

**Mercanto Holdings Inc. (Formerly
The Good Shroom Co Inc.)
Consolidated Financial Statements
for the years ended July 31, 2025 and
2024**

(Expressed in Canadian Dollars)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Mercanto Holdings Inc. (formerly "The Good Shroom Co Inc")

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mercanto Holdings Inc. (formerly "The Good Shroom Co Inc.") (the Company), which comprise the consolidated statements of financial position as at July 31, 2025, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2025 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$412,313 during the year ended July 31, 2025. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended July 31, 2024, were audited by another auditor, who expressed an unmodified opinion on those statements on November 25, 2024.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended July 31, 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the *Emphasis of Matter – Material Uncertainty Related to Going Concern* section of our report, we have determined that there are no other key audit matters to communicate in our auditor's report.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If



we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pat Kenney.

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
November 28, 2025

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Consolidated Statements of Comprehensive (Loss) Income

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

	Note	2025	2024
		\$	\$
Revenue	4	3,561,289	4,636,033
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
Selling expenses		146,792	249,699
General and administrative expenses			
Salaries and employee benefits	16	488,367	417,585
Share-based compensation	16	71,226	54,939
Professional fees		78,298	251,421
Insurance		78,634	88,641
Promotional		27,634	32,760
Marketing and representation		9,672	9,885
Travel		13,578	10,501
Office expenses		42,293	15,594
Reporting issuer costs		22,802	21,345
Taxes and permits		31,345	3,281
Loss on foreign exchange		1,207	3,132
Interest and bank fees		474	2,884
Depreciation and amortization		21,208	21,284
		886,738	933,252
Operating (loss) income		(411,841)	42,071
Presumed interest on lease liability	8	472	1,468
Net (loss) income and comprehensive (loss) income		(412,313)	40,603
Basic (loss) earnings per share		(0.008)	0.001
Diluted (loss) earnings per share		(0.008)	0.001
Basic weighted average number of common shares outstanding		51,230,847	50,575,502
Diluted weighted average number of common shares outstanding		51,230,847	51,892,489

The accompanying notes are an integral part of the consolidated financial statements.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Consolidated Statements of Changes in Equity

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

	Number	Share capital	Contributed surplus	Deficit	Total equity
		\$	\$	\$	\$
Balance as at August 1, 2023	50,474,683	11,075,833	2,177,600	(12,795,863)	457,570
Share-based compensation	-	-	54,939	-	54,939
Exercising of Stock Options	300,000	29,985			29,985
	<u>50,774,683</u>	<u>11,105,818</u>	<u>2,232,539</u>	<u>(12,795,863)</u>	<u>542,494</u>
Net income and comprehensive income	-	-	-	40,603	40,603
Balance as at July 31, 2024	<u>50,774,683</u>	<u>11,105,818</u>	<u>2,232,539</u>	<u>(12,755,260)</u>	<u>583,097</u>
Balance as at August 1, 2024	50,774,683	11,105,818	2,232,539	(12,755,260)	583,097
Share-based compensation	-	-	71,226	-	71,226
Issuance of performance shares	900,000	210,000	(210,000)	-	
	<u>51,674,683</u>	<u>11,315,818</u>	<u>2,093,765</u>	<u>(12,755,260)</u>	<u>654,323</u>
Net loss and comprehensive loss	-	-	-	(412,313)	(412,313)
Balance as at July 31, 2025	<u>51,674,683</u>	<u>11,315,818</u>	<u>2,093,765</u>	<u>(13,167,573)</u>	<u>242,010</u>

The accompanying notes are an integral part of the consolidated financial statements.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc)

Consolidated Statements of Financial Position

As at July 31, 2025 and 2024

(In Canadian dollars)

	Note	2025 \$	2024 \$
ASSETS			
Current			
Cash		394,974	202,369
Receivables		183,825	681,350
Inventories	6	425,646	526,678
Prepaid expenses		-	35,158
		<u>1,004,445</u>	<u>1,445,555</u>
Non-current			
Right-of-use asset	8	-	13,986
Equipment	7	16,100	23,322
		<u>1,020,545</u>	<u>1,482,863</u>
LIABILITIES			
Current			
Trade and other payables		778,535	882,238
Current portion of lease liability	8	-	17,528
		<u>778,535</u>	<u>899,766</u>
EQUITY			
Share capital	9	11,315,818	11,105,818
Contributed surplus		2,093,765	2,232,539
Deficit		<u>(13,167,573)</u>	<u>(12,755,260)</u>
		<u>242,010</u>	<u>583,097</u>
		<u>1,020,545</u>	<u>1,482,863</u>

