



PSYENCE GROUP INC.
(Formerly Cardinal Capital Partners Inc.)

Annual MD&A for year ended
December 31, 2020

Date of MD&A:
April 30, 2021

The following information should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2020 and 2019 of Psyence Group Inc. (formerly Cardinal Capital Partners Inc.) (the "**Company**" or "**Cardinal**"), which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Information

This MD&A contains forward-looking statements and forward-looking information as such terms are defined under applicable Canadian securities laws. These forward-looking statements and forward-looking information include, but are not limited to, statements with respect to management's expectations regarding the future growth, results of operations, performance and business prospects of the Company, and relate to, without limitation:

- the Company's research and development plans, business model, strategic objectives and growth strategy;
- the Company's future growth plans;
- anticipated trends and challenges in the Company's business and the markets in which it operates;
- the future demand for psilocybin and psilocybin mushroom products from time to time produced, supplied, or distributed by the Company;
- the impact of the recent novel coronavirus ("**COVID-19**") pandemic on the Company's operations;
- the Company's expectations regarding regulatory requirements and developments in the jurisdictions in which it operates;
- the approval of regulatory bodies of psychedelic substances including psilocybin for the treatment of various health conditions;
- controlled substances laws;
- the Company's ability to obtain renewals of licenses and regulatory authorizations for its business operations;
- the Company's estimate of the size of the potential markets for its products;
- the Company may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues;
- risks relating to an evolving regulatory regime related to psilocybin and psychedelic products;
- the continuation of the Company as a going concern;
- the Company's intellectual property;
- the growth of competition from other companies in the industry;
- the Company's actual financial position and results of operations may differ materially from the expectations of the Company's management;
- the Company's exposure to fluctuations in foreign currencies; and
- the Company's expectations regarding the sufficiency of its cash for funding non-development related expenditures and future cash balances.

These forward-looking statements and forward-looking information may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions. Without limitation, the words "may", "will", "would", "should", "could", "expect", "plan", "intend", "trend", "indicate", "assume", "anticipate", "believe", "estimate", "predict", "likely" or "potential", or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Forward-looking statements and forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events.

With respect to forward-looking statements and forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: future research and development plans for the Company proceeding substantially as currently envisioned, future expenditures to be incurred by the Company, research and development and operating costs, additional sources of funding, the impact of competition on the Company and the Company being able to obtain financing on acceptable terms.

Although management believes the expectations reflected in such forward-looking statements and forward-looking information are reasonable, forward-looking statements and forward-looking information are based on the opinions, assumptions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements and forward-looking information.

These risks, uncertainties and factors include, but are not limited to: risks, uncertainties and the results of the growth and cultivation of psilocybin or the development of the Company's future products and the timing thereof; the Company may not have sufficient capital to achieve its growth strategy; risks that its growth strategy may not be successful; regulatory policies concerning psilocybin products; the ability to obtain renewals or approvals for licences and authorizations; the Company's plan to conduct research for psilocybin products in Canada and obtaining Canadian regulatory approval thereto; the Company's expansion of its Lesotho-based production and processing facility; competitors from other companies; clinical trial results; limitations on insurance coverage; the timing and amount of estimated capital expenditure in respect of the business of the Company; operating expenditures; success of marketing activities; estimated budgets; currency fluctuations; requirements for additional capital; the timing and possible outcome of litigation in future periods; the effects of COVID-19 pandemic; goals; strategies; future growth; planned business activities and planned future acquisitions; the adequacy of financial resources; and other events or conditions that may occur in the future.

In addition, if any of the assumptions or estimates made by management prove to be incorrect, actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in, or incorporated by reference into, this MD&A. Accordingly, prospective investors are cautioned not to place undue reliance on such statements.

All of the forward-looking statements and forward-looking information in this MD&A are qualified by these cautionary statements. Statements containing forward-looking statements and/or forward-looking information contained herein are made only as of the date hereof. The Company expressly disclaims any obligation to update, revise or alter statements containing any forward-looking statements or forward-looking information, or the factors or assumptions underlying them, whether as a result of new information, future events or otherwise, except as required by law. New factors emerge from time to time, and it is not possible for the Company to predict which factors may arise. In addition, the Company cannot assess the impact of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements or forward-looking information.

