President & COO
Sweeper's
Companies, Inc.



Margaret Williams
Managing Director
Freedom Capital Limited



Chirico Ramez
Director since 2010
Chairman & CEO
Comm Corporation



Walter Joney
Director since 1993
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