



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

Management Discussion & Analysis for three and nine months  
ended

December 31, 2021

Date of the MD&A:

February 25, 2022

Registration number: 1074709

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[www.psyence.com](http://www.psyence.com)

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

**Management Discussion & Analysis**

**Dated: February 25, 2022**

The following information should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the period ended December 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;
- 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.

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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; development of laws governing controlled substances; 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 the United Kingdom and obtaining the requisite regulatory approvals therefore; 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.

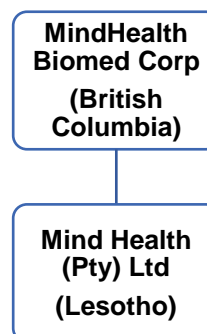
**Overview**

**Corporate Structure**

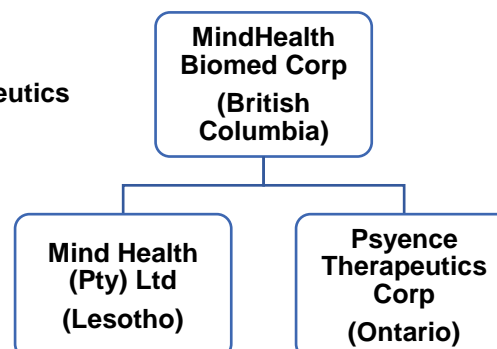
The Company is a life science biotechnology company focussed on the research, cultivation and production of psychedelics and nature-based compounds to treat psychological trauma in the context of palliative care and in support of mental wellness. The safety and efficacy of psychedelics will be evaluated through rigorous clinical trials.

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

**May 21, 2020 – January 15, 2021**

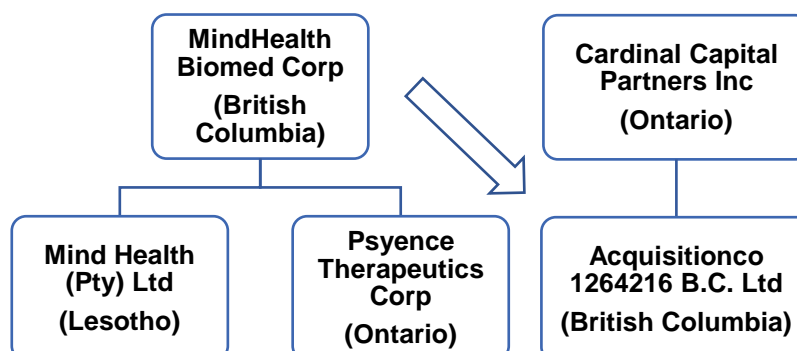


**January 15, 2021 - Acquisition of Psyence Therapeutics**



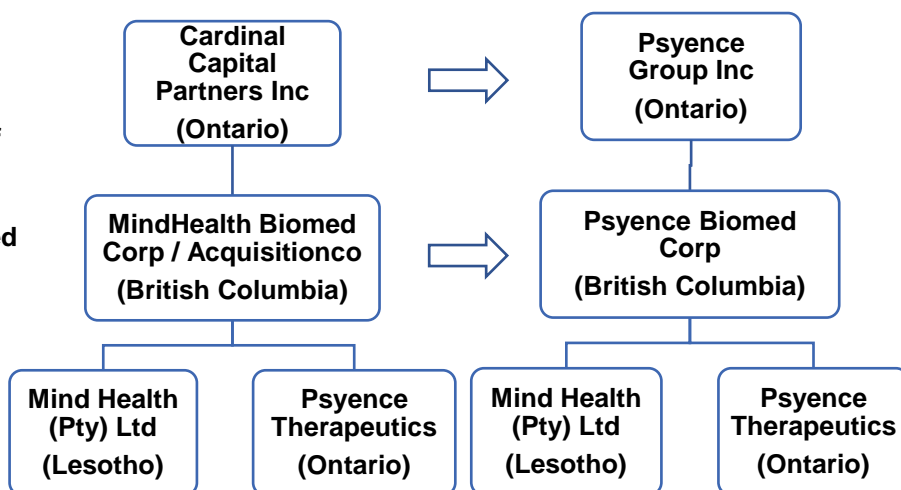
**January 19, 2021 – Reverse take-over of Cardinal Capital Partners Inc.**

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

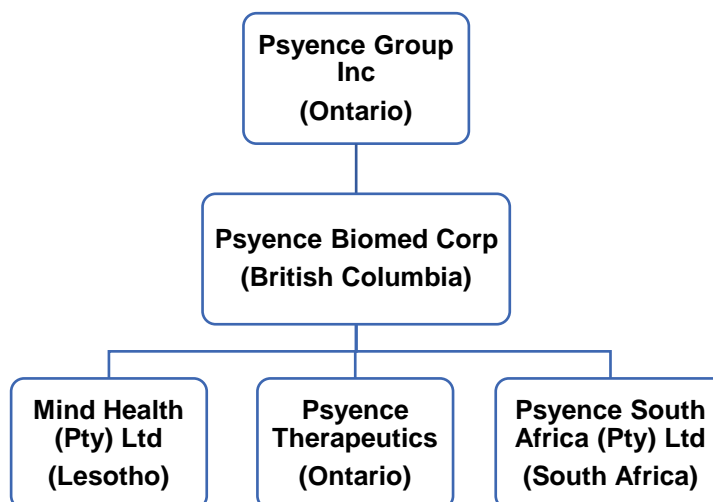


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January 19, 2021 – Renaming of Cardinal Capital Partners to Psyence Group and MindHealth Biomed Corp to Psyence Biomed Corp

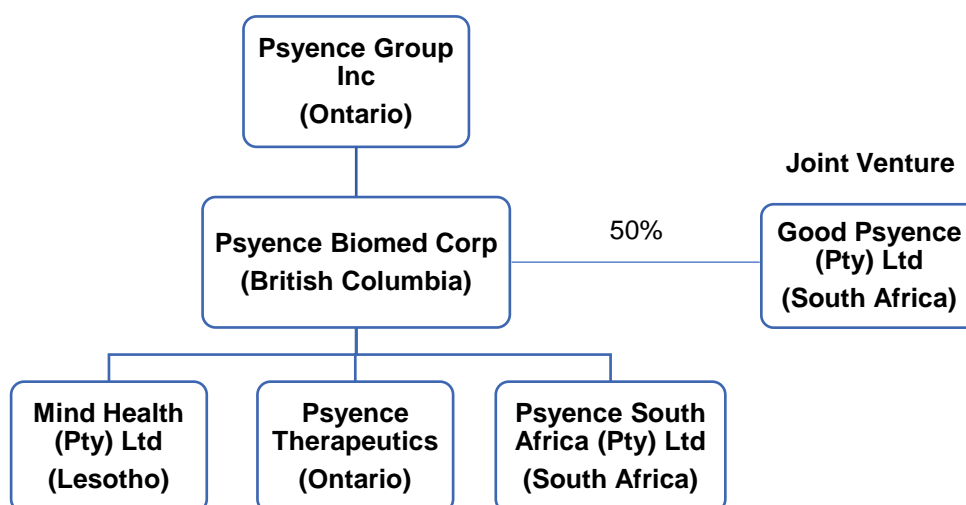


April 12, 2021 – Incorporation of the wholly owned subsidiary Psyence South Africa (Pty) Ltd.

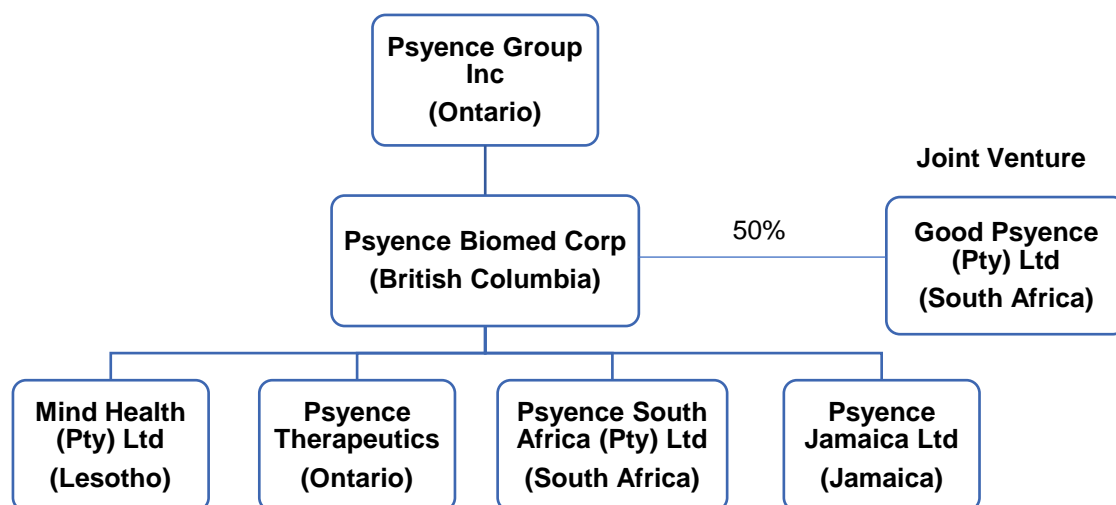


May 5, 2021 – Incorporation of Good Psyence (Pty) Ltd joint venture

The Company launched its functional mushroom brand "GOODMIND"™ (see "Intellectual Property" below) through the joint venture.

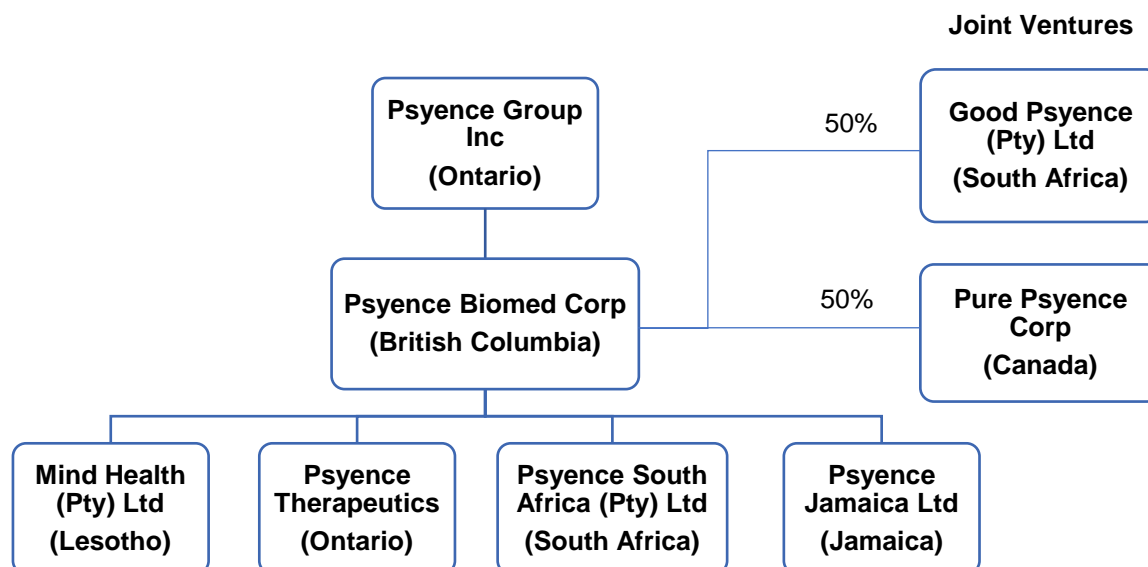


May 11, 2021 – Incorporation of wholly owned subsidiary Psyence Jamaica Ltd



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September 9, 2021 - Incorporation of Pure Psyence Corp joint venture and group structure at quarter end



## **Development of the business**

### **MindHealth Biomed Corp.**

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

Mind Health (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 Minister of Health (Lesotho) to import, cultivate, produce, manufacture and export psilocybin mushrooms ("**Mind Health Lesotho Permit**"). The federally licensed commercial psilocybin cultivation and production facilities operated by MindHealth Lesotho under the name "Psyence Production" ("**Psyence Production Facility**") 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 common shares, warrants to purchase 1,744,493 MindHealth common shares, and stock options to purchase 1,800,000 MindHealth common 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.

### **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).

### **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 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" ("**PBC**"). 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.

The Transaction has been accounted for in accordance with IFRS 2 *Share-based payments*. The Transaction is considered a reverse takeover ("**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



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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.

**Listing on CSE and director changes**

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

**Psyence Biomed Corp and subsidiaries post CSE listing**

Psyence South Africa (Pty) Ltd ("**PSA**") is a private corporation incorporated under the laws of South Africa on April 12, 2021. PSA is a wholly owned subsidiary of PBC.

Good Psyence (Pty) Ltd ("**Good Psyence**") is a private corporation incorporated under the laws of South Africa on May 5, 2021. PBC owns 50% of Good Psyence in a joint venture. The joint venture launched a functional mushroom brand, "GOODMIND", and is responsible for the production, commercialization and sale of the products.

Psyence Jamaica Ltd ("**Psyence Jamaica**") is a private corporation incorporated under the laws of Jamaica on May 11, 2021. Psyence Jamaica is a wholly owned subsidiary of PBC. Other than the conclusion of the Scientific Research Council ("**SRC**") Collaboration Agreement for research and development described in more detail "*Collaboration with the SRC of Jamaica for psilocybin product development*" below, the company has not had any activity to date.

Pure Psyence Corp. ("**Pure Psyence**") is a private corporation incorporated under the laws of Canada on September 9, 2021. PBC owns 50% of Pure Psyence in a joint venture. The joint venture has not had any activity to date.

**Appointment of Chief Executive Officer**

On June 28, 2021, the Company announced the appointment of Dr. Neil Maresky as Chief Executive Officer effective July 1, 2021. The Company co-founder and then current Chief Executive Officer, Jody Aufrichtig, assumed the role of Executive Chairman on the same date. At the annual general meeting of the Company held December 9, 2021 ("**2021 AGM**"), the shareholders appointed Dr. Neil Maresky to the Company's board of directors.

**Outstanding Share Data**

<b>Security</b>	<b>As of December 31, 2021</b>	<b>At date of this MD&amp;A</b>
Common Shares	85,528,931	85,528,931
Options	8,352,810	8,317,250
Warrants	8,710,553	8,710,553
Common Shares on a fully diluted basis	102,592,294	102,556,734

Subsequent to December 31, 2021, 35,560 options originally granted to consultants on December 31, 2020 with an exercise price of \$0.30 were forfeited. The options granted to consultants had not yet vested and were forfeited on termination of their contracts.

## **Reverse Take Over Transaction – Financial Statements basis of preparation**

The interim MD&A and interim Financial Statements dated December 31, 2021 are presented on a consolidated basis. 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 ended December 31, 2021. These operations are presented as the consolidated financial statements of Psyence Group Inc.

