

Psyence™

Psyence Group Inc.
(Formerly Cardinal Capital Partners Inc.)

Annual MD&A for period ended
March 31, 2021

Date of the MD&A:
June 30, 2021

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Psyence Group Inc. (formerly Cardinal Capital Partners Inc.)

Management Discussion & Analysis

Dated: June 30, 2021

The following information should be read in conjunction with the audited consolidated financial statements for the period ended March 31, 2021 of Psyence Group Inc. (formerly Cardinal Capital Partners Inc.) (the "**Company**" or "**Psyence**"), 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 Management Discussion & Analysis ("**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 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 the issue and/or renewal 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;
- risks relating to operations based in its Jamaican subsidiary;
- 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;

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- 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 the issuance of and/or renewal of and/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; competition from other companies; the Company's ability to establish research and development in its Jamaica-based subsidiary; 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, readers 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 is a life science biotechnology company pioneering the use of natural psychedelics in the treatment of psychological trauma and mental health disorders. The Company is also developing nutraceutical products for depression, acute anxiety and sleep disorders. Informed by nature and guided by science, Psyence is leading the way in the use of natural psilocybin to heal psychological trauma and the diagnosable disorders that can result, including anxiety, depression, PTSD, stress, grief and bereavement. We have a particular focus on these conditions in the context of palliative care. The Company is also developing nutraceutical products for depression, acute anxiety and sleep disorders.

Description of the business

The four key divisions of Psyence are described below:

1. Psyence Therapeutics

Psyence works to set the global standard for excellence and consistency in nature-based psilocybin products. We are working towards providing standardized natural psilocybin products to clinicians, research centres, and universities undertaking research and clinical trials in the use of natural psilocybin for the treatment of a range of mental health disorders and other medical conditions. Research and development (“R&D”) is performed with licensed partners and there is no recreational sale of psilocybin containing products.

Psyence uses its own natural psilocybin products for research and pharmaceutical drug development. Our R&D priorities are on developing therapeutic, sub-hallucinogenic dosing to help heal psychological trauma and the diagnosable disorders that can result, including anxiety, depression, PTSD, grief and bereavement, especially in the context of palliative care. Our focus includes therapeutic protocols for clinical immersions and experiences at retreats for medical and scientific research and observational studies.

2. Psyence Function

Psyence Function is developing over-the-counter mushroom- based nutraceuticals. Our team is experienced in building category-disruptive brands and in establishing a vibrant and vital channel mix for global wellness products. GoodMind is a functional mushroom product that does not contain psilocybin and will be available on the shelf by mid-2021. Proprietary Psyence Function products now in development include solutions with a focus on depression, chronic stress, low mood, anxiety and sleep.

3. Psyence Production

Psyence has built and operates one of the first federally licensed commercial psilocybin cultivation and production facilities in the world. We are focused on the production of certified, pharmaceutical-quality psilocybin/psilocin- yielding mushrooms and truffles. The facility, which is situated in Southern Africa, has been designed and constructed to The British Standards Institute (“BSI”) and Good Manufacturing Practice (“GMP”) standards. It is equipped with best-in-class technology and specialized equipment to ensure optimum growing conditions and efficient harvesting and packaging.

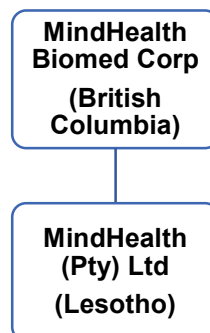
4. Psyence Experience

Psyence is committed to supporting the creation of experiences and spaces for those seeking what the United States Food and Drug Administration has termed “breakthrough” solutions for mental wellness. We will partner with experienced providers of destinations, retreats, wellness centers, spas and clinics to provide a nature-first approach to guided psychedelic immersions for medical and scientific research and to conduct observational studies. We are developing psilocybin-containing products for safe and effective use for medical and scientific purposes in regulatory compliant jurisdictions.

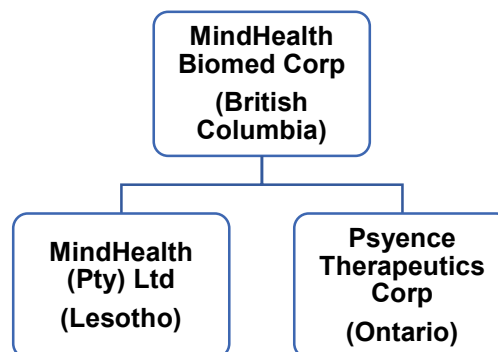
Corporate Structure

The below diagrams show the progression of the corporate structure from incorporation of MindHealth Biomed Corp. (which amalgamated with Cardinal Capital Partners Inc.) on May 21, 2020 to the period end March 31, 2021.

May 21, 2020 – January 15, 2021

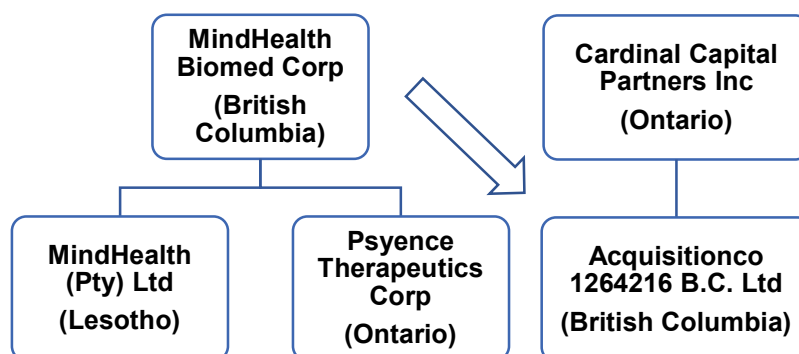


January 15, 2021 - Post acquisition of Psyence Therapeutics

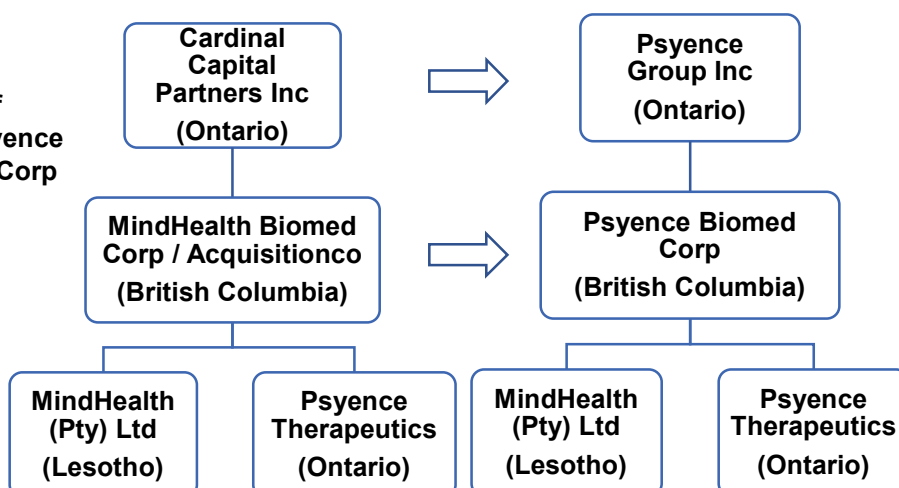


January 19, 2021 – Business combination with Cardinal Capital Partners Inc.