Governing Statutes, Nature of Operations and Going Concern (Note 1)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Director

Director

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.) Consolidated Statements of Cash Flows

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

		2025	2024
		\$	\$
OPERATING ACTIVITIES			
Net (loss) income		(412,313)	40,603
Adjustments for:			
Share-based compensation	16	71,226	54,939
Depreciation and amortization		21,208	21,284
Debt Forgiveness		-	(20,000)
Presumed interest on lease liability		472	1,468
Net change in working capital items	5	530,012	(246,334)
Cash flows from operating activities		210,605	(148,040)
FINANCING ACTIVITIES			
Exercise of options		-	29,985
Repayment of CEBA Loan		-	(40,000)
Repayment lease liability		(18,000)	(18,000)
Cash flows from financing activities		(18,000)	(28,015)
Net change in cash		192,605	(176,055)
Cash, beginning of year		202,369	378,424
Cash, end of year		394,974	202,369

The accompanying notes are an integral part of the consolidated financial statements.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

1 - GOVERNING STATUTES, NATURE OF OPERATIONS AND GOING CONCERN

Mercanto Holdings Inc. ("Mercanto") (Formerly "The Good Shroom Co Inc.") was incorporated under the Business Corporation Act (Ontario) on August 11, 2011. The head office of the Company, which is also the main establishment, is located at 11 Beacon Street, Kirkland, Quebec, Canada, H9J 2E9. The shares of the Company are listed on the TSX Venture under the symbol "MUSH".

In January 2025, the Company announced a corporate name change to Mercanto Holdings Inc. with no changes in the TSXV trading symbol.

The Company is granted a Micro-processing license ("MPL") by Health Canada (the "License"). The License allows the Company, under Seul CDB, to manufacture and sale cannabis products in the form of edibles, including beverages, and to package and label the products.

Going Concern

The accompanying consolidated financial statements have been prepared on the basis of the on going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period.

For the year ended July 31, 2025, the Company recorded a net loss of \$412,813 (net income of \$40,603 for the year ended July 31, 2024) and has an accumulated deficit of \$13,167,573 as at July 31, 2025 (\$12,755,260 as at July 31, 2024). Besides the usual needs for working capital, the Company must achieve consistent profitability, generate positive cash flows from operations and obtain funds to enable it to pay its overhead and administrative costs. As at July 31, 2025, the Company had a working capital of \$225,910 (\$545,789 as at July 31, 2024). Management believes that these funds may not be sufficient to meet the obligations and liabilities of the Company. These conditions raise material uncertainties which may cast significant doubt as to the Company's ability to continue as a going concern. Although management was able to raise funds in the past, there is no assurance that it will succeed in obtaining additional financing in the future.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2 - MATERIAL ACCOUNTING POLICIES

2.1 Basis of presentation and statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IFRS Accounting Standards).

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out.

The financial statements were approved and authorized for issue by the Board of directors of the Company on November 28, 2024.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.2 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of Mercanto and its subsidiary.

2.3 Basis of consolidation

The Company's consolidated financial statements consolidate those of Mercanto and its wholly-owned subsidiary Teonan Biomedical Inc. All entities have a reporting date of July 31. All transactions and balances between the entities are eliminated on consolidation, including unrealized gains and losses on transactions between companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Revenue recognition

Revenue arises mainly from the sale of wellness beverages and cannabis based products in Canada. To determine whether to recognize revenue, the Company follows a five-step process:

- 1) Identifying the contract with a customer;
- 2) Identifying the performance obligations;
- 3) Determining the transaction price;
- 4) Allocating the transaction price to the performance obligations;
- 5) Recognizing revenue when/as performance obligation(s) are satisfied.

Sales of products are recognized when control of the goods is transferred to the customer, which generally happens upon delivery to the customer.

Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which is payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue. Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Finished goods are manufactured externally. Cost of wellness beverages includes manufacturing process cost and raw material. Cost of cannabis products cost include the purchase price from suppliers. Costs are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less in any applicable selling expenses.