### **Business Overview**

The Company has three key divisions: Psyence Therapeutics, Psyence Function and Psyence Production. It has received independent local legal opinions in Canada, United Kingdom, South Africa, Jamaica and Lesotho confirming the lawfulness of the Company's activities as well as its compliance with material legal, regulatory and governmental developments as they pertain to and affect the Company's operations. The Company's operations are conducted in compliance with local laws where such activities are permissible and either (a) do not require any specific legal or regulatory approvals, or (b) the Company has all necessary legal and/or regulatory approvals. The three key divisions of the Company are described below:

#### **1. Psyence Therapeutics**

Psyence strives to set the global standard for excellence and consistency in nature-based psilocybin products. The Company is 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. The focus is research and development ("**R&D**") with licensed partners. No sale of psilocybin containing products for recreational purposes is contemplated.

Psyence intends to use its own natural psilocybin products cultivated at the Psyence Production Facility for proprietary research and pharmaceutical drug development. Our R&D priorities are on developing pharmaceutical preparations of psilocybin doses to help heal psychological trauma and the diagnosable disorders that can result therefrom, including anxiety, depression, post-traumatic stress disorder ("**PTSD**"), and grief and bereavement, especially in the context of palliative care. Our focus includes therapeutic protocols for medical and scientific research including observational studies.

#### **2. Psyence Function**

Psyence Function is focussed on the development, distribution and sale of legal over-the-counter non-psilocybin containing functional mushroom nutraceuticals. The team and its joint venture partner are experienced in building brands and in establishing a channel mix for global wellness products. Psyence's first non-psilocybin containing functional mushroom product, GOODMIND™, was launched online on August 18, 2021 through its South African-based joint venture, Good Psyence. Good Psyence is a 50/50 joint venture between PBC and The Goodleaf Company (Pty) Ltd ("**Goodleaf**"), a cannabis company based in South Africa with established distribution lines through retail stores, online, wholesale, and deli and coffee shops.

#### **3. Psyence Production**

Psyence has built and operates one of the first federally licensed commercial psilocybin cultivation and production facilities in the world. Our expertise is in the production of certified, pharmaceutical-quality psilocybin - yielding mushrooms. The Psyence Production Facility, which is situated in Lesotho, Southern Africa, has been designed and constructed to The British Standards Institute ("**BSI**") and Good Manufacturing Practice ("**GMP**") standards. The facility was International Organization for Standardization ("**ISO**") 22000:2018 certified by the BSI in February 2022. It is equipped with

technology and specialized equipment to ensure optimum growing conditions and efficient harvesting and packaging.

## **Discussion of operations**

### **Stage of Development**

Psyence is an early-stage development bio-life sciences company, the Psyence Therapeutics division is focused on research and development of psilocybin, while the Psyence Production facility is ISO 22000:2018 certified by the BSI. Any future revenue will be dependent on a number of factors, including the outcome of the Company's clinical trials, its production facility certifications, demand for GMP produced ISO certified natural psilocybin and the receipt of all required regulatory approvals and licences. Psyence Function has generated revenue through Good Psyence and the sale of the GOODMIND™ products.

### **Good Psyence**

Good Psyence generated \$29,506 of revenue, and cost of sales and administrative expenses of \$19,682 and \$137,062 respectively were incurred for the nine-month period ended December 31, 2021.

Good Psyence has an agreement in place with Goodleaf to make use of its third party suppliers and distribution and sales infrastructure.<sup>1</sup> The Company ensures that the suppliers are fulfilling their requirements under their respective supplier agreements and that the suppliers maintain all necessary licences and approvals necessary to perform their obligations under such agreements.

The product line (GOODMIND™) was launched in South Africa under applicable South African law. Please refer to "*Regulatory Framework and Licensing Regime – South Africa*" below for more information. Good Psyence launched the GOODMIND™ product on the digital platform [www.foragoodmind.com](http://www.foragoodmind.com) that was registered and developed by Goodleaf solely for the sale of such products. GOODMIND™ is also distributed through the digital platforms of Goodleaf, Takealot and Wellness Warehouse as well as Wellness Warehouse stores. Please refer to "*Regulatory Framework and Licensing Regime – South Africa – Online Sales*" below for more information on the regulation of the online sale of GOODMIND™ in South Africa. The Company has no intention of selling psychedelic mushrooms commercially in any jurisdiction through e-commerce.

Good Psyence launched the first GOODMIND Functional Mushroom Sachet<sup>2</sup> with the coffee chain Vida E Caffe in South Africa in the third week of November 2021 and will now focus on the planned roll out of GOODMIND™ to the UK by the end of Q2 2022<sup>3</sup>. There are currently no definitive timelines for the launch of the products in other regions as the Company will be focusing on the launch in the UK<sup>4</sup>.

### **Non-Revenue Generating Projects**

The Company currently has four significant projects, which have not yet generated revenue:

- a. UK Palliative Care Clinical Trial
- b. Collaboration with the SRC of Jamaica for Psilocybin Product Development
- c. Pure Psyence joint venture with Pure Extracts Technologies Corp. ("**Pure Extracts**")
- d. Psyence Production Facility

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<sup>1</sup> The third party supplier of Goodleaf is Afriplex (Pty) Ltd for the GOODMIND capsules.

<sup>2</sup> The third party supplier of Goodleaf is Joypak (Pty) Ltd for the GOODMIND Functional Mushroom sachets.

<sup>3</sup> All quarter references in the MD&A are based on calendar year-end unless specifically noted.

<sup>4</sup> This provides updated disclosure on forward looking information in the Corporate Update news release made public on May 27, 2021 that is available on SEDAR. The other regions referred to above and in the news release are North America, Europe and Australasia.

### **UK Palliative Care Clinical Trial**

Psyence is initiating a clinical trial in the UK using natural psilocybin in the field of palliative care with oncology patients. In support of this project, Psyence has partnered with Clerkenwell Clinics Limited ("**Clerkenwell Health**"), which is responsible for jointly designing and delivering the UK clinical trial. Clerkenwell Health, as a Contract Research Organization ("**CRO**") specializing in psychedelic drug development, will facilitate a multi-centered clinical trial in the UK to evaluate the safety and efficacy of Psyence's naturally derived psilocybin for the treatment of anxiety in patients given a life-ending diagnosis with an anticipated lifespan of at least a year. During the quarter ended December 31, 2021, Psyence and Clerkenwell Health conducted a scientific advisory meeting with the UK Medicines and Healthcare products Regulatory Agency ("**MHRA**") and received regulatory guidance on both Psyence's natural psilocybin drug product and the design of the clinical trial. In partnership with Clerkenwell Health, supporting documentation and applications for the clinical trial are currently under preparation. This includes the full clinical trial protocol and its supporting documents, Integrated Research Application System (IRAS) application form, Home Office domestic license application and review of the products Investigational Brochure, Investigational Medicinal Product Dossier (IMPD) and Summary of Product Characteristics (SMPC).

Psyence has also engaged with other CRO's for guidance on its natural psilocybin final product and its supporting regulatory documents. Psyence is also in discussions with several third-party organizations in the UK to assist with the clinical trial. As of December 31, 2021, the Company has spent approximately \$25,500 on CRO and third-party regulatory advice for its UK clinical trial.

A second MHRA scientific advisory meeting took place in Q4 2021 to further discuss the clinical trial protocol and the testing requirements on the final product. The Company anticipates that it may enter clinical trials in the latter half of 2022 based on current project implementation timelines provided by Clerkenwell Health, but there is no assurance that this timeline will be met, or that the Company's psilocybin product will advance to clinical trials at all. The anticipated costs for this phase of the project are \$350,000 based on preliminary costing provided by Clerkenwell Health and the anticipated completion is Q2 2022.

### **Collaboration with the SRC of Jamaica for psilocybin product development**

During June 2021, the Company entered into a multi-year agreement ("**SRC Collaboration Agreement**") with the Jamaican government's Scientific Research Council for research and development purposes with applicable regulatory approvals where required. The SRC is Jamaica's principal public sector agency, charged with fostering scientific research and the commercialization of its results. Projects implemented by the SRC have the potential to assist in the economic and social development of Jamaica. SRC has expertise in various areas including product research and development, chemical and microbial testing, molecular characterization and diagnostics of strains, propagation method development, active ingredient quantification and mushroom cultivation. The SRC's Quality Management System is certified to ISO 9001 standards and its analytical and microbiological laboratories are accredited to ISO/IEC 17025 standards.

The first collaborative initiative includes the development of nutraceuticals containing a range of psilocybin concentrations from micro-doses to hallucinogenic levels of dosing, as well as producing timed-release formulations. Dried mushrooms will be exported from Psyence's Lesotho facility, subject to export and import approval, for use at the SRC. This approval is expected Q2 2022. The second initiative places focus on Jamaica's indigenous mushroom species as Jamaica has long been celebrated as a biodiversity hot spot. This partnership will work in the field to identify, collect, characterize and store local psychedelic and psychoactive mushrooms. The third initiative includes protocols for optimization of spawn production of rare psychedelic mushroom species and methods of conservation of select germplasm for up to 3 years. The estimated costs for the first, second and third initiatives are expected to be \$23,000, \$41,000, \$21,500 respectively as provided by the SRC

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As at December 31, 2021, the first initiative is expected to begin during Q2 2022<sup>5</sup>. The timing of the other two initiatives is yet to be determined. No expenditure to date has occurred in relation to the SRC Collaboration Agreement.

The SRC Collaboration Agreement includes a shared intellectual property arrangement between the SRC and the Company whereby ownership of intellectual property created pursuant to the SRC Collaboration Agreement will jointly vest in the parties.

### **Pure Psyence joint venture**

On September 28, 2021 (following the letter on intent announced on March 31, 2021), the Company and Pure Extracts announced the conclusion of a joint venture agreement to establish Pure Psyence Corp. ("**Pure Psyence**"), a corporation based in Canada for the development of nature-derived psilocybin extracts and advanced psilocybin formulations for the long-term treatment of psychological trauma and its mental health consequences. Pure Psyence will leverage Psyence's anticipated supply of psilocybin mushrooms, fit for pharmaceutical processing, with Pure Extract's expertise in extraction technologies to produce high-quality, high-purity, stable and effective medicinal mushroom extracts and formulations for physicians and scientists at Canadian research institutions, as well as provide psilocybin to its own research team at Pure Psyence for human clinical trials.

The mushroom extracts will be produced in the Psyence Production Facility. In order to export the extracts from Lesotho to Canada, these extracts will require an export permit from the Lesotho Ministry of Health and a Certificate of Analysis indicating the psilocybin and psilocin potency of each batch of psychoactive mushrooms.

Pure Extracts (through its wholly-owned subsidiary Pure Mushrooms Corp. ("**Pure Mushrooms**")) submitted an application for a dealer's licence to Health Canada under the *Controlled Drugs and Substances Act* ("**CDSA**") on March 3, 2021 to process psilocybin mushrooms at its extraction facility, built for EU-GMP certification. Health Canada targets a processing service standard of 270 calendar days from the date of receipt of an application for a dealer's licence, however Pure Extracts does not know when the licence will be issued and there is no certainty that this will occur at all.

As at December 31, 2021, \$10,000 has been spent by the Company on Pure Psyence.

### **Psyence Production**

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

The first successful harvest was completed in January, 2021. Before commencing its final validation runs for BSI certification, the Company upgraded the facility by installing an automated heating, ventilation, and air conditioning (HVAC) system. This improved its production yield, giving the facility better climate control parameters. During Q4 2021, Psyence Production completed its first official validated harvest of psychedelic mushrooms and was audited by the BSI against ISO22000 standards in December of 2021. The facility and team successfully passed the audits and received full ISO22000 certification in January 2022.

The Company intends to export products from the Psyence Production Facility using the Mind Health Lesotho Permit, coupled with an export permit from the Ministry of Health (Lesotho) as well as an import

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<sup>5</sup> The expected date of Q1 2022 as at September 30, 2021 has been moved to Q2 2022 as the import and export licences approvals are still in progress.

permit from the importing research partner's country's regulators. A reputable export courier will be selected after a prudent due diligence review process.

Our research partners in Jamaica and Canada have begun the import application process in these jurisdictions. Once these import permits have been received, the Company will apply for the export permit from the Ministry of Health (Lesotho). The export of product to our research partners in the UK is still under discussion while we evaluate GMP extraction partners who can extract and produce active psilocybin pharmaceutical ingredients from the Company's mushrooms. The export of product to Canada, United Kingdom and Jamaica is expected to occur in Q2 2022 based on current projections and work to date with regulators, logistics and export partners.<sup>6</sup>

### **Relationships with Third Parties**

The Company's research and development is conducted by way of its licensed partner, the SRC in Jamaica, and its CRO partner, Clerkenwell Health in the UK. In Canada, the Company will work with its joint venture partner in Pure Psyence, Pure Extracts, to engage any third parties required to complete research and development performed by, and the objective of, Pure Psyence.

The Company has engaged Lonacas Consultants (Jamaica) as a third-party consultant to assist with research and project management. Besides the project with the SRC referred to above in "*Non-Revenue Generating Projects*" and this observational study, there are no other research and development projects, nor further clinical studies, being conducted in Jamaica.

Several aspects of the operation of the Psyence Production Facility (project management, quality assurance and regulatory compliance for example) is dependent on the continued management services agreement ("**MSA**") with Highlands Ventures (Pty) Ltd ("**Highlands Ventures**"), the terms of which are set out in more detail below in *Transactions between Related Parties - Other Related Party Transactions*. The Company has mitigated the risks associated with such dependence through the inclusion of a six-month termination notice period as well as the ongoing recruitment of in-house resources to fulfill such roles. The Company has commenced a gradual and tactical process of reducing the scope of the MSA through the hand-over of tasks from Highlands Ventures to such newly appointed in-house resources.

The Psyence Production Facility is located on land which is sub-let by Mind Health Lesotho from Highlands Pure Lesotho (Pty) Ltd ("**Highlands Pure Lesotho**"). Accordingly, the continued validity of Highlands Pure Lesotho's rights to sub-let such land is crucial to the Company's ongoing business operations in the region. The Company has mitigated such risks through the inclusion of "step-in" rights in favour of Mind Health Lesotho whereby it may step in and act on Highlands Pure Lesotho's behalf (i) to remedy any breaches of contract, (ii) make any payment due by Highlands Pure Lesotho under the main lease and/or (iii) renew the main lease, and ultimately take transfer of all of Highlands Pure Lesotho's rights and obligations under such main lease.

The Company has conducted due diligence on of the abovementioned third parties including, but not limited to, the review of necessary licences and the applicable regulatory framework enacted in the jurisdiction of operation.