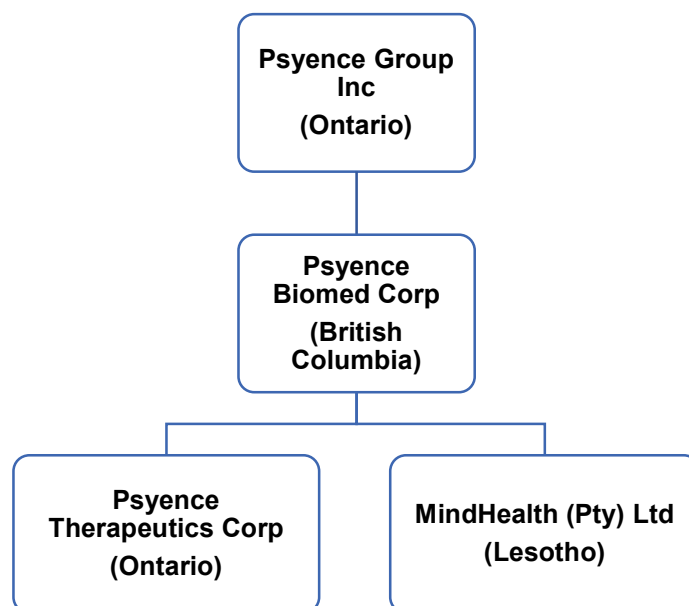
Cardinal Capital Partners was the acquiree and MindHealth Biomed the acquirer in the reverse take-over transaction.



January 19, 2021 – Renaming of Cardinal Capital Partners to Psyence Group and MindHealth Biomed Corp to Psyence Biomed Corp



March 31, 2021 - Corporate structure at year-end (Listed on Canadian Securities Exchange on January 27, 2021)



Development of the business

Cardinal Capital Partners

Cardinal Capital Partners Inc. (“**Cardinal**”) 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).

MindHealth Biomed Corp.

MindHealth Biomed Corp. (“**MindHealth**”) is a private corporation incorporated under the laws of British Columbia on May 21, 2020.

MindHealth (Pty) Ltd (“**MindHealth Lesotho**”) is a private entity incorporated under the laws of the Kingdom of Lesotho on March 13, 2020. In May 2020, MindHealth Lesotho was granted permission by the Government of Lesotho to import, cultivate, produce, manufacture and export psilocybin mushrooms. The Psyence Production federally licensed commercial psilocybin cultivation and production facilities are situated in the Kingdom of Lesotho. On May 22, 2020, MindHealth Lesotho became a subsidiary of MindHealth. MindHealth issued 24 million common shares for all the outstanding common shares of MindHealth Lesotho.

Psyence Therapeutics Corp. (“**Psyence Therapeutics**”) is a private corporation incorporated on April 29, 2020 under the laws of the Province of Ontario.

On January 15, 2021, MindHealth acquired Psyence Therapeutics by issuing 18,000,000 MindHealth Shares, warrants to purchase 1,744,493 MindHealth Shares, and stock options to purchase 1,800,000 MindHealth Shares in exchange for all of the outstanding shares, warrants and options of Psyence Therapeutics. As a consequence of this transaction, Psyence Therapeutics became a wholly-owned subsidiary of MindHealth.

Business Combination between Cardinal and MindHealth

On September 11, 2020, the Company and MindHealth (the “**Parties**”) entered into a definitive agreement (the “**Definitive Agreement**”) pursuant to which the Parties intended to complete a business combination transaction, in which MindHealth acquired all of the issued and outstanding common

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shares of Cardinal, in a three-cornered amalgamation (the "**Transaction**"), involving the Company, MindHealth and 1264216 B.C. Ltd., a wholly owned subsidiary of the Company. The combined public company resulting from the Transaction (the "**Resulting Issuer**" or "Psyence Group Inc.") would carry on the business of MindHealth.

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 on the basis of one (1) post-consolidation Cardinal share for every 19.24 pre-consolidation Cardinal shares (the "**Consolidation**"), resulting in approximately 3,822,379 common shares. Cardinal changed its name to "Psyence Group Inc." and the newly amalgamated wholly-owned subsidiary was named "Psyence Biomed Corp". 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 on January 19, 2021. Upon the conclusion of the Transaction, the business of Cardinal became the business of MindHealth. The Transaction was an arm's length transaction.

Outstanding Share Data

Security	As of March 31, 2021	At date of this MD&A
Common Shares	85,528,931	85,528,931
Options	7,432,055	7,432,055
Warrants	8,910,553	8,910,553
Company Shares on a fully diluted basis	101,871,539	101,871,539

Listing on CSE

The Company listed on the Canadian Securities Exchange on January 27, 2021.

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 Bassarabie, Amza Ali, Marvin Singer and Ryan Roebuck. On March 4, 2021 Ryan Roebuck resigned and Alan Friedman was appointed.

Reverse Take Over Transaction – Financial Statements basis of preparation

The MD&A and Annual Financial Statements dated March 31, 2021 are presented on a consolidated basis. The Transaction does not constitute a business combination as the Company does not meet the definition of a business under IFRS 3 *Business Combinations*. Immediately after the Transaction, shareholders of MindHealth owned 100% of the voting rights of the Company. As a result, the Transaction has been accounted for as a capital transaction with MindHealth being identified as the accounting acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The Transaction has been accounted for in the consolidated financial statements as a continuation of the financial statements of MindHealth.

This MD&A presents the operations of MindHealth for the period May 21, 2020 – January 19, 2021 and thereafter the operations under the amended name of PBC until period end March 31, 2021. These operations are presented as the consolidated financial statements of Psyence Group Inc.

Overall Performance

Annual Information

MindHealth was incorporated on May 21, 2020. This is the first financial period for the Company, consequently there are no comparatives.

Overview for the period ended March 31, 2021

Since inception, the Company has incurred losses while advancing the development of products and processes and invested \$328,467 in its federally licensed commercial psilocybin cultivation and production facilities in Lesotho.

Net loss for the period ended March 31, 2021 was \$11,283,798. The loss was primarily as result of the consideration paid in excess of net assets acquired from an acquisition of \$6,794,631, professional and consulting fees of \$2,925,403 and listing expenses of \$1,271,894.

During the period ended March 31, 2021, the Company focused on investing in the resources it requires to implement and execute on its strategy. This included hiring personnel, the acquisition of Psyence Therapeutics, the RTO of Cardinal and the building of the production facility in Lesotho.

Results of operations for the period May 21, 2020 (date of incorporation of MindHealth) to March 31, 2021

The Company reported no revenues during the period from the date of incorporation on May 21, 2020 to March 31, 2021, while the net loss for the period was \$11,283,798.

Sales and marketing costs of \$109,994 were incurred for content, promotional materials and website design costs.

The Company incurred research and development costs in Lesotho of \$21,906 for the purposes of growing natural psilocybin products in compliance with the licence granted by the Lesotho government.

General and administrative costs of \$105,304 were incurred which consisted of bank fees, filing fees, general office expenditure, facility maintenance and operational costs.

Professional and consulting fees totalling \$2,925,403 were incurred in the period. This consisted of \$1,680,136 (\$586,090 paid in cash and \$1,094,046 paid with stock options and warrants) paid to consultants for product development, finance, business strategies and administration and \$459,386 in relation to a management service agreement with a related party. Legal fees of \$546,194 was paid to legal practitioners for various corporate matters whilst \$75,926 and \$164,391 paid for accounting services and audit fees, respectively.

The depreciation and amortization charge for the period was \$24,496 in total. Of this amount, \$2,553 was charged for right-of-use assets and \$21,485 was depreciated on computer equipment, buildings, production equipment, furniture and bulk infrastructure. The amortization of intangible assets was \$458 for the period.

