Bengal Capital - Q2 2026 Letter

Cultivation Math - the Engine of the Industry

BENGAL CAPITAL
JUL 22, 2026

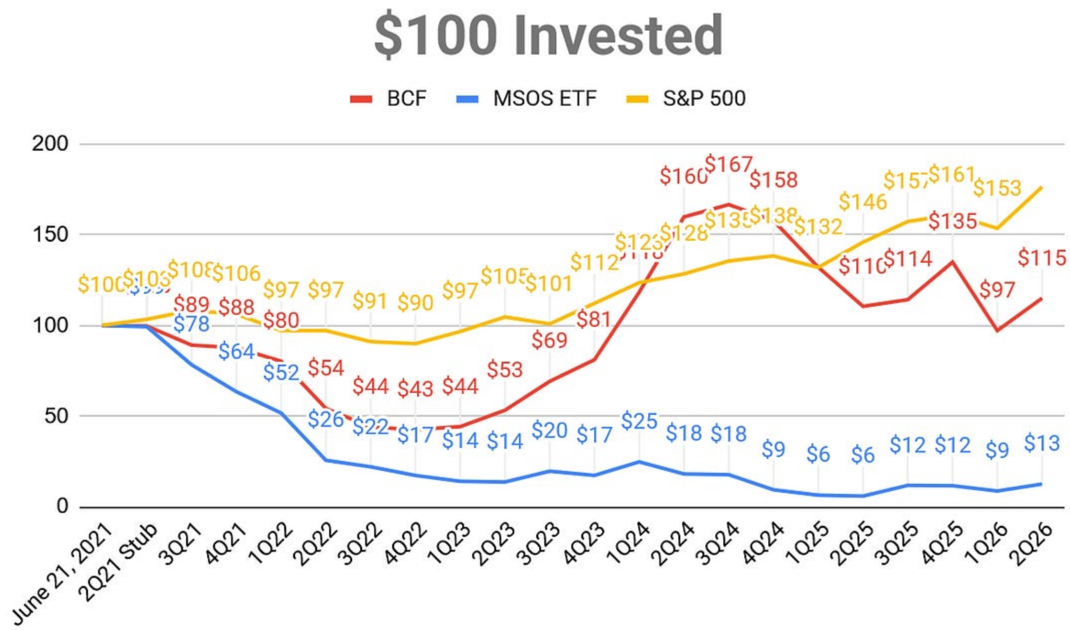
Dear Investor,

The Bengal Catalyst Fund, LP's (the "**Fund**") performance (preliminary estimates, net of fees, and unaudited) is presented below alongside that of MSOS, a US cannabis-focused ETF.

We do not consider MSOS a benchmark but rather a reasonable indicator of general US cannabis investor sentiment. This is especially true because the Fund now holds convertible debt, term debt, and preferred equity in private companies alongside publicly traded equities, whereas MSOS only holds the latter.

(Rounded to Nearest Percent)	**Q1 '26**	**Q2 '26**	**Since Inception (June 14, 2021)**
Bengal Catalyst Fund, LP	-28%	18%	13%
MSOS	-25%	43%	-87%

**The final numbers may be slightly different from what we estimate above, but hopefully not materially so.*



The Fund's performance lagged behind the MSOS ETF in Q2 2026, in large part due to an illiquidity-driven temporary dislocation in Grown Rogue's stock price. The Fund's position in Grown Rogue is valued using closing prices from the Canadian Securities Exchange, as converted to USD; if we had used the closing price from the OTC listing, the Fund would have returned roughly 31% for the quarter. It is a stark reminder of how volatile our industry is – a point further driven home by the unwinding of this dislocation in Q3 – so far in July, the Fund is up 3%, while MSOS is down 12%.

A few reminders:

- Your results may vary from those above depending on time of investment
- The above figures do not include the results of any side pockets
- We expect our returns to be volatile given the illiquidity and concentration of the Fund's portfolio. Regarding the last point, we fully expect that there will be periods in which we underperform

> the broader cannabis equity market as we seek to generate sustainably better longer-term returns.

Your individual account statements should be available at the Panoptic investor portal. Please reach out to us if you need help accessing them.

As is our usual practice, we are sharing some thoughts regarding the cannabis investment environment below. Please feel free to share with others.

Bengal Commentary - Q2 2026

Cultivation Math – Engine of the Industry

One thing that's become clear to us over the past few years is that we look at things differently than most in the sector; it often feels like we're playing a different game. Our different approach has proven valuable thus far - as we cross our fifth anniversary having generated positive returns, up approximately 16% (as of mid-July), net of fees, with a long-only portfolio that is heavily skewed to equity.