All inventories are reviewed for impairment due to slow moving and obsolete inventory. The provision for obsolete, slow moving and defective inventories are recognized in profit or loss. Previous write downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.6 Equipment

Equipment is stated at cost less accumulated depreciation and its impairment losses. Equipment is recognized at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Repairs and maintenance costs are charged to the statement of comprehensive loss during the year in which they are incurred.

Depreciation for equipment and computer equipment is charged against income over the estimated useful lives of the respective assets according to the straight-line method over a 10-year and 3-year periods respectively.

2.7 Impairment of equipment and Right-of-use assets

For the impairment assessment purposes, assets are grouped at the lowest levels for which they are largely independent cash flows ("cash-generating units" or "CGU"). As a result, some assets are tested individually for impairment, while others are tested at cash-generating unit level.

All assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss equal to the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount is recognized in profit or loss. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. To determine the value in use, management makes estimates of future cash flows from each asset or cash-generating unit and determines an appropriate interest rate for the calculation of the present value of these cash flows.

The impairment loss is first recorded to the goodwill, if any, and then to any residual as a reduction of the individual asset or distributed in proportion to the assets of the CGU. Assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the recoverable amount of a CGU exceeds its carrying amount.

2.8 Leases

The Company recognizes a right-of-use asset and a lease liability with respect to a lease on the date the underlying asset is available for use by the Company (hereafter "the commencement date").

The right-of-use asset is initially measured at cost, which includes the initial lease liabilities adjusted for lease payments on or before the commencement date, plus initial direct costs incurred and an estimate of all of the costs for dismantling and removing the underlying asset, less any lease incentives received.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.8 Leases (continued)

The right-of-use asset is amortized over the shorter of the estimated useful life of the underlying asset or the lease term on a straight-line basis. Additionally, the cost of a right-of-use asset is reduced by any accumulated impairment losses and, as appropriate, adjusted for any remeasurement of the related lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as its discount rate. The lease payments included in the lease liability include the following, in particular:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable payments based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Lease payments relating to extension options that the Company is reasonably certain it will exercise.

The interest expense relating to lease liabilities is recognized in profit or loss using the effective interest method.

2.9 Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized directly in equity. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognized at the time of initial recognition of goodwill or on initial recognition of an asset or liability, unless the transaction is a business combination or affects the tax or accounting profit.

Deferred tax assets or deferred tax liabilities are calculated, without discounting, at the tax rates that are expected to apply in their respective period of realization when they are enacted or substantively enacted by the end of the reporting period.

The deferred tax assets are recognized to the extent it is probable that the underlying fiscal loss or the deductible temporary difference will be used to offset future taxable income. Deferred tax liabilities are always recognized in full.

Deferred tax liabilities and deferred tax assets are offset only when the Company has the right and intention to offset current tax assets and liabilities from the same tax authorities.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Income taxes (Continued)

Changes in deferred tax assets or deferred tax liabilities are recognized as revenue or deferred tax expense in profit or loss, unless they relate to items that were recognized directly in equity, in which case the related deferred tax is also recognized in equity.

2.10 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value. If the financial asset or liability is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's or liability's acquisition or origination. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset:

<u>Financial assets and liabilities</u>	<u>Classification</u>
Cash	Amortized cost
Receivables (excluding taxes receivable)	Amortized cost
Trade and other payables (excluding salaries and taxes payable)	Amortized cost
Lease liability	Amortized cost

Financial assets at amortized cost

Assets that are held for collection of their contractual cash flows where those cash flows represent solely payments of principal and interests. These assets are subsequently measured at amortized cost using the effective interest method. Impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. Discounting is omitted where the effect of discounting is immaterial.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (continued)

Financial liabilities at amortized cost

Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Impairment of financial assets

Impairment requirements use forward-looking information to recognize expected credit losses, i.e. the "expected credit loss (ECL) model". The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1);
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2);
- Financial assets that have objective evidence of impairment at the reporting date (Stage 3).

"12-month expected credit losses" are recognized for the first category, i.e. Stage 1, while

"lifetime expected credit losses" are recognized for the second category, i.e. Stage 2.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade accounts receivable

Based on the Company's business model, expected credit losses over the life of the trade accounts receivable are considered immaterial since the potential for default at any time during the life of the financial instrument is deemed to be nil, based on past experience.

2.11 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable or remote, unless it was assumed in the course of a business combination.

No provision has been recorded for the years presented.