MindHealth Lesotho entered into a sub-lease agreement with Highlands Pure Lesotho, a related party, for a portion of land situated at a cultivation site in Kolojane in the Berea District of Lesotho. The Company developed a laboratory, production and processing facility on this portion of land at a cost of \$328,467. In addition to the leased portion of land, MindHealth Lesotho shall be entitled to use the essential infrastructure and related services available at the cultivation site. The monthly rental, sewerage and drainage is LSL3,485 per month. The initial term of the lease is approximately nine years commencing 1 June, 2020 and ending May 21, 2029. Thereafter, the Company has the option to renew the lease for a further ten-year period for a maximum of five times total. The lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability of \$56,155 and \$56,776, respectively.

Computer equipment and other fittings were purchased for \$29,474. The Company has also purchased domain names for \$18,324. The depreciation and amortization on capital assets for the period was \$24,496.

On September 11, 2020, the Company and MindHealth entered into a Definitive Agreement pursuant to which the Parties intended to complete a business combination transaction, in which MindHealth

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acquired all of the issued and outstanding common shares of the Cardinal, in the Transaction, involving the Company, MindHealth and 1264216 B.C. Ltd., 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 on the basis of one (1) post-consolidation Cardinal share for every 19.24 pre-consolidation Cardinal shares, resulting in approximately 3,822,379 common shares. Cardinal changed its name to "Psyence Group Inc." and the newly amalgamated wholly-owned subsidiary was named "Psyence Biomed Corp". 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 on January 19, 2021. As a result, the Company issued a total of 81,706,552 common shares to former MindHealth shareholders which represented 96% of the total issued and outstanding shares on closing. The Transaction has been accounted for in accordance with IFRS 2 *Share-based payments*. The Transaction is considered to be an RTO of Cardinal by MindHealth. An RTO transaction involving a non-public operating entity and a non-operating public company is in substance a shared based payment transaction rather than a business combination. The Transaction is equivalent to the issuance of common shares by the non-public operating entity, MindHealth, for the net assets and the listing status of the non-operating public company, Cardinal. The fair value of the common shares issued was determined based on the fair value of the common shares issued by the Resulting Issuer. For financial reporting purposes, the Company is considered a continuation of MindHealth, the legal subsidiary. The Transaction was negotiated and completed at arm's length and 73,546,474 issued and outstanding Cardinal shares were consolidated into approximately 3,822,379 common shares. The combined results of operations are included from January 19, 2021. .

The Transaction is equivalent to the issuance of common shares by the non-public operating entity, MindHealth, for the net assets or net liabilities and the listing status of the non-operating public company, Cardinal. The fair value of the common shares issued was determined based on the fair value of the common shares issued by Cardinal of \$1,256,194. The net identifiable liabilities acquired was \$15,700. The excess of fair value of net assets assumed over purchase price is considered an expense of acquiring a public listing and as a result, a listing fee expense of \$1,271,894 has been recorder for the period.

On January 15, 2021, MindHealth purchased Psyence Therapeutics. MindHealth issued 18,000,000 common shares (19,169,813 shares on a post-consolidation basis 18,000,000 multiplied by 1.0649) and warrants with a fair value of \$386,065 in exchange for all the outstanding common shares of Psyence Therapeutics. The purchase did not constitute a business combination as Psyence Therapeutics does not meet the definition of a business combination under IFRS 3 *Business Combinations* and is therefore treated under the scope of IFRS 2 *Share Based Payments*. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date. The fair value of the common shares issued to the former Psyence Therapeutics shareholders was determined to be \$ 6,300,000 based on the fair value of the shares issued (18,000,000 shares at \$0.35 per share). The consideration consisted entirely of equity of MindHealth measured at the estimated fair value of \$0.35 per share on the date of acquisition and was expensed at a cost of \$6,794,631. The detailed breakdown of the expense is show below:

	\$
Consideration: Shares	6,300,000
Consideration: Warrants	<u>386,065</u>
Total Consideration	6,686,065
Net Liabilities Acquired	<u>108,566</u>
Acquisition Cost	<u>6,794,631</u>

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Total assets at period end March 31, 2021

Total asset for the period were \$6,730,852 and the majority was comprised of cash and cash equivalents of \$6,096,074. The Company has bank accounts denominated in Canadian Dollars, US dollars and Lesotho Loti. At period end the company had the following currency exposures on these accounts:

- Canada bank accounts: CAD \$6,000,050
CAD \$9,832 (USD \$7,810 – denominated in US dollars)
- Lesotho bank accounts: CAD \$67,071 (USD \$53,269 – denominated in US dollars)
CAD \$19,121 (LSL225,285 – denominated in Lesotho Loti)

Selected annual information for the period ended March 31, 2021

	CAD \$
Total Revenue	-
Total Comprehensive Loss	(11,273,010)
Loss per share – basic and diluted	(0.22)
Total Assets	6,730,852
Total non-current financial liabilities	54,621
Distributions declared per share	-
Weighted average number of shares for the year – basis and diluted	51,205,555

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), and the interpretations of the IFRS Interpretations Committee "IFRIC", effective for the Company's reporting for the period ended March 31, 2021.

MindHealth Lesotho a subsidiary of the Company has a functional currency (Lesotho Loti) that differs to the Company's presentation currency (Canadian Dollars).

Operations

Quarterly Results of Operations

	Quarter End March 31, 2021 \$	Quarter End December 31, 2020 \$	Quarter End September 30, 2020 \$	Period End May 21 – June 30, 2020 \$
Total Revenue	-	-	-	-
Total Comprehensive Loss	(9,535,567)	(1,348,358)	(333,075)	(56,010)
Loss per-share	(0.12)	(0.03)	(0.01)	(0.00)
Diluted per-share basis	(0.12)	(0.03)	(0.01)	(0.00)
Weighted Average Shares	80,032,162	45,251,028	34,662,103	23,569,269

Liquidity and Capital Resources

As at March 31, 2021, the Company had cash balances of \$6,096,074 and working capital of \$6,083,268. Working capital represents the excess of current assets over current liabilities. Accounts payable and accrued liabilities have contractual maturity dates within one year, lease liabilities which have contractual maturity dates spanning 9 years and amounts due to related parties have a contractual maturity date within one year.

There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment nor are there circumstances that could impair the Company's ability to undertake transactions considered essential to operations.

Since incorporation, the operations have been solely financed from the issuance of equity. The Company's primary capital requirements are for the funding of scientific research, clinical studies,

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product development, manufacturing, consultant and staffing costs. Construction of phase 2 of the fully integrated cultivation, processing and product manufacturing facility in Lesotho is only planned to commence when market demands dictating the supply of product require it.

The Company has experienced operating losses and cash outflows from operations since incorporation. Although the Company has sufficient surplus working capital, it will require ongoing financing in order to continue long term research and development activities. The Company's success is dependent upon the ability to finance future cash requirements through the issuance of additional equity securities, through loan financing, or other means. The Company has not earned any revenue or reached successful commercialization of the planned products. There can be no assurance that the Company will be successful in continuing to finance the operations.

During the period from the date of incorporation on May 21, 2020 to March 31, 2021, the Company completed the following equity financings that raised \$9,303,272 in aggregate:

- (i) On May 21, 2020, the Company issued 1 common share on incorporation for \$0.01.
- (ii) On May 22, 2020, the Company entered into a share exchange agreement to issue 24,000,000 common shares to acquire all the issued and outstanding shares of MindHealth Lesotho from its previous shareholders. The acquisition was considered to be a business combination between entities under common control. As a result, assets acquired were recorded at their predecessor carrying values rather than at fair value. The issuance of 24,000,000 shares has been measured based on the net assets acquired through MindHealth Lesotho being \$390 (LSL5,000).
- (iii) On June 30, 2020, the Company issued 6,340,000 common shares with a subscription price of \$0.25 per share for gross proceeds of \$1,585,000.
- (iv) On August 31, 2020, the Company issued 12,826,884 common shares with a subscription price of \$0.25 per share for gross proceeds of \$3,206,721.
- (v) On December 4, 2020, the Company issued 6,756,113 common shares with a subscription price of \$0.25 per share for gross proceeds of \$1,689,029.
- (vi) On December 31, 2020, the Company issued 2,570,000 common shares with a subscription price of \$0.25 per share for gross proceeds of \$642,500.
- (vii) On January 14, 2021, the Company issued 5,427,520 common shares with a subscription price of \$0.35 per share for gross proceeds of \$1,899,632.
- (viii) On January 18, 2021, the Company issued 800,000 common shares with a subscription price of \$0.35 per share for gross proceeds of \$280,000.