### **Update on Significant Milestones and Business Objectives**

The below table is intended to provide an update, as at December 31, 2021, on the Company's business objectives and milestones as disclosed in the Company's Listing Statement dated January 25, 2021 ("**Listing Statement**"). As at December 31, 2021, the Company provides below the status of these milestones, the actual or revised estimated costs and the revised date of expected completion thereof, if applicable. Further, the Company has included additional objectives and milestones that have been identified since the date of the Listing Statement.

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<sup>6</sup> This provides updated disclosure from the September 30, 2021 MD&A expected date of Q1 2022 as the import and export licences approvals are still in progress.

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The following are "forward-looking statements" and such, there is no guarantee that such milestones will be achieved on the timelines indicated, or at all. All milestones and business objectives are subject to the regulations and laws governing the jurisdictions in which Psyence operates. Forward-looking statements are based on management's current expectations and are subject to a number of risks, uncertainties, and assumptions. Please refer to "Forward-Looking Information" above and "Risk Factors" below for more information.

Objective	Milestones <sup>7</sup>	Prior Estimated Cost in Listing Statement <sup>8</sup>	Actual or Revised Estimated Cost (January 25 to December 31, 2021)	Actual/ Estimated Timeframe for Completion <sup>9</sup>	Status
<b>Psyence Production (Cultivation and Production)</b>	Capital Expenditure Phase 1	\$100,000	\$105,168	Q2 2021	Completed
	Commencing of cultivation including first harvest, sourcing of spores and hiring of mycologist and microbiologist <sup>10</sup>	\$20,500	\$19,015	Q1 2021 and Q2 2021	Completed
	First export <sup>11</sup>	\$40,000	\$40,000	Q2 2022	In progress
	Ongoing cultivation and production expenditure <sup>12</sup>	\$70,500	\$18,720	Ongoing	In progress
	Scale up of Production Facility	Nil	\$150,978	Q1 2022	In progress
<b>Psyence Therapeutics (Observational Studies)</b>	Data collection from 3 <sup>rd</sup> party patient cohorts <sup>13</sup>	\$360,000	Nil	Q1 2022	Cancelled
	Observational studies at Lesotho clinic	\$361,000	Nil	N/A	Cancelled
<b>Psyence Therapeutics and Psyence Function</b>	Hiring of product development specialist <sup>14</sup>	\$85,000	\$54,708	N/A	Cancelled
	Engage consultants to	\$130,000	\$28,471	Q4 2021	Suspended

<sup>7</sup> There may be sound business reasons underlying the Company's decision to reallocate funds or not to proceed with a milestone.

<sup>8</sup> These were, and still are, subject to receipt of necessary approvals, including the academic and scientific organizations with which the Company is working.

<sup>9</sup> Based on a calendar year-end.

<sup>10</sup> The Company concluded its first cultivation and harvest cycle of natural medical psilocybin mushrooms in January 2021. The Company hired a mycologist who started in May 2021.

<sup>11</sup> The Company is in the process of securing an import permit for raw psilocybin material into Jamaica and has engaged the Ministry of Health (Jamaica) accordingly. Once such import permit has been granted, Psyence will initiate the research project with the SRC described above. The project has been moved to Q2 due to outstanding import and export license approvals.

<sup>12</sup> This includes work performed to achieve BSI certification as well as ongoing annual fees. The annual fees are ZAR80,000 (eighty thousand South African Rands).

<sup>13</sup> The Company had entered into a Research Collaboration Agreement with MycoMeditations Inc. for research and development based observational studies that have been completed. This project was cancelled due to the realignment of the Company's strategy.

<sup>14</sup> A service level agreement was entered into with Singapore-based medical biology, forensic science and product development company Base Pair Global Pte. Ltd ("**BPH**"). BPH completed the evaluation of the development of nutritional products and the Company concluded that it would not proceed with the program in order to prioritize the launch of the functional mushroom brand, GOODMIND™. The agreement with BPH was terminated in August 2021 by way of mutual agreement.

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<b>(Product Development)</b>	develop slow-release product <sup>15</sup>				
	Begin formulation of development	\$137,000	Nil	N/A	Merged with SRC collaboration agreement
	Commence clinical observational studies <sup>16</sup>	\$713,000	Nil	N/A	Cancelled
	Launch of functional mushroom brand, "GOODMIND" <sup>17</sup>	Nil	\$150,000	Q2 2022	In progress
<b>Psyence Therapeutics (Scientific Research and Clinical Trials)</b>	SRC Phase 1: Product development	Nil	\$41,000	Q2 2022	On track
	Collaboration Agreement with SRC Phase 2: Protocol development, collection and storage of mushroom strains <sup>19</sup>	Nil	\$23,000	To be determined	On track
	SRC Phase 3: Protocol development and production of mushroom spawn	Nil	\$21,500	To be determined	On track
<b>Psyence Therapeutics (Extraction of Psilocybin and Research)</b>	Finalize JV with Pure Extracts Technologies Corp.	Nil	\$10,000	Q2 2021	Completed
	Pure Extracts Technologies Corp. will facilitate the importation of psychedelic mushrooms into Canada.	Nil	No estimated costs to date	To be determined	Under evaluation
	Optimize extraction methods and produce advanced products needed for safe clinical research	Nil	No estimated costs to date	Timeframe to be confirmed in due course	Under evaluation
<b>Psyence Therapeutics (UK Clinical Trials)</b>	Partnership agreement with Clerkenwell Health to jointly design and deliver UK clinical trials. <sup>20</sup>	Nil	\$350,000	Q2 2022	On track
<b>TOTAL</b>		<b>\$2,017,000</b>	<b>\$1,012,560</b>		

<sup>15</sup> The Company entered a 3-month agreement with a consultant in August 2021 to start September 1, 2021, initially to develop the slow-release product with BPH, however the Company decided to prioritize the development and marketing of GOODMIND™.

<sup>16</sup> The Company has revised its strategy and allocated resources and focus to the UK Palliative Care Clinical Trial.

<sup>17</sup> The Company entered a 50/50 joint venture through a South African-based special purpose vehicle, Good Psyence. The Company launched its functional mushroom brand, GOODMIND™, through Good Psyence in August 2021. The next phase is to launch the product in the UK in Q2 2022.

<sup>19</sup> As mentioned in note 5, the project has been moved to Q2 due to Lesotho not issuing export permits until their new regulations have been published.

<sup>20</sup> The Company and Clerkenwell Health will be responsible for jointly designing and delivering UK clinical trials. The Company will use natural psilocybin the Psyence Production Facility. Clerkenwell Health will assist the Company in establishing procedures and protocols required to successfully run a clinical trial in order to gain regulatory approval for the Company's envisaged psilocybin-containing product range. The cost is estimated at \$350,000.



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The allocation of capital towards the Company's ongoing projects and programs is largely dependent on the success, or difficulties encountered, in any part of the process and therefore the time involved in completing it. The time and cost associated with each step are highly dependent on the incremental results of each step and the Company's need to be flexible in reallocating capital to projects whose results show greatest potential. As such, it is difficult for the Company to anticipate the timing and costs associated with taking the projects to the next phase. The Company cannot make assurances that the foregoing estimates will prove to be accurate, as actual results and future events could differ materially from those anticipated. Investors are cautioned not to put undue reliance on the foregoing estimates.

**Update on Use of Proceeds**

The Company has committed the following capital expenditures to meet its planned growth and fund development activities as of December 31, 2021, and the Company does not anticipate, any changes to its previously made disclosure about the Company's intended use of proceeds except as described below.

The below table below sets out the anticipated use of the available funds and any variances to such use as described in the Listing Statement, and the Company's actual use of proceeds from financings as at December 31, 2021. The current use of funds represents the total of the underspend/overspend. The Company notes the below variances are not expected to have a material impact on the Company's ability to achieve its business objectives and milestones.

Use of Available Funds		Previous disclosure regarding use of proceeds in Listing Statement	Actual use of Proceeds as at December 31, 2021 (January 25 – December 31, 2021)	Additional amounts allocated/(redistributed) at December 31, 2021	Variance
<b>Psyence Production (Cultivation and Production)</b> <sup>21</sup>	Capital Expenditure Phase 1	\$100,000	\$105,169	Nil	(\$5,169)
	Commencing of cultivation including first harvest, sourcing of spores and hiring of mycologist and microbiologist	\$20,500	\$19,015	Nil	\$1,485
	First export	\$40,000	Nil	Nil	\$40,000
	Ongoing cultivation and production expenditure	\$70,500	\$18,720	Nil	\$51,780
<b>Psyence Therapeutics (Observational Studies)</b> <sup>22</sup>	Data collection from 3 <sup>rd</sup> party patient cohorts	\$360,000	\$70,000	(\$290,000)	Nil
	Observational studies at Lesotho clinic	\$361,000	Nil	(\$361,000)	Nil
<b>Psyence Therapeutics and Psyence Function</b>	Hiring of product development specialist	\$85,000	\$54,708	Nil	\$30,292
	Engage consultants to develop slow-release product	\$130,000	\$28,471	Nil	\$101,529
	Begin formulation of development	\$137,000	Nil	(\$137,000)	Nil

<sup>21</sup> The Company completed the capital expenditure on Phase 1 of the setting up of the laboratory and grow room. Additional costs were spent on upgrading the grow room of \$5k. The Company finished the cultivation and first harvest within the budget. The Company had to source a new mycologist during the first quarter of 2021. This change led to a change in cultivation methods and therefor the overspend on ongoing cultivation.

<sup>22</sup> The Company entered into a Research Collaboration Agreement with MycoMeditations Inc. for research and development based observational studies that have been completed. The actual spend for the period was \$70k. This project was cancelled due to the realignment of the Company's strategy. The Company no longer anticipates conducting observational studies in Lesotho.

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<b>(Product Development)<sup>23</sup></b>	Commence clinical observational studies	\$713,000	Nil	(\$713,000)	Nil
	Launch of functional mushroom brand, "GOODMIND"	Nil	Nil	\$150,000	\$150,000
<b>Psyence Therapeutics (Extraction of Psilocybin and Research)<sup>24</sup></b>	Finalize Joint Venture with Pure Extracts Technologies Corp.	Nil	\$10,000	Nil	(\$10,000)
<b>Psyence Therapeutics (Scientific Research and Clinical Trials)<sup>25</sup></b>	SRC Project 1: Product development activities	Nil	Nil	\$41,000	\$41,000
	Collaboration Agreement with SRC Project 2: Protocol development, collection and storage of mushroom strains	Nil	Nil	\$23,000	\$23,000
	SRC Project 3: Protocol development and production of mushroom spawn	Nil	Nil	\$21,500	\$21,500
<b>Psyence Therapeutics (UK Clinical Trials)</b>	Partnership agreement with Clerkenwell Health to jointly design and deliver UK clinical trials. <sup>26</sup>	Nil	\$25,590	\$350,000	\$324,410
<b>Other</b>	Professional and consulting fees	\$630,000	\$2,729,807	\$3,000,000	\$900,193
	General and Administrative <sup>27</sup>	\$901,219	\$698,848	Nil	\$202,371
	<b>Total use of funds</b>	<b>\$3,548,219</b>	<b>\$3,760,328</b>	<b>\$2,084,500</b>	<b>\$1,872,391</b>
	<b>Unallocated working capital<sup>28</sup></b>	<b>\$2,294,510</b>			<b>\$3,970,338</b>
<b>TOTAL</b>		<b>\$5,842,729</b>			<b>\$5,842,729</b>

<sup>23</sup> The Company has revised its strategy and allocated resources and focus to the UK Palliative Care Clinical Trial. The Company entered a 50/50 partnership through a South African-based special purpose vehicle, Good Psyence. The Company launched its functional mushroom brand, GOODMIND™, through Good Psyence in August 2021. The next phase is to launch the product in the UK in Q2 2022. The actual costs spend during the period was \$213.1k.

<sup>24</sup> The Company finalized the set-up of the joint venture with Pure Extracts Technologies Corp. The costs spend to set-up Pure Psyence Corp. was \$10k.

<sup>25</sup> The Company is in the process of securing an import permit for raw psilocybin material into Jamaica and has engaged the Ministry of Health (Jamaica) accordingly. Once such import permit has been granted, Psyence will initiate the research project with the SRC described above.

<sup>26</sup> The Company and Clerkenwell Health will be responsible for jointly designing and delivering UK clinical trials. The Company will use natural psilocybin mushroom produced at their federally licensed facility in Lesotho, Southern Africa (the Psyence Production Facility). Clerkenwell Health will assist the Company in establishing procedures and protocols required to successfully run a clinical trial in order to gain regulatory approval for the Company's envisaged psilocybin-containing product range. The cost is estimated at \$350,000.

<sup>27</sup> General and administrative expenses are comprised of payroll consulting and benefits of \$353,501; office and administrative \$232,411; sales and marketing investor relations \$90,105; research and development \$22,831.

<sup>28</sup> The unallocated working balance will be held in short-term interest-bearing securities or in bank accounts at the discretion of management.

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The Company has negative cash flow from operating activities and has historically incurred net losses. To the extent that the Company has negative operating cash flows in future periods, it may need to deploy a portion of its existing working capital to fund such negative cash flows. The expected use of funds represents the Company's current intentions based upon its present plans and business condition, which could change in the future as its plans and business conditions evolve. The amounts and timing of the actual use of the net proceeds depends on multiple factors and there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives. The Company may also require additional funds in order to fulfil its expenditure requirements to meet existing and any new business objectives, and the Company expects to issue additional securities or incur debt to do so. As a result, management retains broad discretion in the application of the available funds, and shareholders will be relying on the management's judgment regarding such application. There is no assurance that additional capital or other types of financing will be available if needed or that these financings will be on terms at least as favourable to the Company as those previously obtained.

See "Quarterly Results of Operations" section for a discussion of transaction costs, marketing expenditure and general and administrative expenses.

**Intellectual Property**

The trademark "GOODMIND" is owned by Psyence's joint venture partner, Goodleaf, and licenced to the special purpose vehicle set up between the parties in South Africa, Good Psyence. Goodleaf has applied to register the trademark "GOODMIND" in South Africa, UK, USA, Canada and Australia.

The Company has filed applications for the registration of the Psyence™ trademark in several jurisdictions including Canada, USA, UK, South Africa and Jamaica. Furthermore, the Company has filed applications in Canada for the registration of several trademarks including LET PSYENCE LEAD THE WAY™, OPENING DOORS™, and QUALITY OF MIND™. The Company has a strong focus on the treatment of anxiety, particularly in the area of palliative care and has partnered with Clerkenwell Health to initiate rigorous clinical trials to prove efficacy. The Company's objective is to develop a naturally derived, stable and standardized extract (API) which will lead to specific product formulations and delivery mechanisms suitable for such clinical trials. As the Company creates novel intellectual property and new data in this area, it may file appropriate patent applications at a more appropriate time in the future, as part of the Company's intellectual property development strategy.