2.13 Earning (Loss) per share

Basic earning/loss per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. The diluted earning (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Dilutive potential common shares are deemed to have been converted into common shares at the average market price at the beginning of the period or, if later, at the date of issue of the potential common shares. Stock options and warrants that could potentially dilute earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive, and detailed in Note 12.

2.14 Equity

Share capital represents the amount received on the issuance of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs. If shares are issued following the exercise of stock options or warrants, this account also includes the charge previously accounted for the warrants and the stock options within contributed surplus.

The funds from unit placement are allocated between shares and warrants using the relative fair value method. The fair value of the common shares is recognized in equity based on the share price at the date of issue. The fair value of the warrants is determined using the Black-Scholes valuation model.

Other components of equity

Deficit includes all current and prior years' retained earnings or losses. Contributed surplus includes additional contributions by existing shareholders as well as charges related to share options and warrants, if any.

2.15 Segment reporting

The Company has one operating segment, which is the production and sale of cannabis based products and beverages. All the assets are in Canada.

2.16 Grants

Grants are recognized as a reduction of the related expenses or assets. The Company records these grants when there is a reasonable assurance that they will be received and the Company will comply with the conditions associated to them.

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

2.17 Share-based compensation

The Company has granted a share-based compensation plan.

All goods and services received in exchange for the grant of any share-based compensations are measured at their fair value, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it must measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and parties providing similar services, the Company evaluated the fair value of services received by reference to the fair value of the equity instruments granted.

The fair value of stock options granted is measured using the Black-Scholes option-pricing model, considering the terms and conditions upon which the instruments were granted.

All share-based compensation is ultimately recognized as an expense in profit or loss. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustments to cumulative share-based compensation resulting from a revision is recognized in the current period.

2.18 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company.

IFRS 18, Presentation and Disclosure in Financial Statements - The IASB has issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to: the structure of the statement of profit or loss; required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its "operating profit or loss". IFRS 18 will apply for reporting periods beginning on or after January 1, 2027 and also applies to comparative information. Management is currently assessing the impact of the standard.

In May 2024, the International Accounting Standards Board (IASB) issued narrow scope amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures.

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Notes to Consolidated Financial Statements

For the years ended July 31, 2025 and 2024

(In Canadian dollars)

2 - MATERIAL ACCOUNTING POLICIES (Continued)

The amendments are effective for the annual reporting periods beginning on or after January 1, 2026.

There are no other standards, interpretations or amendments to existing, standards that are not yet effective that are expected to have a material impact on the consolidated financial statements of the Company.

3 - JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the consolidated financial statements, management makes a number of judgements estimates and assumptions about the recognition and measurement of assets, liabilities, revenues and expenses. Actual results may differ from judgements, estimates and assumptions made by management and are seldom equal to the estimated results. These estimates are reviewed periodically and when adjustments become necessary, they are recorded in earnings in the year they become known. Information on judgements, estimates and assumptions that have the greatest impact on the recognition and measurement of assets, liabilities, revenues and expenses is presented below.

Estimates

Share-based compensation

The estimation of share-based compensation costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model

Judgements

Estimated Useful Lives of Equipment

Depreciation of equipment is dependent upon estimates of useful lives based on management's judgement.

Valuation of Accounts Receivable

The Company estimates the collectability and timing of collection of its receivables, classifying them as current assets or long-term assets, and applies provisions for collectability when necessary.

Valuation of inventory

The Company adjusts inventory values so that the carrying values do not exceed the net realizable value. The valuation of inventory at the lower of cost or net realizable value requires the use of estimates with regards to the amount of current inventory that will be sold, the prices at which it will be sold, and an estimate of the expected orders from customers. Additionally, the estimates reflect changes in products or changes in demand because of various factors, including the market for products, obsolescence, change in product offerings, technology changes and competition.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year, and to fund planned and contractual exploration programs involves significant judgements based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

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4 - REVENUES

	2025	2024
	\$	\$
Cannabis products	3,523,844	4,458,550
Wellness beverages	37,445	157,258
Other	-	20,225
	<u>3,561,289</u>	<u>4,636,033</u>

For the year ended July 31, 2025, one customer represents 90% (89% in 2024) of revenues. Revenues are generated in the following geographical markets:

	2025	2024
	\$	\$
Canada	3,551,446	4,556,458
United States	9,843	79,575
	<u>3,561,289</u>	<u>4,636,033</u>

5 - INFORMATION INCLUDED IN CASH FLOWS

The net change in working capital items is as follows:

	2025	2024
	\$	\$
Receivables	497,525	(155,889)
Inventories	101,032	(80,266)
Prepaid expenses	35,158	-
Trade and other payables	(103,703)	(10,179)
	<u>530,012</u>	<u>(246,334)</u>

6 - INVENTORIES

	2025	2024
	\$	\$
Raw material	32,731	65,504
Finished goods	392,915	461,174
	<u>425,646</u>	<u>526,678</u>

The amount of inventories recognized as expenses during the year corresponds to the cost of goods sold presented in the consolidated statements of loss and comprehensive loss.