Overview

Psyence Group Inc. (formerly Cardinal Capital Partners Inc.) was a merchant bank that assumed the role of participating lender in the acquisition, development, sales and management of real estate properties that met a predetermined set of guidelines within North American markets. The Company did not carry on active business operations during the periods that are the subject of this MD&A prior to the Transaction (as defined herein).

Business Combination with MindHealth Biomed Corp.

On September 11, 2020, the Company and MindHealth Biomed Corp. ("**MindHealth**", and together with the Company, the "**Parties**") entered into a binding definitive agreement (the "**Definitive Agreement**") pursuant to which the Parties intended to complete a business combination transaction, which, subject to certain conditions and applicable shareholder and regulatory approvals, would result in a reverse takeover of the Company by MindHealth (the "**Transaction**"). The combined public company resulting from the Transaction (the "**Resulting Issuer**") would carry on the business of MindHealth.

Under the terms of the Definitive Agreement, the Transaction was completed by way of a three-cornered amalgamation (the "**Amalgamation**") among the Company, MindHealth, and 1264216 B.C. Ltd., ("**Acquisitionco**"), a wholly owned subsidiary of the Company incorporated for the purposes of completing the Transaction, under the Business Corporations Act (British Columbia). The Amalgamation resulted in MindHealth combining its corporate existence with Acquisitionco, and the entity resulting from the Amalgamation becoming a wholly-owned subsidiary of the Company.

In anticipation of the Transaction, pursuant to articles of amendment dated January 19, 2021, Cardinal completed the consolidation of common shares in the capital of Cardinal (the "**Cardinal Shares**") on the basis of one (1) post-consolidation Cardinal Share for every 19.24 pre-consolidation Cardinal Shares (the "**Consolidation**") and changed its name to "Psyence Group Inc.". As part of the Transaction, MindHealth and Acquisitionco amalgamated under the BCBCA pursuant to the terms of an amalgamation agreement between Acquisitionco and MindHealth dated January 19, 2021 to form Amalco. Cardinal issued 1.0649 Cardinal common shares (on a post-Consolidation basis) for each MindHealth common share. All outstanding warrants and options of MindHealth issued prior to the Transaction were cancelled and the Company issued 1.0649 warrants and options in the capital of the Resulting Issuer, as applicable, for each MindHealth warrant or option on the same terms and conditions as the respectively cancelled warrants and options granted by MindHealth.

The transaction was completed after financial year-end on January 19, 2021. On the same day, the Company changed its name from "Cardinal Capital Partners Inc." to "Psyence Group Inc."

MindHealth is a private, British Columbia company, with a mission to become the leading supplier of branded medicinal-grade psilocybin mushroom products to the global legal psychedelic research, medical and nutraceutical industries. MindHealth intends to capitalize on significantly lower cost production in Africa to distribute and supply internationally certified medical grade psilocybin mushroom products to legal export markets, to differentiate itself through best of class cultivation, processing, distribution, brand and retail services. MindHealth currently possesses a cultivation, processing and export license for psilocybin mushrooms in Lesotho, in Southern Africa (which is one of the first commercial medical grade psilocybin mushroom cultivation licenses globally) and has commenced the build-out of a fully integrated cultivation, processing and product manufacturing facility to international standards at its licensed facility.

Immediately after the closing of the Transaction, the Company had approximately 85,528,931 common shares in the capital of the Resulting Issuer (the "**Company Shares**") issued and outstanding (on a non-diluted basis), of which (i) approximately 83,706,547 Company Shares (or 97.869%) were held by the former MindHealth shareholders, and (ii) approximately 1,822,384 Company Shares (or 2.131%) were held by the Cardinal Shareholders.

The Company also had a total of 7,432,055 options of the Resulting Issuer (each a "**Company Option**") and 8,910,553 share purchase warrants (each a "**Company Warrant**") outstanding.

On a fully-diluted basis, presuming the exercise of the Company Options and Company Warrants, immediately after closing of the Transaction the Company would have approximately 101,871,539 Company Shares issued and outstanding, of which (i) approximately 100,049,155 Company Shares (or 98.211% %) were held by the former MindHealth shareholders, and (ii) approximately 1,822,384 Company Shares (or 1.789 %) were held by the Cardinal Shareholders.