In relation to the issuances of shares above, the Company incurred cash settled share issuance costs of \$627,649. Non-cash settled share issuance cost of \$208,252 in form of warrants was also incurred during the period. The proceeds raised from the issue of equity net of share issuance costs was \$8,675,623.

Below is the summary of cash utilized for the period.

CAD \$	Period May 21, 2020 – March 31, 2021
Cash used in operating activities	(2,203,258)
Cash used in investing activities	(372,766)
Cash raised from financing activities	8,672,098
Total Cash Movement	6,096,074

The Company manages liquidity risk through an ongoing review of future commitments and cash balances available. Revenue is expected to be generated in the near future through the Psyence Function division and it has sufficient surplus working capital. For the current period, the Company's main source of funding has been the issuance of shares for cash, primarily through private placements.

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The Company's access to future financing is always uncertain and there can be no assurance of continued access to significant equity or debt funding. Based on the Company's working capital position as at March 31, 2021, management regards liquidity risk to be low.

Off Balance Sheet Arrangements

The Company has not had any off-balance sheet arrangements from the date of its incorporation to the date of this MD&A.

Transactions between Related Parties

On June 1, 2020, MindHealth Lesotho entered into a sub-lease agreement with Highlands Pure Lesotho (Pty) Ltd, a related party that is jointly controlled by a person that is a member of the key management personnel of the Company, for 5,700m² of land situated at a cultivation site in Kolojane in the Berea District of Lesotho. The land has been used to erect manufacturing and processing facilities. The initial term of the lease is approximately nine years commencing 1 June, 2020 and ending May 21, 2029. Thereafter, MindHealth Lesotho has the option to renew the lease for a further ten-year period for a maximum of five consecutive such periods. In addition to the leased portion of land, MindHealth Lesotho has the right to use the infrastructure and related services available at the cultivation site, including security, access to borehole water and access roads, at a monthly cost of LSL3,485 per month (approximately C\$308 based on the Canadian Dollar to Lesotho Loti exchange rate of 1:0.088 LSL: CAD dated June 06, 2021).

The lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability. The incremental borrowing rate and term length used in the calculation of the right-of-use asset and discounted lease liability amounts are 2.5% and 19 years, respectively.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members. Consulting fees of \$166,612 were paid to the various key management personnel during the period.

Management fees of \$459,386 relate to a management service agreement with a related party, Highlands Ventures (Pty) Ltd. Jody Aufrichtig, a director and the CEO of the Company, is a director of Highlands Ventures (Pty) Ltd. In terms of the management service agreement, Highlands Ventures (Pty) Ltd manages the design, construction, erection, commissioning, operation and maintenance of the psilocybin cultivation facility as well as the sale of psilocybin mushrooms. Highlands Ventures (Pty) Ltd further provides administrative services such financial administration and control, compliance management and business development and strategy.

An amount of \$7,581 was due to Highlands Pure Lesotho (Pty) Ltd as at March 31, 2021. This amount is non-interest bearing, unsecured and was repaid in April 2021 (maturity date).

Related parties were paid share-based compensation amounting to \$483,230 in form of options and warrants during the period.

Fourth Quarter

The significant events that occurred in the fourth quarter are described above in the MD&A and include the following:

- (i) On January 14, 2021, the Company issued 5,427,520 common shares with a subscription price of \$0.35 per share for gross proceeds of \$1,899,632.

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- (ii) On January 18, 2021, the Company issued 800,000 common shares with a subscription price of \$0.35 per share for gross proceeds of \$280,000.
- (iii) On January 15, 2021, MindHealth purchased Psyence Therapeutics by the issuance of equity that was measured at the estimated fair value of \$0.35 per share on the date of acquisition and was expensed at a cost of \$6,794,631.
- (iv) On January 19, 2021 MindHealth completed the RTO of Cardinal. The Transaction has been accounted for in accordance with IFRS 2 *Share-based Payment* and recorded as a listing fee expense of \$1,271,894.
- (v) The Company listed on the Canadian Securities Exchange on January 27, 2021.

Subsequent Events

On April 12, 2021, Psyence South Africa was incorporated in South Africa as a subsidiary of PBC.

On May 5, 2021, a South African-based special purpose vehicle ("**SPV**") called Good Psyence (Pty) Ltd ("**Good Psyence**") was incorporated. The SPV is a 50/50 joint venture between the Company, via its subsidiary PBC, and Southern Sun Pharma Inc's wholly owned subsidiary, The Goodleaf Company (Pty) Ltd, a private company incorporated in South Africa. The Company will launch its functional mushroom brand, "GoodMind", through the SPV and it will be responsible for the production, commercialization and sale of the products.

On May 11, 2021, Psyence Jamaica Limited ("**Psyence Jamaica**") was incorporated in Jamaica as a subsidiary of PBC. Psyence Jamaica was established as a result of the many initiatives pursued by the Company in Jamaica, including the development of standardized nutraceutical and pharmaceutical psychedelic products for the treatment of psychological traumas.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, other receivables, prepaids, accounts payable and accrued liabilities and amounts due to related parties. These financial instruments arise in the normal course of business and are classified and measured at amortized cost.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company does not partake in hedging activities.

The fair values of these financial instruments approximate their carrying values. As required by IFRS 9 *Financial Instruments*, the Company applies a forward-looking expected credit loss ("ECL") model, at each balance sheet date, to financial assets measured at amortized cost to determine whether the asset is impaired. As at March 31, 2021, no such impairment was required.

In the normal course of business, the Company is exposed to a variety of financial risks: credit risk, liquidity risk, foreign exchange risk and interest rate risk. These financial risks are subject to normal credit standards, financial controls, risk management as well as monitoring. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Credit risk

Credit risk arises from cash held with banks and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions. The Company also assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Cash consists of bank balances and an amount held in trust by a brokerage firm as security for foreign currency exchanges. Other receivables mainly consist of federal sales tax credits.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

As at March 31, 2021, the Company's financial liabilities consist of accounts payable, accrued liabilities and amounts due to related parties which all have contractual maturity dates within one year.

The Company manages liquidity risk through an ongoing review of future commitments and cash balances available. Historically, the Company's main source of funding has been the issuance of shares for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity or debt funding.

Based on the Company's working capital position at March 31, 2021, management regards liquidity risk to be low.

Foreign exchange 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. Foreign exchange risk arises from transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

A 10% adverse change in exchange rate would have resulted in a loss of \$7,412 as at March 31, 2021.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no significant interest-bearing assets or liabilities and therefore its income and operating cash flows are substantially independent of changes in market interest rates. Management therefore regards liquidity risk to be low.

Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis. The Company considers its shareholders' equity balance as capital.

Risk Factors

Regulatory Compliance Risks

The Company operates in the Kingdom of Lesotho pursuant to licenses and authorizations granted by Lesotho governmental authorities. To a lesser extent, the Company also has nascent operations in Jamaica focused on research and development. Consequently, certain activities conducted by the Company are permissible under the respective Lesotho or Jamaica regulatory regimes but are not permissible under the Canadian regulatory regime.