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**Regulatory Framework and Licensing Regime**

A summary of the applicable regulatory framework for the Company's various business segments and proposed business activity is set out in the table below.

<b>Business Segment</b>	<b>Current / Proposed Jurisdiction of Operation</b>	<b>Summary of Applicable Regulatory Frameworks</b>	<b>Third-party CROs, Suppliers, and/or Manufacturers</b>	<b>Related Agreements/ Contracts<sup>6</sup></b>
Psyence Production – Psyence Production Facility	Lesotho	<ul style="list-style-type: none"> <li>Drugs of Abuse Act 5 of 2008 (Lesotho)</li> </ul> <p>and international narcotics laws:</p> <ul style="list-style-type: none"> <li>The Single Convention on Narcotic Drugs done at New York on 30 March 1961, as amended by the 1972 Protocol amending the Single Convention done at Geneva on 1972</li> <li>The Convention Against Psychotropic Substance done at Vienna on 21 February 1971</li> <li>The United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances done at Vienna on 20 December 1988<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Clerkenwell Health</li> <li>SRC</li> <li>University of the West Indies</li> <li>Lonacas Consultants</li> </ul>	<ul style="list-style-type: none"> <li>Clinical and Non-Clinical Services Agreement concluded with Clerkenwell Health</li> <li>Collaboration Agreement for research and development concluded with the SRC</li> <li>Consulting Agreement concluded with Lonacas Consultants</li> </ul>
Psyence Therapeutics – Research and Development and Clinical Trials	UK, Canada and Jamaica	<p>UK:</p> <ul style="list-style-type: none"> <li>1971 UN Convention on Psychotropic Substances</li> <li>Misuse of Drugs Act 1971 and Regulations 2001</li> <li>Psychoactive Substances Act 2016</li> <li>Human Medicines Regulations 2012<sup>2</sup></li> </ul> <p>Canada:</p> <ul style="list-style-type: none"> <li>Controlled Drugs and Substances Act</li> <li>Food and Drugs Act, R.S.C. 1985, c. F-27, and the Food and Drug Regulations thereunder, C.R.C., c. 870<sup>3</sup></li> </ul> <p>Jamaica:</p> <ul style="list-style-type: none"> <li>Dangerous Drugs Act</li> <li>Ministry of Health, Jamaica Guidelines for the Conduct of Research on Human Subjects</li> <li>Food and Drugs Act; the Food and Drugs Regulations, 1975</li> <li>Precursor Chemicals Act<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>Clerkenwell Health</li> <li>Pure Mushrooms</li> <li>SRC</li> <li>University of the West Indies</li> <li>Lonacas Consultants</li> </ul>	<ul style="list-style-type: none"> <li>Clinical and Non-Clinical Services Agreement concluded with Clerkenwell Health</li> <li>Joint venture and shareholder agreement concluded with Pure Mushrooms</li> <li>Collaboration Agreement for research and development concluded with the SRC</li> <li>Consulting Agreement concluded with Lonacas Consultants</li> </ul>
Psyence Function – GOODMIND™	South Africa and UK	<p>South Africa:</p> <ul style="list-style-type: none"> <li>Foodstuffs, Cosmetics and Disinfectant Act, No 54 of 1972</li> <li>Medicines and Related Substances Control Act 101 of 1965<sup>5</sup></li> </ul> <p>UK:</p> <p>Food supplements are regulated by legislation made in each part of the UK. This legislative framework is still under investigation.</p>	Goodleaf	Joint venture and shareholder agreement concluded with Goodleaf

**Notes:**

- (1) From more information on the regulatory regime in Lesotho, please refer to "Lesotho" below.
- (2) From more information on the regulatory regime in the UK, please refer to "United Kingdom" below.
- (3) From more information on the regulatory regime in Canada, please refer to "Canada" below.
- (4) From more information on the regulatory regime in Jamaica, please refer to "Jamaica" below.
- (5) From more information on the regulatory regime in South Africa, please refer to "South Africa" below.
- (6) For more information regarding contracts related to the operations of the Company, please refer to "Material Contracts" below.

## **Lesotho**

Mind Health Lesotho has been issued a licence to engage in trade and/or manufacture by the Ministry of Trade and Industry, Cooperatives and Marketing (Lesotho), in terms of the Industrial Licensing Act 1969 and Trading Enterprises Act 1993, which licence has been properly and duly renewed.

The business activities in which Mind Health Lesotho currently engages is the growing, harvesting, storage and exportation of psilocybin containing mushrooms for medical and research purposes only ("**Lesotho Activities**"). Currently, Mind Health Lesotho only deals in raw materials in mushroom format. The Lesotho Activities are conducted in accordance with the Mind Health Lesotho Permit. This permit authorizes Mind Health Lesotho to conduct the following activities: (a) cultivation of psilocybin; (b) importation of starting material for cultivation of psilocybin; (c) production and manufacture of psilocybin or forms thereof as an API (active pharmaceutical ingredient); (d) exportation of psilocybin, in all forms, to medicinal and pharmaceutical companies; and (e) importation of psilocybin in all forms. The minimum standards to be complied with include, among others, that: (a) activities conducted are for medical purposes only; (b) a qualified responsible pharmacist is present on site; (c) access control is in place; (d) temperature and humidity-controlled production environments and storage facilities are provided for; (f) an HVAC system will include high-efficiency particulate air (HEPA) filters; and (g) in the event of agricultural activities occurring within the Psyence Production Facility, that good agricultural practices are adhered to. The Mind Health Lesotho Permit expressly identify the Psyence Production Facility located in Kolojane, Lesotho, as the authorized premises to carry out the Lesotho Activities. The Mind Health Lesotho Permit was granted for a ten-year period, which is automatically renewable thereafter, provided that the Minister of Health (Lesotho) is satisfied that Mind Health Lesotho has conducted its activities in compliance with the permit and remains compliant upon the date of renewal.

The Lesotho Activities (and the regulation of controlled substances in general) are governed by the following pieces of legislation and applicable laws: (a) Drugs of Abuse Act 5 of 2008 ("**DAA**"); (b) Legal Notice: Appointment of the Lesotho Narcotics Bureau No. 86 of 2017; (c) The Single Convention on Narcotic Drugs done at New York on 30 March 1961 ("**1961 Convention**"), as amended by the 1972 Protocol amending the Single Convention done at Geneva on 1972 ("**1972 Protocol**"); (d) The Convention Against Psychotropic Substance done at Vienna on 21 February 1971 ("**1971 Convention**") and; (e) The United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances done at Vienna on 20 December 1988 ("**1988 Convention**").

The DAA was promulgated to govern and regulate controlled substances, issue licences and permits in respect of the activities involving controlled substances and establish the Lesotho Narcotics Bureau ("**LNB**"), among other things. The LNB advises the Minister of Health (Lesotho) on policy development and implementation with regard to illicit drugs and drug traffickers and co-ordinates all drug abuse related activities of government ministries, departments and non-governmental organisations aimed at illicit drug trafficking. Lesotho is a signatory to the following international conventions relating to narcotics and psychotropic substances: (a) the 1961 Convention and 1972 Protocol; (b) the 1971 Convention; and (c) the 1988 Convention. Lesotho has ratified the contents of the aforementioned international laws through the enactment of the DAA. In terms of the DAA, with reference to Schedule 1 as referred to in section 4(2) of the Act, psilocin and psilocybin are prohibited substances. This is aligned with Schedule 1 of the 1971 Convention where the active pharmaceutical ingredients psilocin and psilocybin are expressly prohibited. Article 2(9) of the 1971 Convention states that:

*"the parties shall use their best endeavours to apply to substances which do not fall under this Convention, but which may be used in the illicit manufacture of psychotropic substances, such measures of supervision as may be practicable"*

Accordingly, the appropriate discretion is given to a member state and or its delegates (in this case the Minister of Health (Lesotho)) in terms of the 1971 Convention to promulgate legislation, issue regulations or otherwise exercise the appropriate statutory powers if, in the member's opinion, a substance is necessary for medicinal purposes. The Minister of Health (Lesotho) is empowered under the DAA to ensure compliance the 1971 Convention and the recommendations of International Narcotics Control Board by exercising supervision and control over plants which may be used to manufacture a psychotropic substance (such as psilocybin). The DAA provides for the delegation of

power to the Minister of Health (Lesotho) to promulgate regulations to regulate controlled substances as he deems necessary, if he is of the opinion that same is necessary for medical or scientific purposes.

Section 9(4) of the DDA provides that no person who carries on a business of the manufacture, acquisition or supply of a drug of abuse, intended for medical, scientific use or other lawful use (referred to as an "**operator**") shall, among other things, acquire, possess or export a drug of abuse except pursuant to a licence issued by the Minister of Health (Lesotho). An operator who is required by the DDA to be licensed shall apply in writing to the Minister of Health (Lesotho) for the granting of such a licence. The Minister may grant the licence if he/she is satisfied that the activity will be carried out exclusively for medical or scientific purposes. In the event of the importation or exportation of a controlled substance, an application for the requisite import, export or transit permit must be made under section 14 of the DAA and such import, export or transit permit may be granted by the Minister of Health (Lesotho) pursuant to section 15 of the Act.

The DAA comprehensively sets out the administration, compliance and enforcement of its provisions in Part V of the Act. As stated above, the LNB is tasked with assisting the Lesotho Government in implementing the abovementioned UN drug conventions and the SADC Protocol on combating drugs and illicit drug trafficking. The DAA further regulates and empowers the Minister of Health (Lesotho), the LNB and/or their appointees to conduct compliance and enforcement measure as follows: (a) inspection for compliance (Division 2); (b) investigation of offences (Division 3); and (c) seizure and post seizure procedures (Division 4). Failure to comply with the provisions of the DAA is an offence, punishable by law and can result in the suspension or revocation of licences and permits issued thereunder.

### **Jamaica**

Psyence Jamaica's primary activities in Jamaica consists of a research collaboration with the SRC, an agency of the government of Jamaica. Psyence Jamaica and SRC have entered into a Research and Collaboration Agreement pursuant to which the parties intend to commence a research project entitled "*Collection, Cultivation, Characterization and Product Development of Psilocybin Containing Mushrooms*" ("**the SRC Project**"). The SRC Project is the sole, active business activity in which Psyence Jamaica is currently engaged.

Where research, production, cultivation and manufacture of psilocybin containing mushrooms is involved in the manner contemplated in the SRC Project, the following legislation/guidelines are applicable: (a) Dangerous Drugs Act; (b) Ministry of Health, Jamaica Guidelines for the Conduct of Research on Human Subjects; (c) Food and Drugs Act ("**FDA**"); (d) the Food and Drugs Regulations, 1975 ("**F&D Regulations**"); and (e) Precursor Chemicals Act. The SRC Project is not subject to any licences specific to the research and development of psilocybin containing mushrooms and no initiatives for testing on human subjects are planned. Psyence Jamaica may however be required to acquire licences under the FDA and/or the Precursor Chemical Act ("**PCA**") where it involves certain activities, including import, export, sale, distribution and manufacturing.

The legal and regulatory framework in Jamaica governing controlled substances and research can be summarized as follows:

#### *The Dangerous Drugs Act of Jamaica, 1948*

Under Part IV of the Dangerous Drugs Act of Jamaica ("**DDAJ**") the import and export of specified substances is prohibited and requires a licence to be issued under the F&D Regulations for the cultivation, selling or dealing in and transport of said substances. These specified substances include but are not limited to medicinal opium, morphine and its salts, heroin and cocaine. Part IV of the DDAJ does not specifically or generally include the substance 'psilocybin' as a substance to which Part VI applies. A dangerous drug is defined as any drug to which Part IV applies and includes raw opium and coca leaves. Therefore, the definition of dangerous drugs also does not include psilocybin specifically or generally and accordingly, psilocybin is not a substance included in the DDAJ specifically or under the definition of what constitutes a dangerous drug, resulting in psilocybin falling outside of the ambit of the DDAJ.

Precursor Chemicals Act

Section 6 of the PCA states that any person who proposes to engage in any prescribed activity shall apply to the Pharmaceutical and Regulatory Affairs Department of the Ministry of Health and Wellness (Jamaica) ("**MOHW**") for a licence to engage in such prescribed activity. Under the PCA, a "prescribed activity" means "in relation to precursor chemicals, the production, manufacture, preparation, distribution, importation or exportation of any such chemicals." A "precursor chemical" means "any substance which: can be used in any of the chemical processes involved in the production, manufacture, or preparation of narcotic drugs, psychotropic substances or substances having a similar effect; and incorporates its molecular structure into the final product making it essential for those processes." As such, at the appropriate phase of the SRC Project, Psyence Jamaica will take the necessary advice to determine whether it is required to obtain a licence under the PCA to engage in the prescribed activity.

Food and Drugs Act

The regulation of the sale, manufacturing, importation and distribution of drugs in Jamaica is largely governed by the FDA and F&D Regulations. Regulation 40 stipulates that, a person shall not sell, manufacture, import or distribute a drug unless that drug has been registered with the MOHW. The F&D Regulations further state that a permit must be obtained from the MOHW for the sale, manufacturing, importation and distribution of drugs into Jamaica. The SRC Project does not, at this stage, include any of the aforementioned activities.

**South Africa**

PBC entered into a joint venture with Goodleaf to launch a functional mushroom product under the name "GOODMIND" in South Africa, which products would be owned by and traded through Good Psyence.

The GOODMIND™ products contain a range of functional/nutritional mushrooms including reishi, cordyceps CS-4 and lion's mane extracts as well as agaricus blazei, coriolus, Auricularia, shiitake and chaga. The products do not contain any psilocybin or any other controlled substance under the narcotics laws in South Africa. Online commercial sales of the products have commenced in South Africa as of Q4 2021.

The GOODMIND™ products are governed by: (a) Foodstuffs, Cosmetics and Disinfectant Act, No 54 of 1972 ("**Foodstuffs Act**"); (b) Medicines and Related Substances Control Act 101 of 1965 ("**Medicines Act**"); and (c) all notices and regulations issued in accordance with the aforementioned Acts.

Foodstuffs

The Foodstuffs Act regulates and controls the sale, manufacture and importation of foodstuffs, cosmetics and disinfectants and provides for incidental matters. The enforcement of this Act is overseen by the Minister of Health (South Africa) and the inspectors appointed by the Director-General in the Department of Health (South Africa). No person shall manufacture, import, sell or offer any foodstuff for sale, unless it complies with the Foodstuffs Act and the regulations thereto. No licences are required to be issued under the Foodstuffs Act to launch the GOODMIND™ products. Provided that the products meet the quality, safety, labelling, packaging and other requirements set out in the Foodstuffs Act, the products shall be lawful in South Africa.

