

Management Discussion & Analysis

December 1, 2025

For the Year Ended July 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 fiscal year ended July 31, 2025, with comparative information for the year ended July 31, 2024. It should be read in conjunction with the Company’s audited consolidated 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 emerging distribution in Alberta, Ontario, Saskatchewan and New Brunswick.

OVERALL PERFORMANCE

Fiscal 2025 was a transitional year for the Company. While cannabis demand nationally continued to grow, the Company's primary provincial market—Quebec—underwent a significant restructuring of its product portfolio, which materially affected sales volumes.

Despite this temporary disruption, the Company made meaningful progress on new product listings, operational efficiency, and improved future visibility.

KEY HIGHLIGHTS

• Revenue impacted by Quebec portfolio reduction

The Quebec cannabis authority completed a broad, year-long SKU reduction process, culminating in Q4 2025. A few of the Company's best-performing products were delisted, reducing availability and forecasting accuracy.

• Structural improvement beginning FY2026

Quebec introduced new product-call rules offering:

- One-year minimum guaranteed in-store presence for selected SKUs
- More transparent listing cycles
- More stable planning conditions

This marks a major improvement in the operating environment going into fiscal 2026.

• Six new Quebec launches approved

For launch in November 2025 (Q2 2026):

- **1 vape battery**
- **3 vape cartridges**
- **2 existing products upgraded from nursery to full-store listing**

These launches are expected to accelerate revenue recovery.

YEAR-END 2025 RESULTS

SELECTED FINANCIAL INFORMATION

CAD	2025	2024
Revenue	\$3,561,289	\$4,636,034
Excise Taxes	\$565,294	\$742,623
Net Revenue	\$2,995,995	\$3,893,410
Cost of Goods Sold	\$2,374,306	\$2,668,388
Gross Margin	\$621,689	\$1,225,022
Gross Margin %	20.7%	26.4%
Selling Expenses	\$146,792	\$249,699
Salaries & Benefits	\$488,367	\$417,585
Net Income (Loss)	\$(412,313)	\$40,603

REVENUE

Revenue for the year ended July 31, 2025 was **\$3,561,289** a 23% decrease from the prior year (\$4,636,034).

The decline is primarily attributable to Quebec, the Company's largest market. During fiscal 2025, the provincial cannabis authority completed a comprehensive, year-long review and reduction of its entire cannabis product portfolio. This multi-phase rationalization:

- Was completed in Q4 2025
- Removed several of the Company's high-performing SKUs
- Reduced store-level availability
- Lowered purchase volumes across all cannabis categories

This action materially reduced revenue in the fiscal year.

GROSS MARGIN

Gross margin was **\$621,689**, down from **\$1,225,022** in 2024.

The decline reflects:

- Lower volumes, leading to diminished economies of scale
 - Loss of higher-margin discontinued Quebec cannabis SKUs
 - Inventory normalization associated with delisted products no longer available for sale
 - Fixed-cost absorption challenges due to lower volumes
-

EXPENSES

Selling Expenses

Selling expenses decreased by **41%**, reflecting lower commissions and reduced freight due to fewer weekly shipments to Quebec.

Salaries and Benefits & Professional Fees

Salaries increased due to a full year of staffing additions initiated in 2024 and ongoing operational requirements. Consequently, Professional Fees were down significantly as expertise was brought in house.

NET LOSS

The Company recorded a **net loss of \$(412,313)** compared to a net income of \$40,603 in 2024, attributable to:

- Lower revenue primarily due to loss of listings in the Quebec cannabis market
 - Margin compression
 - Reduced economies of scale
-

LIQUIDITY AND CAPITAL RESOURCES

Working capital declined during 2025, primarily due to operating losses and adjustments to inventory and receivables following Quebec's SKU rationalization process.

The Company continues to maintain low credit risk exposure, with Quebec's cannabis retailer (a government sponsored entity) representing the largest receivable. Additionally, favorable terms with suppliers and an asset light business model help reduce the impact of negative events such as the rationalization of cannabis SKUs that occurred in the previous fiscal year.

NON-IFRS MEASURES (EBITDA)

Component	2025
Net Loss	\$(412,313)
Add: Depreciation	\$21,208
Add: Share-Based Compensation	\$71,226
EBITDA	(\$319,879)

Additionally, there were several inventory write offs during the year that are not expected to re-occur. The company has implemented processes for reducing inventory risks using conditional deals with suppliers returns and wherever possible will only market products that can be re-worked to minimize financial impacts of delisted products and returns.

QUARTERLY RESULTS

Q4 2025 experienced a pronounced decline in revenue due to the **final implementation of Quebec SKU reductions**. This resulted in significantly fewer listings and reduced purchase volumes.

SUBSEQUENT EVENTS AND OUTLOOK

Quebec Listing Procedure Changes (Effective Fiscal 2026)

As noted earlier in this MD&A, 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 now 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 provide greater stability than the prior environment and are expected to support improved planning, production scheduling, and demand forecasting.

New Product Launches – November 2025

Consistent with the previously discussed operational updates, the Company will proceed with several new product introductions in Quebec in November 2025. These include one vape battery, three vape cartridges, and two existing SKUs transitioning from the discontinued nursery program to full-store availability. These additions position the Company within higher-growth and higher-margin categories and are expected to contribute positively to revenue and category diversification beginning in the second quarter of fiscal 2026.

Management expects these factors to **partially or fully offset** the declines experienced in 2025.

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

The Company experienced a challenging fiscal year due to **external, province-driven SKU reductions** in its primary market. However, the new Quebec listing framework and confirmed launches of multiple vape SKUs materially improve visibility and revenue stability entering FY2026.