

Management Discussion & Analysis

For the Three Months Ended October 31, 2025

Mercanto Holdings Inc.

(formerly The Good Shroom Co Inc.)

INTRODUCTION

This Management Discussion and Analysis (“MD&A”) presents management’s review of the financial condition and results of operations of Mercanto Holdings Inc. (the “Company”) for the three months ended October 31, 2025, with comparative information for the three months ended October 31, 2024. It should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and accompanying notes for the same periods.

All financial information in this MD&A is presented in Canadian dollars and in accordance with IFRS.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements that reflect management’s expectations regarding future growth, operating results, performance, and business prospects of the Company. Such statements are subject to inherent risks and uncertainties. Actual results may differ materially. The Company does not undertake any obligation to update forward-looking statements except as required by law. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements.

Information relating to the Company is available on SEDAR at www.sedar.com.

DESCRIPTION OF THE COMPANY

Mercanto Holdings Inc. operates through its wholly owned subsidiary Teonan Biomedical Inc. (“Teonan”). Teonan develops and markets:

1. **Cannabis and cannabis-infused products** for the Canadian regulated market; and
2. **Functional mushroom beverages** marketed under the Teonan™ brand.

The Company operates under a Health Canada **Standard Processing Licence**, enabling the manufacture, packaging, and sale of cannabis products nationally.

Sales are concentrated in **Quebec**, with distribution in Alberta, Ontario, Saskatchewan and New Brunswick.

OVERALL PERFORMANCE

- **Revenue increased modestly year-over-year**

For the quarter ended October 31, 2025 (“Q1 2026”), the Company generated revenue of \$900,013 compared to \$824,225 in the same period of the prior year (“Q1 2025”). While top-line performance improved modestly year-over-year, profitability declined materially due to product mix, margin compression within key categories, and a reduction in the Company’s product portfolio with their largest provincial customer, Quebec which is over 90% of sales.

- **Gross margin compression driven by product mix and commercial terms**

Gross margin decreased to 8.1% of net revenue in Q1 2026. This decline was primarily attributable to: (i) a shift toward lower-margin flow-through and concentrate products; and (ii) reclassification of expenses to cost of goods sold from selling expenses for delivery of cannabis products directly to Quebec stores. The prior year’s period also includes the reclassification into cost of goods sold from selling expenses for comparative purposes. None of these changes impact the comprehensive loss or accumulated deficit.

During Q1 2026, approximately two-thirds of sales were generated from lower-margin products, including flow-through SKUs with margins of approximately 8% and concentrates with margins generally capped at approximately 15%.

The Company’s highest-selling SKU by units during the period—Afghan Gold infused joints—delivered comparatively stronger margins but was delisted during the quarter. The latter is to be offset by the Company’s transition in its product portfolio toward vape cartridges and battery launches in the second quarter of fiscal 2026.

- The flow through SKUs were taken on at lower margins with expectations of higher volumes which will likely materialize in the 2nd quarter as the products transition to all stores.
- The Company’s top selling SKU by units was delisted during the quarter by Quebec’s cannabis authority

Q1 2026 RESULTS

SELECTED FINANCIAL INFORMATION

CAD	Q1 2026 (Oct 31, 2025)	Q1 2025 (Oct 31, 2024)
Revenue	\$900,013	\$824,225
Excise Taxes	\$115,484	\$132,843
Net Revenue	\$784,529	\$691,382
Cost of Goods Sold	\$721,114	\$504,334
Gross Margin	\$63,415	\$187,048
Gross Margin %	8.1%	27%
Selling Expenses	\$5,823	\$8,963
Salaries & Benefits	\$109,698	\$110,510
Net Income (Loss)	(\$146,213)	(\$55,222)

REVENUE

Revenue for the quarter ended October 31, 2025 was \$900,013, an increase of 9.2% from the prior year quarter (\$824,225). After excise taxes, net revenue was \$784,529 compared to \$691,382 in Q1 2025.

The year-over-year increase reflects modest improvements in sales volumes and distribution mix. The Company continues to be concentrated in Quebec, with incremental distribution in other provinces depending on listing cycles and category availability.

EXCISE TAXES

Excise taxes were lower comparatively, despite slightly higher sales. This is related to product mix such as increased sales in CBD capsules (no excise) and flow thru products whereby excise is paid by the partner supplier hence an overall lower margin.