Health supplements and complementary medicines

The Medicines Act provides for, *inter alia*, the registration of medicines and related substances intended for human and for animal use, the control of medicines and scheduled substances and medical devices and the regulation of the purchase and sale of medicines by manufacturers, distributors, wholesalers, pharmacists and persons licensed to dispense medicines. This Act established The South African Health Products Regulatory Authority ("**SAHPRA**") as an organ of state within the public administration but outside the public service. The enforcement and management of this Act is overseen by the Minister of Health (South Africa), with the support of SAHPRA and the Director-General in the Department of Health.

The GOODMIND™ products have been launched with a "Schedule 0" scheduling status under the Medicines Act, and further classified as a "complementary medicine" in the sub-category of traditional Chinese medicine. Health supplements in particular are regulated in accordance with guidelines issued by SAHPRA titled "Registration of Medicines: CMs Health Supplements – Safety and Efficacy June 2020" which sets out standards to ensure that products sold to the public are of good quality and are safe. All manufacturers of health supplements shall comply with all relevant aspects of Good Manufacturing Practice as outlined in the latest version of the SAHPRA's "GUIDE TO GOOD MANUFACTURING PRACTICE FOR MEDICINES IN SOUTH AFRICA". Any Schedule 0 substance may be sold in an open shop (section 22A(3) of the Medicines Act).

The packaging of the GOODMIND™ products clearly states that these products are unregistered medicines and have not been evaluated by SAHPRA for its quality, safety or intended use. In this regard, reference is made to the "Roadmap and transitional process for the regulation of complementary medicines" issued by SAHPRA ("**Roadmap**"). This document establishes the roadmap and general overview for the regulatory pathway of complementary medicines including licensing in terms of section 22C(1)(b) of the Medicines Act and submission of applications for their registration following the implementation of the General Regulations in 2017 and applies to products for human consumption (discipline-specific medicines and health supplements). SAHPRA may, on application, issue a manufacturer, wholesaler or distributor of a medicine a licence to manufacture, import, export, act as a wholesaler of or distribute, as the case may be, such medicine upon such conditions as to the application of such acceptable quality assurance principles and good manufacturing and distribution practices as the SAHPRA may determine.

The Roadmap addressed the rights of sale and provides, among other things, that all complementary medicines will be permitted continued rights of sale, provided that: (a) an application is submitted for their registration by the prescribed deadlines of the applicable call-up notice; and (b) they are indicated based on "LOW RISK" claims, which includes: (i) general health enhancement without reference to any specific disease; (ii) health maintenance; and (iii) relief of minor symptoms (not related to a disease or disorder). The Roadmap further provides a summary of the general timelines for the submission of applications of applicable medicines for registration as complementary medicines by deadlines prescribed by relevant call-up notices issued in terms of section 14 of the Medicines Act. Every application for the registration of a medicine, shall be submitted to the Chief Executive Officer of SAHPRA in the prescribed form and shall be accompanied by, among other things (a) the prescribed particulars; and (b) samples of the relevant medicines. Before an application is evaluated, it will go through a screening process. The screening process will confirm that all SAHPRA's requirements have been met, ensuring that only high-quality dossiers are allocated for evaluation. Applicants are required to complete and submit a validation template with all new registration applications. Any omitted data or deviations from the validation template must be accompanied by a motivation for the application to be accepted.

No call-up notices have been issued in respect of the GOODMIND™ products, and in the interim Good Psyence will follow the process set out in the Roadmap and adhere to the deadlines imposed by SAHPRA.



Online sales

As stated above, any Schedule 0 substance, such as the GOODMIND™ products, may be sold in an open shop. The online sales of GOODMIND™ products are subject to consumer protection and information privacy laws. The Consumer Protection Act No 68 of 2006 ("**CPA**") is the legislative instrument governing liability in respect of defective or unsafe goods and general consumer protection. The Act provides for certain fundamental consumer rights, including: a) the consumer's rights to privacy; b) the right disclosure and information; c) the right to fair and responsible marketing; d) the right to fair and honest dealing; e) the right to fair, just and reasonable terms and conditions; f) the right to fair value, good quality and safety; and g) a supplier's accountability to consumers.

As a complementary medicine, the GOODMIND™ products also have to adhere to sections of the Medicines Act (such as section 20 governing the publication or distribution of false advertisements) as well as the general regulations to the Medicines Act ("**General Regulations**") which govern matters such as a) the labelling of medicines intended for human use (regulation 10); b) professional information for medicines for human use (regulation 11); c) patient information leaflets (regulation 12); d) advertising of medicines (regulation 42).

As the GOODMIND™ product finds its way to registration certain pharmacovigilance obligations on the part of Good Psyence will be activated. Regulation 40 of the General Regulations provides that person who has applied for registration of a medicine in terms of section 15 of the Medicines Act, a holder of a certificate of registration in respect of a medicine or Scheduled substance, or a holder of a licence in terms of section 22C (1)(b) must inform SAHPRA, in the manner and within the time frame as determined by SAHPRA, of any (a) new or existing quality, safety or effectiveness concerns related to any medicine, including but not limited to adverse drug reactions; and (b) risk management activities associated with paragraph (a). Furthermore, a person who has applied for registration of a medicine in terms of section 15 of the Medicines Act, a holder of a certificate of registration in respect of a medicine, or a holder of a licence in terms of section 22C (1)(b) must maintain or have access to records of the reports and case reports as aforementioned.

The Protection of Personal Information Act ("**POPI Act**") is akin to the EU's General Data Protection Regulation 2016/679 and places obligations upon responsible parties (called controllers in other jurisdictions) to lawfully process the personal information of data subjects (both natural and juristic persons). Online sales must ensure that the provisions of the POPI Act are adhered to.

**Canada**

The CDSA generally prohibits all uses of controlled substances and makes it an offence to possess, produce, sell, traffic, import or export a substance including psilocin or psilocybin. However, these prohibitions are subject to exceptions, in particular an exemption for a medical or scientific purpose, such as research or clinical trials, pursuant to subsection 56(1) of the CDSA. An application must be submitted to Health Canada in order to receive such an exemption. Other than the joint venture formed with Pure Extracts, Pure Psyence, the Company has not commenced psilocybin related business activities in Canada. Pure Psyence plans to enter into partnerships with organisations which have obtained the necessary dealer's licence and/or section 56 exemption required to handle psilocybin in Canada.

In addition to the CDSA, the import and export of psilocin or psilocybin are regulated under the Food and Drugs Act and the Food and Drug Regulations. A dealer's licence for psilocin or psilocybin may be obtained under Part J of the Food and Drug Regulations. These laws are described in more detail below:

### CDSA

The CDSA is the critical piece of legislation applicable to psilocin, psilocybin, and other psychoactive substances in Canada. The criminal law power is the basis for this federal legislation regarding controlled drugs and substances. Both Psilocin (3-[2-(dimethylamino)ethyl]-4-hydroxyindole) and any salt thereof as well as Psilocybin (3-[2-(dimethylamino)ethyl]-4-phosphoryloxyindole) and any salt thereof are substances included in Schedule III of the CDSA.

### Food and Drugs

In addition to the CDSA, the federal Food and Drugs Act, R.S.C. 1985, c. F-27, and the Food and Drug Regulations thereunder, C.R.C., c. 870, regulate food and drugs in Canada. Both Psilocin (3-[2-(dimethylamino)ethyl]-4-hydroxyindole) and any salt thereof as well as Psilocybin (3-[2-(dimethylamino)ethyl]-4-phosphoryloxyindole) and any salt thereof are restricted drugs included in the Schedule to which Part J of the Food and Drug Regulations is applicable.

### Research

If the research to be conducted involves a drug for human use that is to be tested in a clinical trial involving human subjects, then Division V of the Food and Drug Regulations would be the applicable federal law. In addition, if the research is to be conducted in British Columbia or another province, then the provincial laws of that province should also be consulted, such as those laws regarding the protection of personal health information.

### Exemptions & Licences – CDSA and Food and Drug Regulations

As stated above, the CDSA generally prohibits all uses of controlled substances and makes it an offence to possess, produce, sell, traffic, import or export a substance included in Schedule III, including psilocin or psilocybin. However, these prohibitions are subject to exceptions, in particular an exemption for a medical or scientific purpose, such as research or clinical trials, pursuant to subsection 56(1) of the CDSA, as follows: in terms of section 56(1) the Minister may, on any terms and conditions that the Minister considers necessary, exempt from the application of all or any of the provisions of this Act or the regulations any person or class of persons or any controlled substance or precursor or any class of either of them if, in the opinion of the Minister, the exemption is necessary for a medical or scientific purpose or is otherwise in the public interest. An application must be submitted to Health Canada in order to receive such an exemption.

A dealer's licence for psilocin or psilocybin may be obtained under Part J of the Food and Drug Regulations. An individual who ordinarily resides in Canada or a corporation with a head office or branch office in Canada is eligible to apply for a dealer's licence for permission to produce, assemble, sell, provide, transport, send, deliver, import or export psilocin or psilocybin as a licensed dealer. An Application for a Controlled Drugs and Substances Dealer's Licence must be submitted to the Office of Controlled Substances at Health Canada. In order to qualify as a licensed dealer, a party must meet all of the requirements mandated by Part J of the Food and Drug Regulations, including having staff that meet the qualifications for a senior person in charge and a qualified person in charge. A dealer's licence must be obtained for each site at which activities are to be conducted. The activities that the licensee may engage in are limited to the strict confines to the licence.

In addition to the dealer's licence, an application must be submitted, and a permit must be obtained from Health Canada before each import or export of a restricted drug such as psilocin or psilocybin by a licensed dealer. This allows the government to track every gram in the country.

## **United Kingdom**

The Company has entered into a services agreement with Clerkenwell Health, a private company located in England. Clerkenwell is a research focused consultancy providing bespoke psychedelic research. Under the terms of the service agreement, the parties intend to work together in connection with clinical trials and research associated with psilocybin isolate.

In the United Kingdom, it is relevant to note that the term "psychedelics" has no legal meaning. Psilocybin and other drugs commonly referred to as "psychedelics" in modern society are subject to strict legal and regulatory requirements in the United Kingdom, as briefly summarized below.

### *UN Conventions*

The objective of the UN Narcotics Conventions has been to establish an international framework for the control of psychoactive substances limiting their availability for medical and scientific purposes. The UN Conventions also promotes the establishment of criminal offences and penalties associated with the misuse of controlled drugs.

The 1971 UN Convention on Psychotropic Substances lists in schedule 1:

- Psilocine;
- psilocin 3-[2-(Dimethylamino)ethyl]indol-4-ol;
- Psilocybine 3-[2-(Dimethylamino)ethyl]indol-4-yl hydrogen phosphate.

Psilocin is also known as "4-HO-DMT", "4-hydroxy DMT", "psilocine", "psilocin", or "psilocin". The 1971 UN Convention does not expressly list species of mushroom (in their natural form) in which the substances mentioned above subsists in the schedule. However, the reach of the 1971 UN Convention is extended to include "preparations", being any solution or mixture, in whatever physical state, containing one or more psychotropic substances, or (ii) one or more psychotropic substances in dosage form. Notwithstanding the forgoing, the UK has controlled both psilocin and (since 2005) fungi containing psilocin.

### *The Misuse of Drugs Act 1971*

The Misuse of Drugs Act 1971 ("**MDA**") is the key legislative framework in the United Kingdom as it relates to the possession and various activities associated with any "controlled drugs". The MDA reflects the UK's obligation and commitment to comply with the UN Conventions. The MDA, whilst establishing various criminal offences for the misuse of controlled drugs, enshrines into law the special protection envisaged by the international conventions for controlled drugs to be used for medical and scientific purposes.

The MDA has established three separate classes of controlled drug (Classes A, B and C). Controlled drugs in Class A are subject to the strictest legal controls (which would include cocaine and heroin) given their perceived risk to public health by their misuse.

### *The Psychoactive Substances Act 2016*

Psychoactive Substances Act 2016 imposes a 'blanket' prohibition on acts of producing, supplying, offering to supply, or importing or exporting, a non-exempted psychoactive substance that is likely to be consumed by individuals for its psychoactive effect. The purpose of this legislation has been to curb the threat to public health and society from the illicit sale of products generally referred to as "legal highs", which are not categorized as a "controlled drugs" under the MDA or medicinal product (as defined by regulation 2 of the Human Medicines Regulations 2012 ("**HMR**").

### *Misuse of Drugs Regulations 2001*

In compliance with the UN Narcotics Convention and pursuant to section 7(1) of MDA, the Misuse of Drugs Regulations 2001 ("**MDR**") regulates the availability of "controlled drugs" that have a recognised and legitimate use by allocation them to one of 5 schedules. Drugs listed under Schedule 1 of MDR can only be possessed or supplied under a Home Office licence and cannot be prescribed by a medical practitioner. The Home Office may grant a special licence for a Schedule 1 controlled drug to be used for research and other purposes. Controlled drugs listed under Schedule 2 and 3 of the MDR can be made available for medical use and are capable of being prescribed by a medical practitioner.

Psychedelic drugs (with few exceptions, such as ketamine) are scheduled under Schedule 1 of MDR on the basis that they are perceived as having no benefit to public health. This means that scientific study and research associated with psilocybin isolate would require a Home Office Licence.

#### *Human Medicines Regulations 2012*

It does not follow that merely because a drug appears in schedule 2 to 5 of the MDR that it may readily be prescribed to human beings. This is because there are strict and complex legal requirements in relation to "medicinal products". Under regulation 46(1), a person "may not sell or supply, or offer to sell or supply, an unauthorised medicinal product". Furthermore, by regulation 46(2), a person may not sell or supply, or offer to sell or supply, a medicinal product otherwise than in accordance with the terms of, (a) a UK marketing authorisation; (b) an EU marketing authorisation; (c) a certificate of registration; (d) a traditional herbal registration; or (d) an Article 126a authorisation. However, regulation 46(1) and (2), do not apply to the sale, supply, or offer for sale or supply, of an "investigational medicinal product" to a person specified in regulation 13(1) of the Medicines for Human Use (Clinical Trials) Regulations 2004 (SI 2004 No.1031) ("**CTR**"): "for the purposes of administering that product in a clinical trial, provided that the conditions specified in regulation 13(2) of those Regulations are satisfied" (HMR 2012, regulation 46(10)). Regulation 18 of the CTR makes provision for the "authorisation procedure for clinical trials involving general medicinal products". There can be circumstances in which an unauthorised "medicinal product" may be prescribed to fulfil special patient needs but this is subject to very tight and strict restrictions (regulation 167).