Upon the conclusion of the Transaction, the business of the Company became the business of MindHealth. The new entity called Psyence Group Inc. (formerly called Cardinal Capital Partners Inc) listed on the Canadian Securities Exchange on January 27, 2021.

The Transaction was an arm's length transaction.

Upon completion of the Transaction, the board of directors and management of the Company was reconstituted such that the directors were comprised of Jody Aufrichtig (Chairman), Gavin Basserabie, Amza Ali, Marvin Singer and Ryan Roebuck. On March 4, 2021 Ryan Roebuck resigned and Alan Friedman was appointed.

Overall Performance

As at December 31, 2020 the Company had \$124,509 in assets (December 31, 2019 - \$140,738) which consisted of cash of \$95,910 and cash held in trust of \$28,599 (2019 – cash of \$140,738).

For the year ended December 31, 2020 Cardinal had a basic and diluted net loss of \$92,511 or \$0.06 per share compared to \$19,056 or \$0.01 per share for the same period in 2019.

Selected Annual Information

The following annual selected information is prepared in accordance with IFRS.

For the years ended December 31	2020	2019	2018
Total Revenue	\$ -	\$ -	\$ -
Net income (loss) for the year	(92,511)	(19,056)	(13,322)
Net income (loss) per share ⁽¹⁾	(0.06)	(0.01)	(0.00)
Total assets	124,509	140,738	173,220
Total financial liabilities	136,769	60,487	73,913
Cash dividends declared per share	\$ -	\$ -	\$ -

(1) Net income (loss) per share has been calculated using the weighted average number of common shares during each year. Diluted net income (loss) per share was not calculated as it would be anti-dilutive.

Operating Results for the Year Ended December 31, 2020

General and Administrative Expenses

General office and administration expenses totaled \$92,511 as compared to \$19,056 in 2019 and increased as result of the Transaction. Consulting fees of \$38,000 (2019: \$0) were accrued for the services rendered by former directors of the Company.

Net Loss

Net loss was \$92,511 in 2020 compared to a net loss of \$19,056 in 2019.

Summary of Quarterly Results

For the quarters ended	Dec 31/20	Sep 30/20	Jun 30/20	Mar 31/20
Total revenue	\$ -	\$ -	\$ -	\$ -
Net income (loss) for the period	(72,981)	(7,625)	(7,500)	(4,405)
Net loss per share ⁽¹⁾	(0.00)	(0.00)	(0.00)	(0.00)

For the quarters ended	Dec 31/19	Sep 30/19	Jun 30/19	Mar 31/19
Total revenue	\$ -	\$ -	\$ -	\$ -
Net income (loss) for the period	(6,582)	(3,133)	(4,783)	(4,558)
Net loss per share ⁽¹⁾	(0.00)	(0.00)	(0.00)	(0.00)

- (1) Net income (loss) per share has been calculated using the weighted average number of common shares during each period. Diluted income (loss) per share was not calculated as it would be anti-dilutive.

Operating Results for the Three Months Ended December 31, 2020

General and Administrative Expenses

General office and administration expenses totaled \$72,981 (including \$38,000 consulting fees accrued for former directors) as opposed to \$6,582 for the same period in 2019 as result of the Transaction.

Net Income (Loss)

Net loss for the quarter ended December 31, 2020 totaled \$72,981 or \$0.04 per share versus a net loss of \$6,582 or \$0.00 per share for the same period in 2019.

Summary of Quarterly Results

Liquidity

As at December 31, 2020, the Company had current assets of \$124,509 (December 31, 2019 - \$140,738) to settle current liabilities of \$136,769 (December 31, 2019 - \$60,487). All of the Company's financial liabilities have contractual maturities of less than one year. Post the Transaction, the Company has sufficient working capital to meet its operational requirements and it is be able to pay its existing liabilities. However, there can be no assurance that the Company will be able to obtain sufficient funds continue to fund its future operations.

Capital Resources

Management is not aware of any significant commitments or expected fluctuations with respect to its Capital Resources at the date of its annual financial statements.

Off-balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as at the date of its financial statements.