In the past, Canadian courts and regulatory authorities have taken the view that it is not contrary to Canadian federal or provincial law for a person to be engaged in, or for an entity to hold interests in

affiliates that are engaged in certain regulated activities where such activities may be regulated differently than in the home jurisdictions and have enforced extra-territorial laws even where such laws (or regulatory regimes applicable to certain activities or industries) differ from those in the Canadian jurisdiction. There still remains a risk that Canadian courts or applicable Canadian or other governmental authorities may take a contrary view with respect to the business of the Company and view the Company as having violated their local laws, despite the Company having obtained all applicable Lesotho licenses or authorizations (and to a lesser extent, applicable Jamaica licenses or authorizations) and despite the fact that the Company does not carry-on business in Canada. Therefore, there is a risk that civil and criminal proceedings, including class actions, could be initiated against the Company. Such potential proceedings could involve substantial litigation expense, penalties, fines, seizure of assets, injunctions or other restrictions being imposed upon the Company or its business partners, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as an impact upon the Company's reputation.

There is no assurance that the Company will become profitable or pay dividends

There is no assurance as to whether the Company will become profitable or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business. The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

The ongoing COVID-19 Pandemic

The current global uncertainty with respect to the spread of COVID-19 and its effect on the Canadian economy and the larger global economy, may have negative effects on the Company. While the precise impact of COVID-19 on the Company's ability to develop its business and its products remains unknown, the rapid spread of COVID-19 around the world and the declaration of a global pandemic by the World Health Organization may result in future workforce shortages and additional sanitary measures, further international border closures that restrict or materially slow the ability of the Company or its competitors to purchase psilocybin mushrooms or packaging, starting material, supplies, materials, equipment and other products required to conduct the Company's business, procure maintenance, auditing and other services required to conduct the Company's business, restrictions on shipping, both within Canada and internationally, restrictions on the ability of the Company to gain financing through the financial markets, and any changes to the Company's regulatory framework may increase competition for the mushrooms and packaging used by the Company or affect the Company's ability to deliver its products to customers – each which could materially affect the business and financial condition of the Company.

Commercialization and Marketing of Products

The Company is reliant on employees and third-party consultants to assist in investigating the process of developing and commercializing its psilocybin mushroom products. No assurance can be given that the results of these investigations will determine that manufacturing and distribution of its products will be feasible or commercially viable. A failure to obtain satisfactory results on these investigations could have a material adverse effect on the Company's business and may adversely affect the Company's ability to begin earning revenue.

Additional Risks related to doing Business Internationally

International markets will be a focus for expansion and revenue growth for the Company. Several factors, including legal and regulatory compliance and weakened economic conditions in any of the international jurisdictions in which the Company expects to do business or have projects, could

adversely affect such expansion and growth. Additionally, the Company's entry into new international jurisdictions requires management attention and financial resources that would otherwise be spent on other parts of the business. Some of the countries in which the Company expects to sell products are to some degree subject to political, economic, and/or social instability. International business operations expose the Company to risks and expenses inherent in operating or selling products in foreign jurisdictions, and developing and emerging markets in particular, where these risks may be heightened. In addition to the risks mentioned elsewhere, these risks and expenses could have a material adverse effect on the Company's business, results of operations or financial condition and include without limitation:

- adverse currency rate fluctuations;
- risks associated with complying with laws and regulations in the countries in which the Company expects to sell products, and requirements to apply for and obtain licenses, permits or other approvals and the delays associated with obtaining such licenses, permits or other approvals;
- multiple, changing and often inconsistent enforcement of laws, rules and regulations;
- risks associated with reliance on international agents and representatives, including the possible failure of such agents and representatives to appropriately understand, represent and effectively market the Company's products;
- the imposition of additional foreign governmental controls or regulations, new or enhanced trade restrictions or non-tariff barriers to trade, or restrictions on the activities of foreign agents, representatives and distributors;
- increases in taxes, tariffs, customs and duties, or costs associated with compliance with import and export licensing and other compliance requirements;
- the imposition of restrictions on trade, currency conversion or the transfer of funds or limitations;
- the imposition of Canadian and/or other international sanctions against a country, company, person or entity with whom the Company does business that would restrict or prohibit the Company's ability to carry out its operations in Lesotho and, to a lesser extent, Jamaica;
- the Company's continued business with the sanctioned country, company, person or entity;
- downward pricing pressure on the Company's products in the international markets, due to competitive factors or otherwise;
- laws and business practices favouring local companies;
- political, social or economic unrest or instability, including without limitation military conflicts and acts of terrorism, military repression, war or civil war, social and labour unrest, organized crime, hostage-taking and violent crime;
- expropriation and nationalization and/or renegotiation or nullification of necessary licenses, approvals, permits and contracts;
- greater risk on credit terms, longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- difficulties in enforcing or defending intellectual property rights; and
- the effect of disruptions caused by severe weather, natural disasters, outbreak of disease or other events that make travel to a particular region less attractive or more difficult.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on doing

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business, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of concessions, licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Furthermore, some of the Company's operations are conducted in parts of the world that experience illegal sales practices or corruption or are operated under legal systems susceptible to undue influences to some degree. Although the Company has policies and procedures in place that are designed to promote legal and regulatory compliance, the employees, business partners and consultants of the Company could take actions that violate applicable anticorruption laws or regulations. Violations of these laws, or allegations of such violations, could result in loss, reduction or expropriation and/or have a material adverse effect on the Company's business, results of operations or financial condition. The Company's international efforts may not produce desired levels of sales. If and when the Company enters into new markets in the future, it may experience different competitive conditions and/or different customer requirements. As a result, the Company may be less successful than expected in expanding sales in its future targeted international markets. Sales into new international markets may take longer to ramp up and reach expected sales and profit levels, or may never do so, thereby affecting the Company's overall growth and profitability. To build brand awareness in these new markets, the Company may need to make greater investments in legal compliance, advertising and promotional activity than originally planned, which could negatively impact the expected profitability of sales in those markets. These or one or more of the other factors listed above may harm the Company's business, results of operations or financial condition.

The Company will continue to monitor developments and policies in the emerging markets in which it will operate and assess the impact thereof to its operations, however such developments cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Reliance on Licenses and Authorizations

The Company's ability to grow, process, store, export and sell psilocybin mushroom and psilocybin mushroom products in the Kingdom of Lesotho is dependent on the Company's ability to sustain or obtain the necessary licenses and authorizations by certain government authorities in the Kingdom of Lesotho, including, but not limited to, its current licence. The licenses and authorizations are subject to ongoing compliance and reporting requirements, and the ability of the Company to obtain, sustain or renew any such licenses and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

To a lesser extent, the Company's nascent research and development operations in its Jamaican subsidiary may also require licenses and authorizations by certain government authorities in Jamaica. Failure to comply with the requirements of the licenses or authorizations or any failure to maintain the licenses or authorizations in Lesotho (and to a lesser extent, Jamaica) would have a material adverse impact on the business, financial condition and operating results of the Company. Although the Company believes that it will meet the requirements to obtain, sustain or renew the necessary licenses and authorizations, there can be no guarantee that the applicable authorities will issue or renew these licenses or authorizations (as the case may be). Should the authorities fail to issue or renew the necessary licenses or authorizations, the Company may be curtailed or prohibited from the production or distribution of psilocybin mushrooms or from proceeding with the development of its operations as currently proposed and the business, financial condition and results of the operation of the Company may be materially adversely affected.

Negative Results from Clinical Trials

From time to time, studies or clinical trials on medical-grade psilocybin mushroom products may be conducted by academics, research institutions or others, including government agencies. The publication of negative results of studies or clinical trials related to the Company's proposed products

or the therapeutic areas in which the Company's proposed products will compete could have a material adverse effect on the Company's sales.