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For the years ended July 31, 2025 and 2024

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7 - EQUIPMENT

	Equipment	Computer equipment	Total
	\$	\$	\$
Cost			
Balance, as at July 31, 2023, 2024 and 2025	44,652	7,731	52,383
Accumulated depreciation			
Balance, as at July 31, 2023	16,687	5,154	21,841
Depreciation	4,643	2,577	7,220
Balance, as at July 31, 2024	21,330	7,731	29,061
Depreciation	7,222	-	7,220
Balance, as at July 31, 2025	28,552	7,731	36,281
Net book value as at July 31, 2024	23,322	-	23,322
Net book value as at July 31, 2025	16,100	-	16,102

8 - LEASES

	2025	2024
	\$	\$
Right-of-use assets		
Cost		
Opening balance	148,623	148,623
Ending balance	148,623	148,623
Accumulated depreciation		
Opening balance	134,637	120,573
Depreciation	13,986	14,064
Ending balance	148,623	134,637
Ending net carrying amount	-	13,986
Lease liabilities		
Opening Balance	17,528	34,060
Lease payments	(18,000)	(18,000)
Interest	472	1,468
Ending balance	-	17,528
Current portion	-	17,528
Non-current portion	-	-

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8 - LEASES (Continued)

On August 1, 2022 the lease agreement was amended whereby the monthly rent was reduced to \$1,500. The reduction was based on less processing requirements versus usage of the facility as a flow through for cannabis shipped to retailers.

9 - SHARE CAPITAL

Authorized share capital

Mercanto Holdings Inc's authorized share capital consists of an unlimited number of common shares without par value. All issued shares are fully paid.

	Number of Shares	Share Capital
Balance as at July 31, 2023	50,474,683	11,075,833
Exercising of Stock Options	300,000	29,985
Balance as at July 31, 2024	<u>50,774,683</u>	<u>11,105,818</u>
Issuance of performance shares (Note 12)	900,000	210,000
Balance as at July 31, 2025	<u>51,674,683</u>	<u>11,315,818</u>

10 - LONG-TERM DEBT

During the year ended July 31, 2025, the Company recognized \$nil (2024-\$20,000) in government assistance as Other revenues.

11 - INCOME TAXES

Difference between expected tax expense and tax expense accounted in net income

The difference between the Company's expected tax expense based on the combined federal and provincial rate in Canada and the tax expense presented in the combined statement of comprehensive loss is attributable to the following:

For the years ended July 31,	2025	2024
	\$	\$
Expected tax expense (recovery) calculated using the combined federal and provincial tax rate in Canada of 26.5%	(109,263)	10,760
Adjustments for the following items:		
Tax impact of unrecognized temporary differences	196,644	53,145
Previously unrecognized tax losses used in the year	(107,647)	(80,270)
Share based compensation	18,875	14,559
Non-deductible expenses and other	1,391	1,806
Total tax expense	<u>-</u>	<u>-</u>

Mercanto Holdings Inc. (Formerly The Good Shroom Co. Inc.)

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For the years ended July 31, 2025 and 2024

(In Canadian dollars)

11 - INCOME TAXES (Continued)

Recognized deferred tax assets and liabilities

The following differences between the carrying amounts and tax bases from timing differences, unused tax losses and unused tax credits give rise to the following recognized deferred income tax assets and liabilities:

	2024	Profit or loss	2025
	\$	\$	\$
Right-of-use asset	(1,688)	1,688	-
Lease liabilities	1,688	(1,688)	-
	<u>-</u>	<u>-</u>	<u>-</u>
	2023	Profit or loss	2024
	\$	\$	\$
Right-of-use asset	(6,403)	4,715	(1,688)
Lease liabilities	6,403	(4,715)	1,688
	<u>-</u>	<u>-</u>	<u>-</u>

As at July 31, 2025, the Company has the following temporary differences for which no deferred tax assets are recognized for a value of \$1,323,040.