#### *Scientific research*

Some of the drugs listed in Schedule 1 to the MDR are those which scientists would like to research – such as psilocybin. The "public interest" test set out under section 7(4) MDA becomes relevant in this regard. Prohibition is not absolute and permits "research or other special purposes", and that practitioners, pharmacists and persons lawfully conducting retail pharmacy businesses, may be permitted to act in their capacity as such under licence or "other authority issued by the Secretary of State". Thus, a person (or legal entity) may carry out medical and scientific research, even when it relates to a schedule 1 drug - provided that there is official authority to do so (typically by way of a licence). The process for obtaining a licence and securing the authority of the MHRA to carry out clinical trials for example, can be protracted and expensive.

#### *MHRA – Clinical Trial Authorization*

In this paragraph an overview of the MHRA's process for obtaining a Clinical Trial Authorisation ("**CTA**") is set out. Clinical trials of medicines for human use are regulated under the CTR, as referenced above. A CTA together with a positive opinion from an Ethics Committee (as detailed below) must be granted before a clinical trial can proceed.

Two guidance documents were issued in March 2021 by the MHRA to assist with the CTA process, as referenced, which detail the requirements and details of how to submit an application.<sup>29,30</sup> By way of summary, the following documents must be included in the submission package to the MHRA:

- A cover letter;
- A clinical trial application form;
- A protocol document;
- An investigator's brochure or document replacing this;
- An investigational medical product dossier (IPMD) or a simplified IPMD;
- A non-investigational medicinal product dossier if required;
- A summary of scientific advice obtained from the MHRA or any other regulatory authority, if available;
- Manufacturer's authorisation, including the importer's authorisation and Qualified Person declaration on good manufacturing practice for each manufacturing site if the product is manufactured outside the EU;
- A copy of the UK or EMA's decision on the paediatric investigation plan and the opinion of the paediatric committee, if applicable; and
- The content of the labelling of the investigational medicinal product, or justification for its

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<sup>29</sup> [Clinical trials for medicines: apply for authorisation in the UK - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/clinical-trials-for-medicines-apply-for-authorisation-in-the-uk)

<sup>30</sup> [Clinical trials for medicines: manage your authorisation, report safety issues - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/clinical-trials-for-medicines-manage-your-authorisation-report-safety-issues)

absence.

There are different fees payable dependent on the type of clinical trial application, as listed out in the referenced guidance note.<sup>31</sup>

The initial assessment is completed typically within 30 days of submission, although it can take longer for certain trials for which the MHRA will seek further advice.

The MHRA will confirm the outcome of the assessment of a submission as one of the following, as per Regulation 18(2) of the CTR 2004:

- Acceptance of the request for a clinical trial authorisation;
- Acceptance of the request for a clinical trial authorisation subject to conditions; or
- Grounds for non-acceptance of the request for a clinical trial authorisation.

If the request is not accepted, the applicants will be given the reasoning and must amend the application and resubmit. Additional charges can apply depending on the type of amendments that are to be made.

### Ethics Committee

Approval will also be needed from an ethics committee before the trial begins, as per Regulation 12 of the CTR. This can be done either at the same time or after the submission to the MHRA has been made and are made via the National Research Ethics Service, which is part of the Health Research Authority. Regulation 15 of the CTR lists the considerations that may be taken into account by the ethics committee in making their decision.

### Sponsors

Regulation 3(2) of the CTR provides details of the responsibilities of sponsors of clinical trials. Sponsors need to be established in the UK or a country on an approved country list which initially would include EU/EEA countries. If this is not the case, the sponsor must designate a UK legal representative.

As per Regulation 33 of the CTR, sponsors must submit reports of suspected unexpected serious adverse reactions (both United Kingdom and non-United Kingdom) relevant to a UK trial to the MHRA and the relevant research ethics committee. There is also a requirement to submit annual safety reports under Regulation 35 of the CTR. They must provide investigators with information on safety issues relevant to whether they enrol patients or allow them to continue with the study.

The CTR require sponsors to provide adequate insurance or indemnity to cover liabilities that may arise in relation to the clinical trial. The MHRA expects that a sponsor's insurance policy or indemnity will reflect the form recommended by the Association of the British Pharmaceutical Industry (ABPI) Clinical Trial Compensation Guidelines.

### *Recreational Use of Psychedelics*

In the United Kingdom, the law does not permit for a market to be established for the "recreational" sale or use of psychedelic products, as is consistent with the approach adopted uniformly amongst developed nations. The Company is therefore strictly prohibited from engaging in any activities associated with the recreational sale or use of psychedelic drugs in the United Kingdom, and its activities are strictly confined to medical and scientific research having obtained all necessary licences, authorisations and approvals.

There is nothing under existing UK law that would legally permit the operation (in the UK) of retreats administering psilocybin in any form or to undertake the commercial sale or production of psilocin or fungi containing psilocin for "recreational" purposes.

### **Corporate Governance and Compliance Program**

Corporate governance refers to the policies and structure of the board of directors of a company, whose members are elected by and are accountable to the shareholders of the company. Corporate

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<sup>31</sup> [Current MHRA fees - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

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governance encourages the adoption of policies to ensure the board of directors recognizes the principles of good management. The Board is committed to sound corporate governance practices; as such practices are both in the interests of shareholders and contribute to effective and efficient decision-making. The Company has adopted corporate governance policies and guidelines (the "**Guidelines**") governing key matters and has accordingly enacted: (a) internal guidelines to control transactions involving its securities by all Company directors, officers and insiders (among others) to ensure that such parties are aware of and comply with their legal obligations with respect to "insider trading" and "tipping"; and (b) timely disclosure and confidentiality guidelines to ensure the timely and accurate disclosure of material information relating to the Company and/or its material subsidiaries in accordance with applicable securities laws and stock exchange rules, to prevent the improper use or disclosure of material information or confidential information about the Company and to promote an understanding of and compliance with legal requirements and stock exchange rules.

The Board shall: (a) review the Guidelines on an annual basis; and, (b) at a more appropriate time in the future, (i) implement additional corporate governance policies and guidelines; (ii) implement measures and processes to review critically each director's continuation on the Board every year considering, among other things, a director's service on other boards and the time involved in such other service; and (iii) establish a process for the evaluation of the performance of the Board and each of its committees.

The Company engages professional advisors (legal, financial, and technical) with the relevant expertise to provide assistance in navigating and managing the political, legal and cultural realities of the jurisdictions in which it operates and the impact it may have on the Company's business or operations on an as-needed basis. Additionally, the Company's management team has a long and successful history of doing business in Canada, Jamaica, United Kingdom and Southern Africa. With respect to Southern Africa specifically, the Company's management team has experience engaging with local communities and tribal chiefs as well as a working knowledge of the region's local legal, regulatory and political landscape. The management team's technical division is well acquainted with the region's natural terrain as well as its climactic and infrastructure related challenges.

The Company, via its subsidiaries and the MSA with Highlands Ventures, has a local presence in each of the jurisdictions in which the Company operates, which allows the Company to manage government and regulatory authorities as well as address any request from such authorities. For example, the Company has appointed a Country Manager and a Government Liaison Officer who travel to Lesotho from neighbouring South Africa regularly.

The Company manages and monitors compliance with applicable laws in each jurisdiction in which it operates through its general legal counsel and Chief Financial Officer, who engage, as needed, local counsel in every jurisdiction, who provide legal opinions or advice in each of these jurisdictions regarding: (a) compliance with applicable laws and regulatory frameworks, (b) applications, maintenance and renewals of licences and permits, and (c) changes in the legal landscape affecting the Company operations.

The Company has received independent local legal opinions confirming the lawfulness of the Company's activities in Canada, Jamaica and Lesotho and has engaged local legal counsel in the UK and South Africa to ensure compliance with material legal, regulatory and governmental developments as they pertain to and affect the Company's operations. The Company's operations are conducted in compliance with local laws where such activities are permissible and either (a) do not require any specific legal or regulatory approvals, or (b) the Company has all necessary legal and/or regulatory approvals.

The Company works with third party facilities, research institutions, and contract manufacturers who require regulatory licensing to handle scheduled drugs. Before commencing any commercial or other ventures with such third parties, the Company conducts a high-level legal, regulatory and quality control due diligence to verify claims made by such third parties. The Company ensures that contracted third parties provide the necessary warranties and undertakings required to ensure compliance with applicable laws in contracts concluded with such parties. Failure of third parties to comply with

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applicable laws constitutes a material breach of contract, giving rise to a contractual right on the part of the Company to terminate any contract with such offending third party.

The Company held its annual general meeting of shareholders on December 9, 2021. Shareholders were required, among other matters, to consider and vote on the following:

1. Adoption of a new stock option plan ("New Stock Option Plan"); and
2. Approving amendments to the Company's existing restricted share unit plan ("Amended RSU Plan").

The shareholder resolved to adopt the New Stock Option Plan and approve the Amended RSU Plan (collectively the "Plans"). The key changes implemented in the Plans are as follows:

1. The Company's legacy stock option plan contained a restriction limiting the grant of incentives under all of the Company's incentive plans to an aggregate of 10% of the Company's issued common shares. The New Stock Option Plan will remain a "rolling" plan that limits the number of stock options that may be granted pursuant to this New Stock Option Plan (combined with grants under the Company's legacy stock option plan) to a number equal to 10% of the Company's issued and outstanding common shares, calculated at the date of the stock option grant.
2. The Company's legacy restricted share unit plan provided that the aggregate number of shares reserved for issuance pursuant to awards granted, at any time, shall not exceed, when combined with all other incentive plans of the Company, 10% of the issued and outstanding shares in the capital of the Company. Under the Amended RSU Plan the aggregate number of shares that may be reserved for issuance under this Amended RSU Plan at any time shall not exceed 7.5% of the Company's outstanding shares.

Please refer to pages 25 – 33 of the Company's Management Information Circular dated November 9, 2021 for further details about the Plans

## **Overall Performance**

### **Financial Information**

MindHealth was incorporated on May 21, 2020. The Company's first financial year end was March 31, 2021. This MD&A presents information relating to the period October 1, 2021 – December 31, 2021 with comparative information being shown for the period October 1, 2020 – December 31, 2020 ("**comparative period**").

### **Results and Overview of operations for the third fiscal quarter to December 31, 2021**

#### **Revenue and results**

The Company did not report revenue from operations for the 3-month period ended December 31, 2021. The total comprehensive loss for the 3-month period ended December 31, 2021 was \$1,255,854 (comparative period: \$1,348,361).

The Company did not report revenue from operations for the 9-month period ended December 31, 2021. The total comprehensive loss for the 9-month period ended December 31, 2021 was \$3,565,607 (comparative period: \$1,737,446).

For both the 3- and 9-month periods ended December 31, 2021, the total comprehensive loss relates to the overall growth of the Company as it continues to develop the business and promote awareness of the psychedelic industry. The costs increased from the 3-month period ended September 30, 2021 to the 3-month period ended December 31, 2021 with an increase in overall costs of \$119,401.

The overall cost drivers are the strategic activities and initiatives undertaken by the Company.

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Sales and marketing costs

For the 3-month period ended December 31, 2021, the Company's sales and marketing costs of \$34,532 were incurred for conferences, content, promotional materials and website design costs (comparative period: \$8,800).

In the prior period the business was still newly established and had not begun to undertake marketing activities. The increase in marketing costs has been driven by the need to create awareness of the Company and its activities.

For the 9-month period ended December 31, 2021, the Company's sales and marketing costs of \$90,105 were incurred for content, promotional materials and website design costs (comparative period: \$8,800).

The Company has incurred additional marketing expenses as it continues to raise awareness of the Company and its industry. The Company incurred additional expenses of \$4,261 compared to 3-month period ending September 30, 2021 which related to marketing campaigns.

Research and development

For the 3-month period ended December 31, 2021, the Company incurred research and development costs in Lesotho of \$10,826 for the purposes of growing natural psilocybin mushrooms in compliance with the Mind Health Lesotho licence (comparative period: \$7,214). The increase in costs for the period were amounts paid for ensuring that the validation runs in Lesotho were compliant for upcoming BSI certifications.

For the 9-month period ended December 31, 2021, the Company incurred research and development costs in Lesotho of \$22,831 for the purposes of growing natural psilocybin mushrooms in compliance with the Mind Health Lesotho licence (comparative period: \$9,212). The Company has expanded its production compared to the prior year when the Mind Health Lesotho licence was newly issued. These expenses for the growing of mushrooms include grow consumables, laboratory testing and analysis of the mushrooms, and other direct growing costs.

General and administration costs

For the 3-month period ended December 31, 2021, the Company incurred general and administrative costs of \$220,537 which consisted of bank fees, filing fees, general office expenditure, facility maintenance, salaries and wages and operational costs. For the comparative period, \$39,857 was incurred.

For the 9-month period ended December 31, 2021, the Company incurred general and administrative costs of \$597,850 which consisted of bank fees, filing fees, general office expenditure, facility maintenance, salaries and wages and operational costs. For the comparative period, \$45,931 was incurred.

General and administrative costs increased during the quarter in comparison to the preceding quarter as result of expanding operations of the Company.

In the prior periods the business was still newly established and had not begun to undertake significant operating activities. The increase in general costs has been driven by the need to expand operations of the Company and its activities.

Professional and consulting fees

For the 3-month period ended December 31, 2021, professional and consulting fees totalling \$924,086 were incurred during the current quarter (comparative period: \$1,284,551). This consisted of \$745,607 (comparative period: \$899,069) paid to consultants for product development, financial, business



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strategies and administrative services, \$19,202 (comparative period: \$124,569) in relation to the MSA, legal fees of \$104,788 (comparative period: \$190,829) paid to legal practitioners for various corporate matters, whilst \$27,204 (comparative period: \$22,160) was paid for accounting services and \$27,285 (comparative period: \$47,924) for audit fees.

For the 9-month period ended December 31, 2021, professional and consulting fees totalling \$2,717,870 were incurred during the current quarter (comparative period: \$1,668,503). This consisted of \$2,249,180 (comparative period: \$944,887) paid to consultants for product development, financial, business strategies and administrative services, \$120,698 (comparative period: \$291,621) in relation to the MSA, legal fees of \$241,274 (comparative period: \$305,869) paid to legal practitioners for various corporate matters whilst \$78,704 (comparative period: \$51,296) and \$28,014 (comparative period: \$74,830) paid for accounting services and audit fees, respectively.

The professional and consulting fees for the quarter increased from the preceding quarter due to increased consultant and legal fees. This increase was as result of the Company exploring various strategic initiatives.

In the comparative periods the fees paid to consultants for product development, financial, business strategies and administrative services was much lower that the current period due to the expansion of operations in the current periods and the need to recruit personnel to facilitate the expansion.

Other costs

The depreciation and amortization charge for the quarter was \$14,616 in total (comparative period: \$8,467). Of this amount, \$744 was charged for right-of-use assets and \$13,242 was depreciated on computer equipment, buildings, production equipment, furniture and leasehold improvements. The amortization of intangible assets was \$630 for the quarter.