Transactions with Related Parties

At December 31, 2020 accounts payable and accrued liabilities included \$66,383 (December 31, 2019 - \$30,841) payable to officers and directors of the Company.

Compensation of key management personnel

The remuneration expense of directors and key management personnel during the years ended December 31,2020 and 2019 were as follows:

	2020	2019
Consulting fees	\$ 38,000	-
Share-based compensation	-	-
Total	<u>\$ 38,000</u>	<u>\$ -</u>

Disclosure of Management Compensation

The Company did not have any standard compensation agreements with directors or officers for the year ended December 31, 2020.

Proposed Transactions

On March 4, 2021, the Company announced that it had launched its functional mushroom brand, "Goodmind", through a South African-based special purpose vehicle ("SPV") called Goodmind (Pty) Ltd ("Goodmind"). The SPV will be responsible for the production, commercialization and sale of Goodmind functional mushroom products, which will include additional psilocybin containing products, subject to compliance with all applicable local laws and regulations in the jurisdictions in which the SPV operates. The primary aim of the SPV is to establish a revenue-generating business by executing on opportunities in the functional mushroom space. The SPV is a 50/50 partnership between the Company, via its subsidiary Psyence Biomed Corp, and Southern Sun Pharma Inc's wholly owned subsidiary, The Goodleaf Company (Pty) Ltd, a private company incorporated in South Africa ("Goodleaf"). Goodleaf is the leading cannabis brand in South Africa with established distribution lines through retail stores, online, wholesale, and deli and coffee shops.

On March 31, 2021, the Company announced that a letter of intent had been signed with Pure Extracts Technologies Corp ("Pure Extracts") to form a Joint Venture ("JV"). The JV would specialise in the extraction of psilocybin from psychedelic mushrooms and development of psilocybin formulations. Pure Extracts is a plant-based extraction company focused on cannabis, hemp, functional mushrooms and the psychedelic sector with a state-of-the-art processing facility and has submitted an application to Health Canada for a Dealer's Licence under the Controlled Drugs and Substances Act (CDSA). The JV will facilitate the importation of standardized psychedelic mushrooms into Canada, creating the opportunity to further optimize extraction methods and produce advanced products needed for safe clinical research. The expected effect on financial condition, results of operations and cash flows of the JV are not quantifiable at the date of this report.

Critical Accounting Estimates

The preparation of the accompanying consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

Financial Instruments

All of the Company's financial assets and liabilities are and measured at amortized cost.

Financial instruments measured at amortized cost are initially recognized at fair value, plus adjustments for transaction costs, and then subsequently measured at amortized cost using the effective interest rate method, with gains and losses recorded as a charge against earnings.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset carried at amortized cost is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset and that the estimated future cash flow of that asset can be estimated reliably. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The following table summarizes the classification of the Company's financial assets and liabilities under IFRS 9:

Financial assets:

Cash	Amortized cost
Cash held in trust	Amortized cost

Financial liabilities:

Amounts payable and accrued liabilities	Amortized cost
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Risk Management

The success of the Company is dependent upon its ability to assess and manage all forms of risk that affect its operations. The Company is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

As at December 31, 2020, the Company had current assets of \$124,509 (December 31, 2019 - \$140,738) to settle current liabilities of \$136,769 (December 31, 2019 - \$60,487). All of the Company's financial liabilities have contractual maturities of less than one year.

Credit Risk

The credit risk as at December 31, 2020 related to the cash on hand of \$95,910 which was held in a single financial institution and \$28,599 provided by MindHealth as a non-refundable advance which was held in trust to cover certain expenses related to the Transaction.

Foreign Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency.

The Company operates internationally and is exposed to foreign exchange risk from the Lesotho Loti and South African Rand. Foreign exchange risk arises from transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

Other Data

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.

Share Data

Outstanding Shares

1,666,459 (pre-consolidation) common shares as at December 31, 2020 and December 31, 2019. Subsequent to year end and upon completion of the Transaction there were 85,528,931 (post-consolidation) common shares outstanding.

Outstanding Options

As at December 31, 2020 the Company had 155,925 stock options outstanding. Currently the Company has a total of 7,432,055 stock options and 8,910,553 warrants outstanding.