Health Canada Regulations

If the Company decides to conduct any future research in Canada into products that involve ingredients that are controlled under the *Canadian Controlled Drugs and Substances Act* ("CDSA") (including certain psychedelics such as psilocybin) it will require a research license or Section 56 Exemption from Health Canada with similar controlled substance authorizations required from a federal, competent authority in other jurisdictions. There is no assurance that such exemption would be granted, and if it were not to be granted, it might prevent the Company from handling and researching such products in Canada without collaborating with a licensed partner.

The Expansion of the Use of Psychedelics in the Medical Industry may require New Clinical Research

Research in Canada and internationally regarding the medical benefits, viability, safety, efficacy, addictiveness, dosing and social acceptance of psychedelic and psychoactive products derived from psilocybin remains in early stages. There have been relatively few clinical trials on the benefits of such products. Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of psychedelic and psychoactive products derived from psilocybin, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, psychedelic and psychoactive products derived from psilocybin. Given these risks, uncertainties and assumptions, readers should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this MD&A or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to psychedelic and psychoactive products derived from psilocybin, which could have a material adverse effect on the demand for the Company's products/compounds with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

Competition from Other Companies

An increase in the companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and be able to develop higher quality equipment or products at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

Unfavourable Publicity or Consumer Perception

The Company believes the naturally derived medicinal-grade psilocybin mushroom industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of psilocybin mushroom distributed to such consumers. Consumer perception of the Company's products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of naturally derived, medicinal-grade psilocybin mushroom products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the naturally derived medicinal-grade psilocybin mushroom market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings,

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regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the Company's business, results of operations, financial condition and cash flows. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of naturally derived medicinal-grade psilocybin mushroom in general, or the Company's products specifically, or associating the consumption of naturally derived medicinal-grade psilocybin mushroom's negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Development of the Business of the Company

The development of the business of the Company and its ability to execute on its expansion opportunities described herein will depend, in part, upon the amount of additional financing available. Failure to obtain sufficient financing may result in delaying, scaling back, eliminating or indefinitely postponing expansion opportunities and the business of the Company's current or future operations. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be acceptable to the Company. In addition, there can be no assurance that future financing can be obtained without substantial dilution to existing shareholders.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations

The Company expects to incur significant ongoing costs and obligations related to its investment in developing its business and the products, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expected, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, including the other risks described in this MD&A, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the Company Shares may significantly decrease.

Inability to Innovate

In the area of innovation, the Company must be able to develop new products that appeal to customers. This depends, in part, on the technological and creative skills of its personnel and on its ability to register and protect its intellectual property rights.

Personnel

The Company has a small management team and the loss of any key individual could affect the Company's business. Additionally, the Company will be required to secure additional personnel to facilitate its marketing and product development initiatives. Any inability to secure and/or retain appropriate personnel may have a materially adverse impact on the business and operations of the Company.

The Continued Development of the Company and its Business will require Additional Financing

The failure to raise additional capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional

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capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Company Shares

The Company's articles permit the issuance of an unlimited number of Company Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Company Shares will be issued by the Company on the exercise of options under the Company option plan and upon the exercise of the Company's outstanding warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Change in Laws, Regulations and Guidelines

The cultivation, processing, manufacturing, packaging, labeling, advertising and distribution of the Company's planned products is subject to regulation by one or more governmental authorities, and various agencies of the federal, provincial, state and localities in which the Company's products are sold. These government authorities may attempt to regulate any of its products that fall within their jurisdiction. Such governmental authorities may not accept the evidence of safety for any ingredients that the Company may want to market, may determine that a particular product or product ingredient presents an unacceptable health risk and may determine that a particular statement of nutritional support that the Company wants to use is an unacceptable claim. Such a determination would prevent the Company from marketing particular products or using certain statements of nutritional support on its products. The Company also may be unable to disseminate third-party literature that supports its products if the third-party literature fails to satisfy certain requirements. In addition, government authorities could require the Company to remove a particular product from the market. Any recall or removal would result in additional costs to the Company, including lost revenues from any products that it is required to remove from the market, any of which could be material. Any such product recalls or removals could lead to liability, substantial costs and reduced growth prospects, all of which could be material.

Regulatory Authority - Lesotho and Jamaica

Lesotho's government and regulatory bodies wield broad powers and authority to issue, alter, or revoke licenses and permits which are vital to the Company's business operations in the country. There is also a corresponding lack of well-established and independent processes to appeal regulatory or government actions that are unfavourable to the Company's business operations. Therefore, the Company's operations are subject to risks associated with obtaining and maintaining licenses and permits from appropriate governmental authorities. The Ministry of Health has established a Narcotics Bureau which could support and assist in the issuance of licences and permits. There is no assurance that such licenses and permits can be obtained, renewed or re-registered, as applicable, or that delays will not occur in obtaining all necessary licenses and permits or renewals of such licenses and permits. Any failure to obtain or maintain the necessary licenses and permits will have a material adverse impact on the Company and its business, assets, financial condition, results of operations and prospects.

To a lesser extent, such risks are applicable for the Company's operations in Jamaica and its plans to conduct research and development in that regulatory jurisdiction. However, such risk is minimal given the nascent state of the Company's Jamaican subsidiary and its very early-stage research and development.

Crime and Business Corruption Risk

The Company conducts business in Lesotho which has experienced high levels of business corruption. Transparency International ranks Lesotho 83rd out of 198 countries in the 2020 Corruption Perceptions Index. To a lesser extent, the Company also has early-stage research and development operations in its wholly-owned subsidiary in Jamaica. Transparency International ranks Jamaica 69th out of 198 countries in the 2020 Corruption Perceptions Index.

The Company and its personnel are required to comply with applicable anti-bribery laws, including the *Canadian Corruption of Foreign Public Officials Act*, as well as local laws in all areas in which the Company does business. These, among other things, include laws in respect of the monitoring of financial transactions and provide a framework for the prevention and prosecution of corruption offences, including various restrictions and safeguards. However, there can be no guarantee that these laws will be effective in identifying and preventing money laundering and corruption. The failure of some of the governments where the Company does business to fight corruption or the perceived risk of corruption could have adverse effects on the local economies. Any allegations of corruption or evidence of money laundering in those countries could adversely affect the ability of those countries to attract foreign investment and thus have adverse effects on its economy which in turn could have adverse effects on the Company's business, results of operations, financial condition and prospects. Moreover, findings against the Company, the directors, the officers or the employees of the Company, could result in criminal or civil penalties, including substantial monetary fines, against the Company, the directors, the officers or the employees of the Company. Any government investigations or other allegations against the Company, the directors, the officers or the employees of the Company, or finding of involvement in corruption or other illegal activity by such persons, could significantly damage the Company's reputation and its ability to do business.

Enforceability of Foreign Judgements

A foreign judgment is not directly enforceable in Lesotho, however foreign judgments may be placed before a court in Lesotho for it to be recognised domestically and thereafter enforced in Lesotho as a judgement of the High Court of Lesotho.

Foreign judgments can be enforced domestically by making use of the common law or in terms of the Reciprocal Enforcement of Judgments Proclamation No. 2 of 1922. In terms of this Act, judgments obtained in the High Courts of England, Ireland, or Scotland can be enforced by use of the Proclamation. The Proclamation has been extended to include Botswana, Swaziland, Zimbabwe, Zambia, Tanzania, Malawi, Kenya New Zealand, Australia, and Uganda.

Foreign awards are dealt with in terms of the New York Convention. The High Court of Lesotho has competent jurisdiction in respect of foreign awards. Furthermore, an application for recognition and enforcement would require a court order to declare such an award enforceable. The Company cannot guarantee that a judgement in Canada will be enforced in Lesotho.