GROSS MARGIN

Gross margin for Q1 2026 was \$63,415 compared to \$187,048 in Q1 2025. Gross margin as a percentage of net revenue was 8.1% versus 27% in the comparative period.

The decrease in gross margin and margin percentage was primarily attributable to product mix and commercial terms. During Q1 2026, approximately two-thirds of sales were derived from lower-margin products, including: (i) flow-through SKUs with margins of approximately 8%; and (ii) concentrates with margins generally capped at approximately 15%.

While Afghan Gold infused joints delivered comparatively stronger margins and represented the highest-selling SKU by units, this product was delisted during the quarter.

EXPENSES

Selling Expenses

Selling expenses were \$5,823 in Q1 2026 compared to \$8,963 in Q1 2025. The decrease reflects lower commissions and reduced freight and logistics costs in the quarter. Additionally, the prior year's period also includes a reclassification into cost of goods sold from selling expenses for comparative purposes. None of these changes impact the comprehensive loss or accumulated deficit.

General and Administrative Expenses

Salaries and employee benefits were \$109,698 compared to \$110,510 in the prior year quarter, reflecting stable staffing levels. Professional fees decreased to \$44,892 from \$67,965, primarily due to reduced external advisory costs.

Marketing and representation expenses decreased to \$1,284 from \$18,671 as promotional activity was moderated during the quarter. Office expenses increased to \$15,834 from \$3,101, reflecting timing and operational support costs.

NET LOSS

The Company recorded a net loss of (\$146,213) in Q1 2026 compared to a net loss of (\$55,222) in Q1 2025.

The increase in net loss was primarily attributable to gross margin compression driven by product mix and the early-payment discount applied to Quebec sales, partially offset by lower selling and certain administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

At October 31, 2025, the Company had cash of \$310,237 compared to \$168,332 at October 31, 2024. This is the result of early payment terms hence an offset in accounts receivable.

Working capital was approximately \$90,178 at October 31, 2025 compared to approximately \$505,197 at October 31, 2024. The change was primarily driven by a reduction in receivables and inventories, partially offset by increased cash and stable trade payables. The Company expected to have a decrease in working capital leading into new product launches in Q2 2026 in Quebec are expected to revitalize working capital going forward.

The Company continues to maintain low credit risk exposure, with Quebec's cannabis retailer (a government sponsored entity) representing the largest receivable. Favorable terms with suppliers and an asset light business model help reduce the impact of category and listing volatility.

NON-IFRS MEASURES (EBITDA)

Component	Q1 2026
Net Loss	(\$146,213)
Add: Depreciation	\$5,684
Add: Share-Based Compensation	\$8,151
EBITDA	(\$132,378)

EBITDA is a non-IFRS measure and is presented as an indicator of operating performance. EBITDA is calculated as net profit (loss) before depreciation and share-based compensation.

SUBSEQUENT EVENTS AND OUTLOOK

Quebec Listing Procedure Changes (Effective Fiscal 2026)

As previously discussed in prior MD&A disclosures, Quebec has implemented a revised product-call and listing framework that materially changes how products are selected and maintained within the provincial assortment. Under this updated system, products that are approved for distribution will benefit from a minimum guaranteed one-year in-store listing, supported by more predictable listing cycles and enhanced transparency around product-call timing. These structural improvements are expected to support improved planning, production scheduling, and demand forecasting.

New Product Launches – November 2025 (Q2 2026)

The Company has introduced one vape battery and three vape cartridges in Quebec in November 2025, alongside two existing SKUs transitioning from the discontinued nursery program to full-store availability. These launches position the Company within higher-growth categories and are expected to contribute positively to revenue and category diversification in the second quarter of fiscal 2026. Early results appear to be very positive thus far.

RISK FACTORS

Risk factors remain consistent with prior periods and include regulatory risk, competitive pressures, supply-chain constraints, raw material availability, and dependence on Quebec for revenue concentration.

CONCLUSION

During Q1 2026, the Company delivered modest year-over-year revenue growth; however, profitability declined materially due to product mix, category margin constraints, and commercial discounts implemented in Quebec. Management expects Q2 2026 product launches in the vape category to improve category diversification and support margin recovery as the portfolio transitions to higher-growth segments.