This was accomplished during a period in which MSOS, the broadest US-cannabis focused sector ETF, drew down almost 90% and the bellwether of the larger companies in the sector was down approximately 75%. We can obviously find examples of better absolute investment performance across the markets, but we can't think of any examples of positive performance while being fully invested (and not short) in a sector experiencing this much pain. We think the core of the "different game" we play is our insistence on investing in what we understand - most notably with math that we understand down to the unit level.

Investing with, not on, Rescheduling

Before getting to the math, with the ongoing news cycle regarding rescheduling, there is one more meaningful difference that's become apparent: We avoid investing in companies that appear broadly to be playing to the capital markets as opposed to building a durable business.

To us, it appears they do this as if simply being big and in the marijuana business is the blueprint for investment performance rather than a (likely temporary) stock price bump. That's not to say some of these companies don't have substantial value, nor real assets and competitive advantages. But running a cannabis business is an operational grind and when leadership spends much of their time positioning, posturing and telling a story of "regulatory catalysts" yet to come, we believe they are effectively ignoring the massive regulatory catalysts *that have already occurred* - a wave of state-by-state adult use legalization that largely enabled their very business from the get go. The adult use wave has allowed companies a viable path to delighting tens of millions of cannabis consumers, but by spending time talking about future catalysts, the less they have spent winning the hearts and wallets of customers.

We don't place any tangible value in designations such as Tier 1, 2 or 3 by market caps or enterprise values because we don't see these as reliably correlated with true underlying potential and value. For what it's worth, the hype cycle of cannabis has rewarded this "generational opportunity" approach in the past and it very well might again. But our excitement within this growth industry remains tied to the fundamentals - i.e., the sustainable growth in profits and the solid execution against that growth opportunity.

The Beautiful and Simple Math of Good Cultivation

Our partner, Josh Rosen frequently references that cultivation is the engine of the industry. This was the catalyst for the Fund's initial investment in Grown Rogue, as well as it becoming an outsized position in our already concentrated book. As our ongoing involvement (Josh is currently Grown Rogue's Chief Strategy Officer and spearheading new market efforts) attests, we believe this thesis continues to have legs.

Going back to our initial diligence on Grown Rogue in 2021 as the company was ramping its operations in its second state, Michigan, we spent a lot of time on the simple unit economics of running a profitable indoor cultivation facility in Oregon. With our team's experience as operators in both competitive and emerging markets, this diligence came natural to us; it's basic cultivation math. From our lens, we'd posit that better flower production is the core differentiator between GTI and most of its peers. We view it as a stronger engine throughout their vertical ecosystem, albeit they don't share many details to help investors understand this dynamic.

History tells us that investors have often looked at the "bottom line" EBITDA number without bothering to look up the income statement to see how much of that EBITDA is generated by high prices and how much is generated by something else. Understanding cultivation math means focusing on the more controllable inputs (building cost, yield by quality standard, production costs, low overhead, etc.) and recognizing that *price is often the least controllable factor*.

Efficiency, COGS, and Higher Prices

Let's imagine a highly-polished, new-to-cannabis operator, operating in a generic limited-license, east-of-the-Mississippi market. They acquired their license (don't worry, they paid in stock) in the early days of the market, before much infrastructure had been built, and A-grade flower was selling for $2,000 per pound on the open wholesale market. This operator was easily able to obtain sale-leaseback financing to build out their cultivation facility, and ended up building a 25,000 sq. ft. facility, with 10,000 sq. ft. of flowering canopy, for a total cost of $12.5 million, or $500 per sq. ft. This was more than they had expected – there had been some design changes during construction, and some new automation equipment that the operations team wanted – but now they had the flagship production facility they needed to be successful, and most importantly, the returns still penciled out phenomenally well.

Now our generic East Coast operator commences operations, and is pulling down 90 grams per square foot of canopy per harvest; 60% of that is flower, roughly 6,800 pounds per year, and 55% of that is A flower. Each pound of flower costs them roughly $700 to produce. They weren't really sure what to expect on these metrics, but they do know that they're making money – after making a few more assumptions, we can figure that such an operator would be generating roughly $12 million in revenue annually, and keeping about $6 million of that in EBITDA – a nearly-50% annual return on their invested capital (this isn't an academically correct ROIC, but is close enough for illustrative purposes). Imagine the valuation multiples that such a business should command!