	Federal	Quebec	Ontario
	\$	\$	\$
Lease liabilities			
Non-capital losses	4,955,674	4,061,399	1,092,100
Financing fees	36,935	36,935	
	<u>4,992,609</u>	<u>4,098,334</u>	<u>1,092,100</u>

These losses expire as follows:

2033	108,622	-	108,622
2034	57,972	-	57,972
2035	100,322	-	100,322
2036	208,435	-	208,435
2037	108,410	-	108,410
2038	122,195	-	122,195
2039	138,629	-	138,629
2040	175,425	-	175,425
2041	1,784,401	1,910,546	72,090
2042	1,112,956	1,113,423	-
2043	378,861	377,984	-
2044	274,064	274,064	-
2045	385,382	385,382	-
	<u>4,955,674</u>	<u>4,061,399</u>	<u>1,092,100</u>

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11 - INCOME TAXES (Continued)

As at July 31, 2024, the Company has the following temporary differences for which no deferred tax assets are recognized for a value of \$1,261,320

	Federal	Quebec	Ontario
	\$	\$	\$
Lease liabilities	11,158	11,158	
Non-capital losses	4,570,292	3,676,017	1,092,100
Financing fees	92,399	92,399	
	<u>4,673,849</u>	<u>3,779,574</u>	<u>1,092,100</u>

These losses expire as follows:

2033	108,622	-	108,622
2034	57,972	-	57,972
2035	100,322	-	100,322
2036	208,435	-	208,435
2037	108,410	-	108,410
2038	122,195	-	122,195
2039	138,629	-	138,629
2040	175,425	-	175,425
2041	1,784,401	1,910,546	72,090
2042	1,112,956	1,113,423	-
2043	378,861	377,984	-
2044	274,064	274,064	-
	<u>4,570,292</u>	<u>3,676,017</u>	<u>1,092,100</u>

12 - SHARE-BASED COMPENSATION

Performance Shares

During the year ended July 31, 2021, the Company granted to one of its employees 3,000,000 shares which vested in 2022 and 2023. As at July 31, 2024, 900,000 shares were issuable. These 900,000 shares were issued during the year ended July 31, 2025, and as a result, the associated value of \$210,000 was transferred from contributed surplus to common shares.

Stock Options

The Company has a stock option plan whereby the Board of Directors may grant to directors, officers or consultants of the Company options to acquire common shares. The Board of Directors has the authority to determine the terms and conditions of the grant of options. The number of stock options granted to a beneficiary and the vesting period are determined by the Board of directors. The number of common shares that may be reserved for issuance under the plan is equal to 10% of the issued common shares of the Company. Issued options vest at various rates over periods of one or two years.

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12 - SHARE BASED COMPENSATION (Continued)

The changes to the number of outstanding stock options granted by the Company are as follows :

	2025		2024	
	Number outstanding stock options	Weighted average exercise price \$	Number outstanding stock options	Weighted average exercise price \$
Opening Balance	2,870,000	0.19	3,055,000	0.21
Granted	855,000	0.02	720,000	0.12
Exercised	-	-	(300,000)	0.10
Forfeited	-	-	(605,000)	0.24
Closing balance	<u>3,725,000</u>	<u>0.16</u>	<u>2,870,000</u>	<u>0.19</u>
Exercisable	<u>3,297,500</u>	<u>0.17</u>	<u>2,510,000</u>	<u>0.20</u>

An expense of \$71,226 was recognized during the year ended July 31, 2025 (\$54,339 in 2024).

The following table provides outstanding share options information as at July 31, 2025

Expiry date	Outstanding stock options		
	Number outstanding stock options	Exercise price	Remaining life (years)
January 3, 2027	120,000	0.17	1.43
April 30, 2028	1,050,000	0.30	2.75
January 25, 2029	750,000	0.10	3.49
March 30, 2030	350,000	0.16	4.67
April 24, 2030	100,000	0.14	4.73
June 19, 2032	500,000	0.11	6.89
February 3, 2033	855,000	0.09	7.52
Outstanding as at July 31, 2025	<u>3,725,000</u>	<u>0.16</u>	<u>4.50</u>

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12 - SHARE BASED COMPENSATION (Continued)

On February 3, 2025, the fair value of the options granted were valued at \$62,400 using Black-Scholes option pricing model with the following weighted average assumptions:

Share price	\$0.09
Exercise price	\$0.09
Risk free interest rate	2.82%
Expected dividend yield	Nil
Expected volatility	100%
Expected life	8 years

In 2024, the weighted average fair value of \$0.10 per option has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Share price	\$	0.12
Exercise price	\$	0.12
Risk free interest rate		4.50%
Expected dividend yield		Nil
Expected volatility		108%
Expected life		7 years

13 - FINANCIAL ASSETS AND LIABILITIES

Classification of financial assets and liabilities

The carrying amount and fair value of financial instruments presented in the consolidated statement of financial position are as follows:

	2025		2024	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets at amortized cost				
Cash	394,974	394,974	202,369	202,369
Receivables (excluding taxes receivable)	183,825	183,825	681,350	681,350
	<u>578,799</u>	<u>578,799</u>	<u>883,719</u>	<u>883,719</u>
Financial liabilities at amortized cost				
Trade and other payables	778,535	778,535	753,140	753,140
	<u>778,535</u>	<u>778,535</u>	<u>753,140</u>	<u>753,140</u>

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that observable for the asset or liability, either directly or indirectly;

Level 3: unobservable inputs for the asset or liability.

The fair value of the long-term debt (Level 2) is not significantly different from its carrying value because there was no material change during the period in the assumptions used for the fair value determination at inception. The carrying values of other financial assets and liabilities are considered to be a reasonable approximation of their fair value because of their short-term maturity.

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Notes to Consolidated Financial Statements

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(In Canadian dollars)

14 - CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's objective with respect to capital management is to ensure that it has the ability to continue its operations. It defines its capital as follows:

	2025	2024
	\$	\$
Equity	242,010	583,097
Total capital	242,010	583,097

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may need to raise capital, issue new shares or sell assets to reduce the long-term debt.

The Company is not subject to external restrictions on its capital.

No changes were made in terms of objectives, procedures or capital management processes for the period presented.

15 - FINANCIAL INSTRUMENTS RISKS

Risk management objectives and policies

The Company is exposed to various risks related to financial instruments. The main types of risks to which the Company is exposed are credit risk, market risk and liquidity risk. The Company does not use derivative financial instruments for speculative purposes.

Credit risk

The maximum exposure to credit risk is limited to the carrying amount of cash, term deposit and receivables as at July 31, 2025 and 2024.

The Company monitors customer and other counterparty defaults on an individual basis regularly and credit risk controls reflect this information. The Company has a policy of only dealing with creditworthy parties. Credit risk is considered negligible. As at July 31, 2025, 90% (89% in 2024) of receivables are from a single customer which is a government entity in Quebec and risk of default is considered low.

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Notes to Consolidated Financial Statements

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15 - FINANCIAL INSTRUMENTS RISKS (continued)

Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, which results from its operating activities:

– Foreign currency risk

The Company is exposed to foreign exchange risks arising from the fluctuation of exchange rates between US dollar and the Canadian dollar. The Company does not enter into arrangements to hedge its foreign exchange risk. As at July 31, 2025 and 2024, exposure to this risk is not significant.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by establishing cash flow forecasts to determine its financing needs and by ensuring that it has sufficient cash and credit facilities to meet its needs and satisfy its commitments on their maturity.

The following table presents the contractual maturities (including interest payments, if any) of the Company's financial liabilities:

	2025		
	Less than 1 year	1 to 5 years	5 years and more
	\$	\$	\$
Trade and other payables	778,535	-	-
Total	<u>778,535</u>	<u>-</u>	<u>-</u>
	2024		
	Less than 1 year	1 to 5 years	5 years and more
	\$	\$	\$
Trade and other payables	753,140	-	-
Total	<u>753,140</u>	<u>-</u>	<u>-</u>

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16 - RELATED PARTY TRANSACTIONS

Transactions with key management and members of the Board of Directors

The remuneration of key management, that is the President and Chief Executive Office and Chief Financial Officer for the quarters ending:

	2025	2024
	\$	\$
Salaries and expenses for employee benefits	390,000	346,154
Shared base compensation	<u>71,226</u>	<u>54,939</u>
	<u>461,226</u>	<u>401,093</u>

The Company incurred COGS of \$15,304 (\$62,675 in 2024) with companies controlled by an officer.

During the year ended July 31, 2025, the Company issued 900,000 performance common shares to a senior officer (Note 12).