In the event of a dispute arising in connection with the Company's early-stage research and development operations in its Jamaican subsidiary, the Company may be subject to the exclusive jurisdiction of Jamaican courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgements in Jamaica.

Limited Market for Securities

The Company Shares are listed on the CSE, however, there can be no assurance that a continued active and liquid market for the Company Shares will be maintained.

No Operating History

The Company is an early-stage enterprise and subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel,

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financial, and other resources and lack of revenues. The Company has no history in the psilocybin mushroom cultivation industry before May 2020 and no history of operations or earnings.

The Company is therefore subject to many of the risks common to entering a new area of investment, including under-capitalization, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on its investment and the likelihood of success must be considered in light of the Company's lack of experience in this industry.

Because the Company has limited operating history in an emerging area of business, readers should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets.

These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it 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; and
- risks relating to an evolving regulatory regime.

The Company's growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Consequences of Violations of Laws and Regulations

In Canada, certain active ingredients such as psilocybin are classified as controlled substances and are listed on Schedule III of the CDSA. As such, possession and use of these substances is prohibited unless approved. The governmental authorities in Canada may allow for exemptions to parties to allow possession of controlled substances for scientific purposes or on compassionate grounds in the case of end-of-life treatment. Further, a dealer's license can be obtained under the Food and Drugs Regulations allowing for the transport, manufacturing, processing and sale of products containing a controlled substance like psilocybin in certain circumstances. Programs relating to controlled substances are strict and penalties for contravention of these laws could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings initiated by either government entities in the jurisdictions in which the Company may in the future operate, or private citizens or criminal charges. The Company's current plans with respect to psilocybin are limited to conducting scientific research and development in compliance with applicable laws in the jurisdictions in which the Company is conducting business. Currently, the Company has no plans to sell psilocybin mushroom products in Canada, however, it is exploring the potential to conduct research with respect to psilocybin in Canada with a duly licenced partner, subject to approvals by all applicable regulatory agencies. There is no guarantee that the Company would be able to obtain an exemption under the CDSA or a dealer's licence under the Food and Drugs Regulation, which would prevent the Company from being able to handle or research those substances in Canada without collaborating with a licensed partner. The Company will apply for an exemption under the CDSA or a dealer's licence under the Food and Drugs Regulation if the Company decides to offer its psilocybin products or conduct research in Canada. The Company does not intend to apply for the aforementioned within the next 12 months. During this process, the Company will seek advice from experts in Canadian food and drugs regulation.

Production and Processing Facility

The Company may incur expenditures toward the improvement and maintenance of its production and processing facility in Lesotho. Adverse changes to the Company's leased premises in Lesotho

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including, but not limited to, amendments to the lease, environmental and climate change, and restrictions to expansion could have a materially adverse effect on the operations of the Company.

Uncertainty about the Company's ability to continue as a going concern

The Company's ability to continue as a going concern will be dependent upon its ability in the future to generate revenue and achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at terms acceptable to the Company, or at all.

The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's internally projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgement in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

The Company may become subject to litigation

The Company's participation in the medical-grade psilocybin mushroom industry may lead to litigation, formal or informal complaints, enforcement actions and inquiries by third parties, other companies or various governmental authorities against the Company. Litigation, complaints and enforcement actions involving the Company could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third-parties against the Company relating to intellectual property rights

The Company may be forced to litigate to enforce or defend future intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns medical-grade psilocybin mushroom and other activities that are not legal in some state jurisdictions or under federal law, the Company may face additional difficulties in defending its intellectual property rights.

Insurance Coverage

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, product liability and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability. Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks

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such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Ability to establish and maintain bank accounts

While the Company does not anticipate dealing with banking restrictions, there is a risk that banking institutions in countries where the Company operates will not accept payments related to the psilocybin mushroom industry. Such risks could increase costs for the Company. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Product Liability

The Company intends to produce products designed to be ingested by humans and will therefore face a risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused bodily harm or injury. In addition, the sale of consumable products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Adverse reactions resulting from human consumption of medical-grade psilocybin mushroom products alone or in combination with other medications or substances could occur. The Company could therefore be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning health risks, possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company and could have a material adverse effect on its results of operations and financial conditions.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively

The Company will depend upon its ability to attract and retain key management, including the Company's directors, officers and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company or results of operations of the business and could limit the Company's ability to develop and market its medical-grade psilocybin mushroom products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

The size of the Company's target market is difficult to quantify

As the psilocybin mushroom industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. There can be no assurance that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly follows market research.

Reliance on Limited Jurisdictions

To date, the Company's active activities and resources have been primarily focused in Lesotho and to a lesser extent, Jamaica (for research and development). The Company expects to continue the focus on expansion opportunities into other jurisdictions. Adverse changes or developments within Lesotho could have a material and adverse effect on the Company's ability to continue its business, financial condition and prospects. Additionally, any material or adverse change in jurisdictions in which the Company will do business may affect the Company's ability to continue producing medical-grade psilocybin mushroom products, its business, financial condition and prospects.

No guarantee on the use of available funds by the Company

The Company cannot specify with certainty the particular uses of its available funds. Management has broad discretion in the application of its available funds. Accordingly, shareholders of the Company Shares will have to rely upon the judgment of management with respect to the use of available funds, with only limited information concerning management's specific intentions. The Company's management may spend a portion or all of the available funds in ways that the Company's shareholders might not desire, that might not yield a favourable return and that might not increase the value of a shareholder's investment. The failure by management to apply these funds effectively could harm the Company's business. Pending use of such funds, the Company might invest available funds in a manner that does not produce income or that loses value.

Currency Fluctuations

Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the Canadian dollar, the Lesotho Loti, the South African Rand, and the Jamaican Dollar may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Environmental, Health and Safety Laws

The Company is subject to environmental, health and safety laws and regulations in each jurisdiction in which the Company operates. Such regulations govern, among other things, emissions of pollutants into the air, wastewater discharges, waste disposal, the investigation and remediation of soil and groundwater contamination, and the health and safety of the Company's employees. The Company may be required to obtain environmental permits from governmental authorities for certain of its current or proposed operations. The Company may not have been, nor may it be able to be at all times, in full compliance with such laws, regulations and permits. If the Company violates or fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators. As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at its current and historical operational sites. Certain environmental laws impose strict and, in certain circumstances, joint and several liability on current or previous owners or operators of real property for the cost of the investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. In addition, the Company may discover new facts or conditions that may change its expectations or be faced with changes in environmental laws or their enforcement that would increase its liabilities. Furthermore, its costs of complying with current and future environmental and health and safety laws, or the Company's liabilities arising from past or future releases of, or exposure to, regulated materials, may have a material adverse effect on its business, financial condition and results of operations.

Management of Growth

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Inability to protect Intellectual Property

The Company expects to rely upon intangible and intellectual property such as copyrights, trade secrets, unpatented proprietary know-how and continuing innovation to protect the development of its business. There can be no assurances that the steps taken by the Company to protect its intangible property and intellectual property will be adequate. To the extent that this property is infringed on, revenue could be negatively affected, and the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

Language – Lesotho and Jamaica

The primary language of business in Lesotho is English, with Sesotho as a secondary language, and occasionally Afrikaans. The primary language of business in Jamaica is English. All employees and consultants of the Company and its subsidiaries speak English fluently. The Company has personnel available to communicate in Sesotho and Afrikaans. All business records and documents will be prepared in English or translated from Sesotho or Afrikaans into English, as applicable.