Meanwhile, across the country, we have another, scrappier operator, duking it out in a generic West Coast market. These markets are older, and had more fluid rollouts of medical and then recreational programs with few, if any limits on licenses, so there is a more robust ecosystem *and* a more discerning consumer. All of these factors contribute to a much more competitive pricing environment, with A flower selling for $800 per pound. Operator #2, by necessity, closely watches every dollar it spends, so when it builds an identically-sized cultivation facility as operator #1, it does so at a cost of $7.5 million or $300 per sq. ft.

When operator #2 commences operations, they harvest 100 grams of biomass per sq. ft. of canopy, with 65% of their biomass being flower, and 65% of that being A flower. These are seemingly modest improvements over operator #1's performance individually, but taken together, they produce a 42% increase in A flower production.

Furthermore, ever conscious of their lower selling prices, our scrappy West Coasters keep production costs to $400 per pound of flower.

Despite their heroic efforts, our scrappy operators seemingly don't have nearly as attractive a business as their peers across the country. They are generating about half as much revenue, at just over $6 million, and keeping about $2 million of it as EBITDA; lower total profits and lower margins. Further, they are yielding a lower annual return on their albeit-smaller invested capital.

A summary of both operators' KPIs and financial performance is below:

	Generic Eastern Operator	Scrappy West Coast Operator
KPIs		
Building cost $ / sq. ft.	$500	$300
Total biomass g / sq. ft. / turn	90	100
A flower % of total biomass	33%	42%
COGS $ / lb flower	$700	$400
A flower wholesale price $ / lb	$2,000	$800
Financials (US$M)		
Revenue	$11.6	$6.1
EBITDA	**$6.0**	**$2.0**
EBITDA margin %	*52%*	*33%*
Total CapEx $	$12.5	$7.5
EBITDA yield on CapEx %	**48%**	**27%**

So who has the better business here? Who is the better operator?

History tells us that $2,000 per pound flower pricing rarely lasts very long. So let's fast forward a few years: our Eastern US market has seen more capacity come online, attracted by the handsome returns operator #1 and its peers were earning, but this new capacity has pushed wholesale A flower pricing down to $1,500 per pound. Operator #1 is still “making money” – generating $4 million of EBITDA – but their revenue is down 18% over the past few years. But because of how pricing flows straight through the income statement, their EBITDA has eroded twice as quickly, down 35%!

One of the new entrants to the market is operator #2, coming all the way from the other side of the country. In launching their new operation, they realize that things are a little more expensive in this market – land, labor, regulatory burdens. So their building costs them $375 per sq. ft. instead of $300, and their production costs are $500 per pound of flower instead of $400. But the “better” pricing more than makes up, and our scrappy West Coasters generate well over $6 million in EBITDA – more than their new competitors ever did – and a whopping 72% annual return on their invested capital.

	Price Compression Hits Generic	West Coast Heads East
KPIs		
Building cost $ / sq. ft.	$500	$375
Total biomass g / sq. ft. / turn	90	100
A flower % of total biomass	33%	42%
COGS $ / lb flower	$700	$500
A flower wholesale price $ / lb	$1,500	$1,500
Financials (US$M)		
Revenue	$9.5	$11.7
EBITDA	**$4.0**	**$6.8**
EBITDA margin %	*41%*	*58%*
Total CapEx $	$12.5	$9.4
EBITDA yield on CapEx %	**32%**	**72%**

An astute reader may be wondering, what happens to the incumbent East Coast operator if prices in that market ever compress to West Coast levels? Our simple cultivation math suggests they would need to adapt into something closer to scrappier peers.

So we ask again: who has the better business here? Who is the better operator? What was previously obfuscated by pricing differences is now perfectly clear: the efficient production of A-quality flower is a fundamental requirement for *survival*, much less success, in the cannabis industry for anyone with substantial cultivation capacity. Investing is a forward-looking exercise, and we look for investments built to survive, and indeed thrive, well beyond any temporary market distortions.

Sellthrough

One assumption embedded in the example above deserves to be made explicit: both operators sell everything they produce. In practice, that is often the harder half of the equation as markets become more competitive.