The depreciation and amortization charge for the 9-month end was \$37,473 in total (comparative period: \$9,664). Of this amount, \$2,315 was charged for right-of-use assets and \$33,497 was depreciated on computer equipment, buildings, production equipment, furniture and leasehold improvements. The amortization of intangible assets was \$1,661 for the nine months.

MindHealth Lesotho has a sub-lease agreement with Highlands Pure Lesotho, for a portion of land situated at a cultivation site in Kolojane in the Berea District of Lesotho. The Company has developed a laboratory, production and processing facility on this portion of land (the Psyence Production Facility) at a cost of \$441,690 and this has a carrying value of \$393,168. In addition to the leased portion of land, MindHealth Lesotho is entitled to use the essential infrastructure and related services available at the cultivation site. The monthly rental, sewerage and drainage is Lesotho Loti 3,485 per month. The initial term of the lease is 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 \$50,438 and \$51,703, respectively.

**Total assets at quarter end December 31, 2021**

Total asset for the period were \$4,290,961 and predominantly comprised of cash and cash equivalents of \$3,630,447. This also includes other assets consisting of dried mushrooms produced at the Company's production facility in Lesotho of \$37,178. Property, plant and equipment purchases were \$29,223 and \$122,660 for the current quarter and the 9-month period end respectively and consisted predominantly of Psyence Production facility upgrades for both periods.

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The Company has bank accounts denominated in Canadian dollars, US dollars, South African rands and Lesotho loti. At quarter end the Company had the following currency exposures on these accounts:

- Canadian bank accounts: \$3,530,842  
   \$271 (US\$214 – denominated in US dollars)
- Lesotho bank accounts: \$63,706 (US\$50,204 – denominated in US dollars)  
   \$18,668 (LSL234,682 – denominated in Lesotho loti)
- South African account: \$16,960 (ZAR213,208 – denominated in South African rand)

**Operations**

**Quarterly Results of Operations**

	Quarter end December 31, 2021 \$	Quarter end September 30, 2021 \$	Quarter end June 30, 2021 \$	Quarter end March 31, 2021 \$	Quarter end December 31, 2020 \$	Quarter end September 30, 2020 \$	Period May 21, 2020 – June 30, 2020 \$
Total Revenue	-	-	-	-	-	-	-
Total Comprehensive Loss	1,255,854	1,136,453	1,173,300	9,535,567	1,348,358	333,368	55,717
Loss per-share – Basic and diluted	(0.01)	(0.01)	(0.01)	(0.12)	(0.03)	(0.01)	(0.00)
Weighted Average Number of Shares	85,528,931	85,528,931	85,528,931	80,786,627	48,191,872	36,914,776	25,101,022

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 December 31, 2021.

Mind Health Lesotho and Psyence South Africa are subsidiaries of the Company which have functional currencies of Lesotho loti and South African rand respectively that differs to the Company's presentation currency (Canadian dollars).

**Liquidity and Capital Resources**

CAD \$	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
<b>Cash used in operating activities</b>	(756,580)	(1,415,888)	(2,471,241)	(1,710,625)
<b>Cash used in investing activities</b>	(85,359)	(289,637)	(241,877)	(327,029)
<b>Cash raised from financing activities</b>	249,249	2,317,128	247,491	6,754,174
<b>Total Cash Movement</b>	<b>(592,690)</b>	<b>611,603</b>	<b>(2,465,267)</b>	<b>4,716,520</b>

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**Three months ended December  
31, 2021**

**Nine months ended December  
31, 2021**

**Net cash used in operating activities**

This primarily relates to cash used for operating expenses including research and development expenses, salaries, professional fees, and other general and administration expenses. Cash flows from operating activities exclude expenses not affecting cash, such as share based compensation expenses, depreciation, unrealized foreign exchange gains or losses, and net changes in non-cash balances relating to operations.

For the 3-month period ended December 31, 2021, cash used in operating activities was \$756,580 driven by a net loss of \$1,229,293 and non-cash unrealized foreign exchange gain of \$5,239 partially offset by the following non-cash items: share-based compensation of \$195,647, share of loss from joint venture of \$10,521, accretion consideration of \$334 and depreciation and amortization of \$14,616.

For the 9-month period ended December 31, 2021, cash used in operating activities was \$2,471,241 driven by a net loss of \$3,532,364 and non-cash unrealized foreign exchange gain of \$6,937 partially offset by the following non-cash items: share-based compensation of \$800,515, share of loss from joint venture of \$63,619, accretion consideration of \$1,050 and depreciation and amortization of \$37,473.

**Net cash used in investing activities**

For the 3-month period ended December 31, 2021, cash flows were mainly driven by:

- Additions to property and equipment \$29,223; Loan to Joint Venture \$16,136 and investment in guaranteed investment certificate \$40,000.

For the 9-month period ended December 31, 2021, cash flows were mainly driven by:

- Additions to property and equipment \$122,660; Loan to Joint Venture \$79,213 and investment in guaranteed investment certificate \$40,000.

**Net cash from (used in) financing activities**

For the 3-month period ended December 31, 2021, cash flows were mainly driven by:

- Repayment of lease liabilities of \$737 and Proceeds from convertible debt to be issued \$249,986

For the 9-month period ended December 31, 2021, cash flows were mainly driven by:

- Repayment of lease liabilities of \$2,495 and Proceeds from convertible debt to be issued \$249,986

On December 2, 2021, the Company announced the commencement of a non-brokered private placement offering (the "Proposed Financing") of up to \$2,000,000 of unsecured convertible promissory notes (the "Notes"). Under the Proposed Financing, the terms contemplate that the Notes shall be convertible at the option of the holder at any time and will be automatically converted upon the occurrence of certain events at a 20% discount to the market price of the Company's common shares at the time of conversion, subject to a minimum conversion price of \$0.20 and a maximum conversion price of \$0.40. In addition, the lenders would also receive warrants of the Company on the basis of 1,667 warrants for every \$1,000 of convertible debenture purchased, each exercisable into one common share at a price of \$0.30 for a period of 24 months from the date of issuance. The terms also contemplates that the Notes are to mature 24 months from the date of issuance and bear interest at a rate of 8% per annum. As of December 31, 2021, the Proposed Financing remains open with cash collected to date being non-interest bearing and repayable on demand until such date that the Proposed Financing is completed.

Since incorporation, the operations have been solely financed from the issuance of equity. The Company's main use for liquidity is to fund scientific research, clinical studies, product development and manufacturing, salaries and professional and consulting fees. Construction of phase 2 of the

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Psyence Production Facility is only planned to commence when market demands dictating the supply of product require it. The anticipated development and construction costs for the phase 2 of the production facility is \$ 1,600,000. The ability to fund operations and to make planned cash flows are subject to prevailing economic conditions, regulatory and financial, business, and other factors, some of which are beyond the Company's control.

As at December 31, 2021, the Company had cash balances of \$3,630,447 (December 31, 2020: \$4,716,520) and working capital of \$3,195,461. Working capital represents the excess of current assets over current liabilities. The Company is in its drug development stage for Psyence Therapeutics as it researches and develops its IP portfolio in anticipation of manufacturing in the future. Therefore, the Company will not be able to generate sufficient amounts of cash and cash equivalents from its revenue generating operations in the short term. 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. All significant contractual obligations and commitments are disclosed under *Discussion of operations* above and there are no other significant obligations maturing in the short term. The Company believes that it will be able to fund operations and significant projects beyond the next 12 months from the available cash and cash equivalents. To achieve this, the Company prioritises expenditure, both capital and operational, by regularly reviewing its available cash and cash equivalent balances against the spend required to deliver on its key strategic objectives and milestones. The Company's current resources are sufficient to settle its current liabilities.

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.

The Company's current expenditure obligations include commitments for those projects described in "*Business overview*" above. The Company expects to continue funding these projects with available cash and cash equivalents, and therefore, is subject to risks including, but not limited to, an inability to raise additional funds through the issuance of equity, debt instruments or similar means of financing to support the Company's continued development, including capital expenditure requirements, operating requirements and to meet its liabilities and commitments as they become due.

The Company has experienced operating losses and cash outflows from operations since incorporation and by nature of its business, will require ongoing financing to continue its research and development. Although the Company has sufficient surplus working capital, it will require ongoing financing in order to continue long term production, research and development activities. The Company's ability to access both public and private capital is dependant upon, among other things, general and sectoral market conditions and the capital markets generally, market perceptions about the Company and its business operations, and the trading prices of the Company's securities from time to time. There can be no assurance that additional funds can be raised upon terms acceptable to the Company, or at all, as funding for early-stage companies remain challenging generally.

The Company's primary capital needs are funds to advance its research and development activities and for working capital purposes. These activities include staffing, pre-clinical studies, clinical trials and administrative costs. As the Company has not yet achieved profitability, there are uncertainties regarding its ability to continue as a going concern beyond 18 months. The Company has not earned any significant revenue although it has launched its Psyence Function product GOODMIND™. There is no assurance that additional capital or other types of financing will be available if needed or that these financings will be on terms at least as favourable for the Company as those previously obtained, or at all. See "*Risk Factors*" below.

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Lesotho is part of the Common Monetary Area ("**CMA**"), together with Namibia, South Africa and eSwatini (formerly Swaziland). There are no foreign exchange restrictions between banks of the CMA member countries in respect of cross-border transactions amongst themselves. Please refer to "*Exchange Controls, Currency Fluctuations and Credit Risks – Lesotho, South Africa and Jamaica*" below for more information on the exchange control regulations applicable in these CMA countries in respect of non-CMA countries. These exchange control processes are largely administrative in nature, but may cause delays in the transfer of monies into and out of Lesotho and/or South Africa.

The Company manages its liquidity risk in these Southern African jurisdictions by ensuring that the inward flows of funds occur by way of a loan which is approved upfront by the necessary exchange control authorities. Once the inward loan is approved, the repayment of such loans is approved and the risk that funds will not be permitted to be repatriated is extinguished. Any liquidity risk in these Southern African jurisdictions is further mitigated by the fact that the Company does not hold excessive funds in these jurisdictions and manages its cash flows to meet the Company's Southern African commitments only.

**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**

**Compensation to key management personnel**

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, as defined by International Accounting Standards 24 *Related Party Disclosures*, include the Company's executive officers and Board of Directors. They are as follows: Jody Aufrichtig, Dr. Neil Maresky, Warwick Corden-Lloyd, Corden-Lloyd Consulting, Dr. Amza Ali, Alan Friedman, Bayline Capital Partners Inc., Gavin Basserabie, Marvin Singer, Dr. Justin Grant and Tony Budden.

<b>Key Management Personnel</b>	<b>Three months Ended December 31, 2021</b>	<b>Three months Ended December 31, 2020</b>	<b>Nine months Ended December 31, 2021</b>	<b>Period from May 21, 2020 (date of incorporation) to December 31, 2020</b>
<b>CAD\$</b>				
Short term benefits	271,607	31,294	875,237	59,210
Share-based compensation	134,685	145,737	527,748	145,437
<b>Total</b>	<b>406,292</b>	<b>177,031</b>	<b>1,402,985</b>	<b>204,647</b>

Short term benefits consist of consulting fees paid to key management personnel.

**Balances**

As at December 31, 2021, the Company held amounts totalling \$15,598 (March 31, 2021 - \$nil) that were due from related parties. This amount consisted of the loan to the joint venture Good Psyence. As of December 31, 2021, the Company held amounts totalling \$nil (March 31, 2021 - \$7,581) that were due to related parties.

**Other Related Party Transactions**

<b>Transaction Type</b>	<b>Three months Ended December 31, 2021</b>	<b>Three months Ended December 31, 2020</b>	<b>Nine months Ended December 31, 2021</b>	<b>Period from May 21, 2020 (date of incorporation) to December 31, 2020</b>
Management fees	-	124,569	89,475	291,621
Accounting fees	-	22,160	-	51,296
<b>Total</b>	-	146,729	89,475	342,917

Management fees relate to the MSA with Highlands Ventures (a related party during the period). Jody Aufrichtig, a director and the Executive Chairman of the Company, had control of Highlands Ventures during the period. The control ceased on June 21, 2021 and, accordingly, Highlands Ventures ceased being a related party.

In terms of the MSA, the Highlands Ventures manages the design, construction, erection, commissioning, operation and maintenance of the psilocybin cultivation facility in Lesotho. The MSA also includes the provision of legal services.

The Company has a lease for land that was entered into with a former related party, Highlands Pure Lesotho. Jody Aufrichtig, a director and Executive Chairman of the Company, had control of Highlands Pure Lesotho during the period. The control ceased on June 21, 2021 and accordingly, Highlands Pure Lesotho ceased being a related party. The lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability. The land has been used to erect manufacturing and processing facilities. The initial term of the lease is approximately nine years beginning June 1, 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 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.

Accounting fees relate to a service agreement with a company called Auxilium Financial Services that an Alexander Shorser controlled during the period ended December 31, 2020. The officer ceased to be an officer of the Company on January 19, 2021 and the company ceased being a related party.

**Subsequent Highlights**

Subsequent to December 31, 2021 and effective March 1, 2022, the Company amended 980,516 RSUs originally granted on August 1, 2021, deferring the first vesting date to March 1, 2022 from the original vesting date of October 1, 2021. The Company has further resolved that the RSUs are to be settled solely by the issuance of common shares, thereby removing the cash settlement feature at the discretion of the Company.

Subsequent to December 31, 2021 the Company raised an additional \$572,233 of proceeds in connection with convertible debt to be issued.

**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 December 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 December 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.

These financial liabilities also consist of a convertible debt note to be issued which does not have a contractual maturity date 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.

Any liquidity risk in Southern African jurisdictions is further mitigated by the fact that the Company does not hold excessive funds in these jurisdictions and manages its cash flows to meet the Company's Southern African commitments only.

Based on the Company's working capital position at December 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 and South African Rand. 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 \$7,008 (March 31, 2021: \$7,412) as at December 31, 2021.

Management mitigates the risk of adverse exchange rate movements by holding funds in Lesotho in US dollars. The money held in Lesotho is only converted into local currency once it is required to be spent. The Company mitigates the currency risk by keeping excess funds in US Dollars and exchange control risk by keeping excess funds in Canada.

### **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 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**

*An investment in the Company is subject to various risks and should be considered highly speculative.*

Prior to making an investment decision, investors should consider the investment risks set forth below which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Company consider the risks set forth below to be the most significant, but do not consider them to be all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware or which they consider not to be material in connection with the Company's business, actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment.