Exchange Controls, Currency Fluctuations and Credit Risks - Lesotho and Jamaica

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company may be adversely affected by the fluctuations in currency exchange rates and high inflation to the extent that the Company conducts business transactions involving South African Rand or Lesotho Loti. To a lesser extent, the Company may also be adversely affected by fluctuations in currency exchange rates in business transactions involving the Jamaican Dollar.

The currency risks associated with the local currency include the possibility of the government imposing exchange controls or limits to the availability of hard currency and other such banking restrictions. Similarly, to the extent that the Company will become involved in financial transactions with local counterparties, the Company may be exposed to credit risk on cash and cash equivalents denominated in South African Rand, Lesotho Loti, or Jamaican Dollars. Any such instability in currency or creditworthiness of local counterparties may have a material adverse impact on the Company. The Company will mitigate the currency risk by keeping excess funds in US Dollars.

Lesotho has adopted exchange controls governed by the Exchange Control Order No.175 of 1987, subject to Exchange Control Regulations of 1989. Authorised Dealers in Lesotho are the commercial banks mandated to enforce exchange controls. Lesotho companies may approach Authorised Dealers to obtain approval to avail of inward foreign loans and foreign trade finance facilities from any non-resident. Similarly, Lesotho companies may access trade finance, long-term loans and working capital loans in foreign currency by approaching an Authorised Dealer in this regard. Lesotho is part of the Common Monetary Area ("CMA"), together with Namibia, South Africa and Swaziland (eSwatini). There are no foreign exchange restrictions between banks of the CMA member countries in respect of cross-border transactions amongst themselves.

Foreign Exchange Risk and Liquidity - Lesotho and Jamaica

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure it will always have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's revenue streams are dependent on the overall macro-economic environment. Current and future conditions in the domestic and global economies remain uncertain. Accordingly, adverse developments in the macroeconomic environment could substantially reduce the funds spent on the products and services offered by the Company.

Taxation Risks – Lesotho and Jamaica

Lesotho's and Jamaica's tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and changes. Such interpretations of or changes in tax law may not be aligned with the Company's business interests. It is possible that the Company's ongoing operations in Lesotho and, to a lesser extent, its Jamaican subsidiary, may be subject to review by Lesotho's or Jamaica's respective tax authorities or be affected by changes in tax legislation or interpretation. If a party has any objection to a tax assessment granted by the Lesotho Revenue Authority ("LRA"), that party may appeal the tax assessment to the Commissioner General's Appeal's Committee and the Revenue Appeals Tribunal. In the context of the Company's Jamaican subsidiary, a party may also object to the Revenue Appeals Division of the Jamaican Ministry of Finance.

Licensing Regime - Lesotho and Jamaica

Licensing in respect of psilocybin is governed by the Lesotho Drugs of Abuse Act, No 5 of 2008. Under this Act, power is delegated to the Minister of Health to exercise his discretion in promulgating regulations governing, controlling, limiting, authorizing the import into Lesotho, export from Lesotho, production, packaging, sending, transportation, delivery, sale, provision, administration, possession or obtaining of or other dealing in psilocybin. This concentration of power in one office and one Ministry is inherently risky as any deterioration in relations with the Minister of Health or the Ministry may have a material adverse impact on the Company and its business. As stated above, the Ministry of Health has established a Narcotics Bureau which could support and assist in the issuance of licences and permits.

To a lesser extent, similar licensing matters may apply to the Company's Jamaican subsidiary. As the subsidiary is at a very early-stage and focused on research and development, the officers and directors of the Company will rely, to a great extent, on the Company's local legal counsel in order to ensure compliance with material legal, regulatory and governmental developments as they pertain to and affect the Company's operations, particularly with respect to research and development of psilocybin or related operations as such operations begin to develop.

Access to an Independent Judiciary – Lesotho and Jamaica

In the normal course of the Company's operations, it may become involved in, named as a party to, or be the subject of various legal proceedings. Lesotho's legal system is based on UK common law and Roman-Dutch law. The Constitution provides for an independent judicial system and protects civil liberties such as freedom of speech, freedom of association, freedom of the press, freedom of assembly and freedom of religion. That being said, the Lesotho judicial system is not impervious to external social, economic, and political forces which create difficulty in predicting outcomes regarding legal matters. Judicial decisions may therefore be subject to popular or government influence which creates difficulty in predicting outcomes regarding legal matters and may result in the Company being disadvantaged in the context of dispute resolution whether in litigation proceedings or regulatory proceedings involving tax, contractual, environmental, land rights, personal injuries, or such other disputes.

To mitigate exposure to or dependence on the domestic legal system, contracting parties usually consent by agreement to mediation, arbitration or other alternative dispute resolution mechanisms and

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are contractually free to elect the governing law, location and composition of the mediators and arbitrators. Arbitration in Lesotho is regulated by the Arbitration Act of 1980; however, Lesotho has also acceded to the New York Convention, without any reservations. To further mitigate commercial risks, Lesotho established a Commercial Court to improve capacity in resolving commercial cases in 2010 and as a signatory of the International Centre for Settlement of Investment Disputes, Lesotho also accepts ad hoc arbitration.

The Company's Jamaican subsidiary is at a very early stage in establishing its research and development operations. To the extent the subsidiary or the Company becomes involved in a legal proceeding in Jamaica, it may avail itself of Jamaica's legal system which is also based on UK's common law system. Parties may appeal judgements from Jamaica's courts up to the UK Judicial Committee of the Privy Council and judges from the UK and the English-speaking Commonwealth occasionally also serve as judges in Jamaican courts.

Differences between the Canadian Law and Applicable Provisions of the Local Laws in Lesotho and Jamaica

The rights and responsibilities of the shareholders of the Company are governed by Canadian law by virtue of its incorporation under the laws of the Province of Ontario. To the extent that there may be exposure to the legal jurisdiction of Lesotho or Jamaica, the rights of shareholders are generally respected in these jurisdictions. A significant number of directors and officers of the Company may be based in non-Canadian jurisdictions and most of the Company's operational assets will be located in Lesotho. Therefore, a judgement obtained in a foreign court against the Company for civil penalties may not be enforceable in Canada. Depending on the nature of the dispute, it may be possible that a Canadian court may order the enforcement of a foreign judgement in Canada; or, alternately, a court in Lesotho or Jamaica may recognize a Canadian court judgement in their local jurisdiction. Refer to the paragraph titled "Enforceability of Foreign Judgements" above which expands upon this matter.

Geographic Location - Lesotho and Jamaica

Lesotho is a landlocked country within the border of South Africa and is therefore reliant on South Africa for the shipment of goods in and out of the country. Lesotho is party to the Protocol on Trade in the South African Development Community Region and United Nations Conference on Transit Trade of Land-Locked Countries. The underlying principles of these international agreements of economic co-operation mitigate such trade risk as South Africa has pledged its commitment to helping Lesotho facilitate trade in the SADC region and internationally. South Africa has committed, in order to promote fully the economic development of land-locked countries such as Lesotho, free and unrestricted transit, in such a manner that Lesotho shall have free access to regional and international trade in all circumstances and for every type of good.

In the case of MindHealth Lesotho and its operations, the import, export and general trade regarding psilocybin is regulated by the Ministry of Health under clear and enabling legislation and in accordance with a well-established import/export practice, which has been successfully implemented within the cannabis industry.

One of the Company's subsidiary is based in Jamaica; the country is an island nation in the English-speaking Caribbean and a member of the Commonwealth and Caribbean Community. As the Jamaican subsidiary is at a very early stage of establishing research and development operations, it is not currently subject to the same level of import, export or trade regulation as applicable to MindHealth Lesotho.

Additional Information

All additional information relating to the Company is available on SEDAR at www.sedar.com