Again, we have seen a similar pattern across all cannabis markets that have matured thus far: overall cannabis quality improves as markets mature to the point where there is an effective “quality floor” for retail flower sold to the consumer (which still makes up ~50% of mature markets). Earlier in the market cycle, companies can sell poorer quality product by discounting it a bit below the average wholesale price - maybe the company takes $1,300 so the retailer has some room to discount it versus the average product they buy for $1,500. But, eventually this outlet disappears - as quality improves and pricing comes down, *poorer quality product becomes effectively unsellable at anything other than a deep discount as biomass for extraction.*

Adding this dynamic to the hypothetical above would show the East Coast operator gradually starting to build inventory over a few months that is then wiped away with a bargain basement sale to an extractor while the West Coast operator would show an initial inventory build as its sell through engine started and then a levelling off and eventual reduction as it achieved full sell through.

Quality and — just as importantly — consistency are what earn repeat orders and shelf space; without them, a grower with excellent cost per pound simply accumulates aging inventory that eventually clears at B-grade pricing or worse. Efficient production sets the ceiling on profitability. Sell-through determines whether you ever reach it.

Quality Migration

What becomes clear fairly quickly is that when you're operating as a naked wholesaler producing only flower in a market as competitive as Oregon, you only survive if you consistently and efficiently produce craft quality product. In other words, you live and die by the amount of A flower you can produce because the value of B flower and below is such a steep step down. One can make a lot of qualitative arguments as to the definition of A flower, but suffice it to say, craft quality is the standard for mids in Oregon. If you don't hit that quality standard with the right volume, you lose money and don't last (and, per most of our trusted anecdotal sources, a mid in Oregon is a premium bud East of the Mississippi).

We continue to view one of the larger opportunities in front of the industry is the quality migration to less competitively supplied markets. We've long been suspect of any meaningful economies of scale in cultivation operations, particularly if the desired outcome is craft-quality mids, which become the standard in competitive markets. There are clearly supply chain dynamics in a number of markets that cater to those controlling more distribution and shelf space and we don't think those go away quickly, but if the supply chain is not ultimately focused on winning and retaining customers longer term, we do think these benefits erode. As a simplistic rule, we don't view access to THC as a durable competitive advantage, but it can prove an incredibly powerful short-term profit grabbing advantage, something that we've also seen in states that allow "hemp-derived" THCA flower thrive.

Portfolio Updates

Grown Rogue

(Note: Josh Rosen, Bengal partner and portfolio manager, is Chief Strategy Officer of Grown Rogue. This update is based only on publicly available information and, to the extent that it contains forward-looking views on Grown Rogue, those views are based solely on publicly available information).

In our last Bengal Bite, we discussed our Grown Rogue thesis in greater detail, specifically how pleased we were to see Grown Rogue expanding their model to new markets. Since then, Grown Rogue reported their first quarter financial results, which bore out much of what we discussed.

Grown Rogue's fundamental operating capabilities continue to be on display in its legacy markets of Oregon and Michigan: despite nearly- or record-low flower pricing in both markets, they managed modest year-over-year revenue growth and continued profitability. This was done through record A flower yields in both markets and continued (we believe) industry-leading cost per pound.

More significant for the future, though, were Grown Rogue's New Jersey results: revenue nearly doubled year-over-year, with solid profitability and the full sell through of packaged, branded product. This was before any of their Phase II expansion came online, which began last month and is expected to continue incrementally through the balance of 2026. We'd also note that Grown Rogue is still optimizing New Jersey cultivation to match Oregon/Michigan, with ongoing room for improvement in yield and production cost per pound (this ties back to our cultivation math theme).

Grown Rogue's Illinois news is more exciting: their partner has commenced operations at their new turnkey cultivation facility with first harvests coming imminently. Combined with their upcoming launch in Minnesota (sales anticipated in early 2027), we remain encouraged by the pipeline of growth opportunities that Grown Rogue is facing for 2027 and beyond.

LadderRe

LadderRe had minimal news to report during the quarter, with management focused on executing against its existing book of business and evaluating how they can continue serving cannabis and hemp operators and other niche specialty industries with particularly attractive risk-adjusted return profiles.

Body and Mind

As a reminder, BaM had two sources of debt related to Bengal entities: a Senior Secured Term Loan and a Convertible Loan held through an SPV.

During the quarter, BaM received proceeds for previously announced M&A transactions, which were used to satisfy nearly all of the Senior Secured Term Debt and to begin paying down interest and principal on the Convertible Debt. BaM is still owed two M&A-related earnout payments, and when mixed with anticipated resolutions related to other assets, we are expecting these debts to be fully repaid in 2026.

Should you wish to respond to this letter or discuss anything within it, please reach out to Bengal partner Josh Rosen at josh@bengalcap.com. We are always happy to thoughtfully engage with those that agree and disagree with us.