#### *Initial lack of business diversification*

Because the Company will be initially focused on research and development, cultivation and production of psilocybin mushrooms and functional over-the-counter mushroom products, the prospects for the Company's success will be dependent upon the future performance and market acceptance of the Company's intended facilities, products, processes and services. Unlike certain entities that have the resources to develop and explore numerous product lines or operate in multiple industries, the Company does not anticipate having the ability to immediately diversify or benefit from the possible spreading of risks or offsetting of losses. The Company operates in both the psychedelic and non-psychedelic areas of the mushroom industry. Again, the prospects for the Company's success may become dependent upon the development or market acceptance of a very limited number of facilities, products, processes or services.

#### *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, and product development in South Africa. Certain activities conducted by the Company are permissible under the respective Lesotho and Jamaican regulatory regimes, which are less restrictive and onerous than 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 and South Africa licenses or authorizations). 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.

Furthermore, COVID-19 has brought about certain challenges in Lesotho, South Africa and Jamaica. Firstly, government run authorities and departments (such as Departments of Health) have experienced disruptions to their operations due to COVID-19 in the sense that 1) several employees working from home struggle (due to lack of resources) to be as productive from home as from the office; 2) working from home has resulted in a disconnect between departments within such organisations, resulting in delays; and 3) such organisations have experience a number of shut downs whenever a case of COVID-19 has been reported within the organization. Secondly, due to the foregoing, administrative matters such as applications for import/export permits, licence renewals and other similar applications, take longer to obtain than under the pre-COVID-19 conditions, however, the Company has not been denied any applications or renewals due to such delays. Thirdly, international or third-party audits have been challenging due to travel restrictions, resulting in an inability to conduct on-site audits. Such auditing officials have conducted remote audits to manage the situation and avoid undue delays.

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For the first three quarters of 2021, following the reserve take over of Cardinal Capital Partners, the following factors have mitigated the impact of COVID-19 on the Psyence Production Facility: a) border crossing requirements and restrictions between South Africa and Lesotho have been relaxed and the current requirements (such as a negative COVID test) have not hindered key staff's freedom of movement between the countries; b) no positive COVID cases have been reported at the Lesotho facility and accordingly, no shut downs have been necessary; c) CCTV and other technologies have allowed for virtual audits to occur, keeping the certification and validation plans at the facility on track; and (d) management operating from outside Lesotho are able to supervise activities at the facility through CCTV and other technologies.

Since the identification of a new coronavirus variant, omicron, by South African scientists detected in the country, multiple governments have imposed and subsequently eased travel restrictions on South Africa and a number of neighbouring countries following the emergence of this new mutation. Any discoveries of coronavirus variants by South African scientists could result in negative effects on the ability of the Company to meet envisaged business objectives, especially with respect to a) the exportation of product from the Psyence Production Facility; b) the freedom of movement of key staff and critical supplies across the South Africa / Lesotho borders; and c) strategic travel plans by key executives to promote the Company and the business. The relatively low vaccination rates in South Africa as well as the discovery of new variants in the region make it challenging for the Company to forecast the scope and scale of any material adverse consequences of the ongoing pandemic on the Company's business and its ability to raise capital.

### 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;

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- 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 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 Mind Health Lesotho Permit. 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.

There is currently no Jamaican legislation which specifically regulates psilocybin, or psilocybin containing mushrooms in the way that, for example, cannabis is regulated in Jamaica. However, existing legislation of a more general nature will apply to the cultivation, manufacture, production and/or sale of psilocybin containing mushrooms. There is the risk that the Company's Jamaican operations could be adversely impacted by any future changes and developments in Jamaican legislation which could require applications for licences and permits, stricter quality control measures and enhanced manufacturing and production standards. Please refer to "*Regulatory Framework and Licensing Regime – Jamaica*" above for more information.

#### Pathway to Registration of Complementary Medicines

The Company's products, launched via Good Psyence, are classified in South Africa as "complementary medicines" in the sub-category of traditional Chinese medicine. These products are unregistered medicines and have not been evaluated by the SAHPRA for its quality, safety or intended use. In this regard, SAHPRA has issued guidelines which establish the roadmap and general overview for the regulatory pathway of complementary medicines including all registration and licensing requirements. There can be no guarantee that SAHPRA (or any other applicable authorities) will grant the registrations or issue or renew the licenses or authorizations (as the case may be) required to trade in these products in South Africa. Please refer to "*Regulatory Framework and Licensing Regime – South Africa - Health supplements and complementary medicines*" above for more information.

*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.

*Research and Development Project Implementation*

There is no guarantee that the Company's intended project implementation timelines will be met as anticipated, or at all. The failure to achieve these milestones and deliverables could negatively impact the Company's ability to raise additional funds required to fund its ongoing operations and research and development initiatives, ultimately impacting the financial viability of the Company. There is also no guarantee that the Company's research and development efforts will result in commercially viable products, suitable for registration with the necessary authorities.

*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.

Pure Mushrooms, the Company's joint venture partner in Pure Psyence, has submitted an application to Health Canada for a dealer's licence under the CDSA. Failure on the part of Pure Mushrooms to obtain such dealer's licence will negatively impact the objectives of Pure Psyence, as Pure Psyence will have to seek a third party licensed partner to proceed with its ventures in Canada.

*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, 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

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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 common 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 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 common shares*

The Company's articles permit the issuance of an unlimited number of common 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 common 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, South Africa 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.

Good Psyence's operations in South Africa involve the trade of products which do not contain any psilocybin or any other controlled substance under the narcotics laws of South Africa. Accordingly, while such operations remain under the supervision and control of SAHPRA and the Minister of Health (South Africa), the products in question are not subject to the levels of scrutiny, regulation and control applicable to controlled substances. That being said, SAHPRA and the Minister of Health may release further guidelines on the regulation of complementary medicines which may require additional licences and product, manufacturing and quality standards that more closely resemble those associated with more regulated medicines.

*Crime and Business Corruption Risk – Lesotho, South Africa and Jamaica*

The Company conducts business in Lesotho which has experienced high levels of business corruption. Transparency International ranks Lesotho 83<sup>rd</sup> out of 198 countries in the 2020 Corruption Perceptions Index. The Company has a joint venture selling nutraceutical products in South Africa. To a lesser extent, the Company also has early-stage research and development operations in its wholly-owned subsidiary in Jamaica. Transparency International ranks both Jamaica and South Africa as 69<sup>th</sup> 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 – Lesotho, South Africa and Jamaica

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.

The enforcement of foreign judgments in South Africa is governed by the common law. In general, one must file an application with the High Court or alternatively, one can proceed by provisional sentence summons. The following will, *inter alia*, need to be alleged and proved in order to enforce a foreign judgment in South Africa:

1. The foreign court must have had jurisdiction to adjudicate the principle case;
2. The judgment must be final and not subject to appeal or have been superannuated;
3. The enforcement must not be contrary to South African public policy; and
4. The judgment cannot be for penalties or fines imposed by a foreign state.

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 common shares are listed on the CSE and traded on the OTCQB, however, there can be no assurance that a continued active and liquid market for the common 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, 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, save for the earnings derived from the sale of the GOODMIND™ products.

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:

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- 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 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.

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*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 and nutraceuticals market 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 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. Section 61 of the South African Consumer Protection Act, No 68 of 2006 ("**CPA**") establishes strict liability within the context of defective products distributed in South Africa. A producer, importer, distributor or retailer of any goods must comply with the CPA and can be liable for any harm, irrespective of whether the harm resulted from negligence, meaning that a producer or importer, distributor or retailer of any goods are liable for defective or hazardous products.

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 Southern Africa and to a lesser extent, Jamaica (for research and development). The Company expects to continue the focus on expansion opportunities into other jurisdictions including Canada and the United Kingdom.

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Adverse changes or developments within Southern Africa (and to a lesser extent Jamaica) 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 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.

**Emerging Markets Risk Factors**

*Language – Lesotho, South Africa 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 South Africa is English 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 are prepared in English or translated from Sesotho or Afrikaans into English, as applicable.

*Exchange Controls, Currency Fluctuations and Credit Risks – Lesotho, South Africa 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

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 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.

South Africa has adopted exchange controls regulations similar in principle to those adopted by Lesotho. Such regulations require an additional layer of government approvals (via the South African Reserve Bank) for the flow of funds exceeding prescribed limits into and out of the country to jurisdictions outside of the CMA. All exchange control related matters must be addressed through an Authorised Dealer, which is a registered bank authorised to deal in foreign exchange or an Authorised Dealer in foreign exchange with limited authority. Non-residents may invest freely in South Africa, provided that the South African Authorised Dealer views suitable documentary evidence to ensure that

the transactions are concluded at arm's length and at fair market-related prices and are financed in an approved manner. Any income earned on the investment may be transferred abroad. Approved financing includes the introduction of foreign currency, rand from a non-resident rand account in the name of the non-resident, and/or rand from a Vostro account held in the books of the Authorised Dealer. Should a non-resident disinvest from South Africa, the local sale or redemption proceeds of non-resident-owned assets in the country would be freely transferable.

These processes are largely administrative in nature but may cause delays in the transfer of monies into and out of Lesotho and/or South Africa. The Company manages its liquidity risk in these Southern African jurisdictions by ensuring that the inward flows of funds occur by way of a loan which is approved upfront by the necessary exchange control authorities. Once the inward loan is approved, the repayment of such loans is approved and the risk that funds will not be permitted to be repatriated is extinguished.

The Company is not exposed to any exchange control risks in Jamaica due to the fact that the Company does not hold funds in the jurisdiction.

#### Foreign Exchange Risk and Liquidity – Lesotho, South Africa 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, South Africa and Jamaica

Lesotho, South Africa and Jamaica's tax legislation and practice are in a state of continuous development and therefore are 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, South Africa and, to a lesser extent, its Jamaican subsidiary, may be subject to review by Lesotho, South Africa 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, that party may appeal the tax assessment to the Commissioner General's Appeal's Committee and the Revenue Appeals Tribunal. Similarly in South Africa an appeal of a tax assessment would be through the commissioner for the South African Revenues Services. 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, South Africa and Jamaica

As stated above in the paragraph titled *Regulatory Framework and Licensing Regime, Lesotho*, licencing in respect of psilocybin is governed by the DAA. 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 further stated in the paragraph titled *Regulatory Framework and Licensing Regime, Lesotho*, the Ministry of Health has established a Narcotics Bureau which could support and assist in the issuance of licences and permits.

To a similar extent, Good Psyence must maintain a good relationship with the South African Ministry of Health who (supported by the inspectors appointed by the Director-General in the Department of Health

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and SAHPRA) oversees the management and enforcement of the South African Foodstuffs Act (governing products sold for human consumption) and the Medicines Act (governing medicines, including complementary medicines and health supplements).

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, South Africa 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 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.

South Africa has an uncodified legal system, meaning that its laws originate from several sources including legislation, case law (court decisions), common law (based primarily on Roman-Dutch law, and influenced by UK common law), custom and indigenous laws. As a constitutional democracy, the South African Constitution (1996) 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. Furthermore, this Constitution guarantees equality before the law, providing for real equality of access to justice for every person. Special courts, such as a commercial court instituted in the Witwatersrand local division, are established to ensure speedy and effective adjudication in commercial cases. Such cases deal with matters relating to, for example, companies, mining and minerals, banking and international trade. The enforcement of foreign judgements in South Africa is permissible in the manner set out in the paragraph above *Enforceability of Foreign Judgements*.

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, South Africa 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, South Africa 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, South Africa 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, South Africa and Jamaica*

Lesotho is a landlocked country within the borders 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.

South Africa is located in the southern tip of the continent of Africa and borders Botswana, Lesotho, Mozambique, Namibia, Eswatini (Swaziland) and Zimbabwe. Despite its location, South Africa is very open to international trade, and is one of the EU's largest trading partners in Africa.

One of the Company's subsidiaries is based in Jamaica, 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.

*Political Instability and Civil Unrest – Lesotho, Jamaica and South Africa*

The government of Lesotho has been vulnerable to political instability in recent times. Since taking office as Prime Minister of Lesotho in May 2020, Mr Moeketsi Majoro has dismissed several ministers and alienated many members of parliament. Such action, coupled with the split in the ruling party, All Basotho Convention, reinforces the current forecast of continued political instability during the course of the current calendar year.

Civil unrest has plagued South Africa this year, in July 2021 specifically, where the country made international headlines following the arrest of former president Jacob Zuma which sparked violent riots in the provinces of KwaZulu-Natal (KZN) and Gauteng. Such civil unrest resulted in the disruption of strategic commodity supply chains and a drop in business confidence. For the time being, since the bulk of the Company's South Africa products, GOODMIND™, are available for online purchase only, the Company should be less vulnerable to any such civil unrest.

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In recognition of the importance to investor confidence in Jamaica, successive administrations have made political stability a publicly stated policy priority for decades. The Company has strategic and limited operations at this stage in Jamaica. The Company does not provide goods or services to the market that could be interrupted at this time. As such, the risk of political instability and civil unrest to operations is low. Risks will continue to be monitored as plans evolve.

**Material Contracts**

The following are the material contracts, other than contracts in the ordinary course of business, and material contracts in the ordinary course of business required to be listed, that were entered into by the Company in the current financial period or prior to this period and are still in effect as of the date of this MD&A:

- The Definitive Agreement;
- The agreement between 1264216 B.C. Ltd. and MindHealth dated January 19, 2021 to amalgamate the two companies into Psyence Biomed Corp;
- The escrow agreement dated January 20, 2021 whereby securities of the Company are held in escrow by Odyssey Trust Company, as escrow agent and depository;
- The acquisition agreement between MindHealth and Psyence Therapeutics dated December 4, 2020 whereby MindHealth acquired all of the securities of Psyence Therapeutics in exchange for securities of MindHealth;
- Management Services Agreement between Mind Health, Mind Health Lesotho and Highlands Ventures (then Canopy Growth South Africa (Pty) Ltd) dated May 25, 2020, as amended by way of an addendum dated November 24, 2020;
- Sub-lease Agreement between Mind Health Lesotho and Highlands Pure Lesotho (then Canopy Growth Lesotho (Pty) Ltd) dated June 1, 2020;
- Loan Agreement between Mind Health and Mind Health Lesotho dated July 11, 2020;
- Sale of Shares Agreement (share exchange) between Mind Health, Mind Health Lesotho and Orange River Holding Ltd dated May 22, 2020;
- Shareholders Agreement with Goodleaf and Good Psyence governing the relationship between the parties as shareholders (in their capacities as such and among themselves) and between the shareholders (in their capacity as such) and Good Psyence;
- Intellectual Property Agreement with Goodleaf and Good Psyence governing intellectual property matters associated with the GOODMIND™ brand and products;
- Mind Health Lesotho Permit;
- ISO 22000:2018 certification issued by the BSI
- Company's new stock option plan, confirmed for adoption at the 2021 AGM;
- Amendments to the Company's existing restricted share unit plan approved at the 2021 AGM.

Copies of these material contracts are available under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com)

**Additional Information**

All additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com)