



NUMINUS

**NUMINUS WELLNESS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Years Ended August 31, 2022 and 2021

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(Unaudited and expressed in Canadian Dollars)

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This Management's Discussion and Analysis ("MD&A") is intended to supplement the audited consolidated financial statements of Numinus Wellness Inc. (the "Company" or "Numinus") for year ended August 31, 2022, and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. All figures are in Canadian dollars, unless otherwise noted. This MD&A has been prepared as of November 29, 2022, and should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2022 (the "Financial Statements")

Additional information related to Numinus, including its annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.numinus.com](http://www.numinus.com).

## **COMPANY OVERVIEW**

Numinus was incorporated on October 26, 1964 under the Laws of British Columbia. The Company was traded on the TSX Venture Exchange (the “Exchange”) and graduated to the Toronto Stock Exchange (“TSX”) on December 16, 2021, under the symbol “NUMI”. The Company’s registered and records office is located at Suite 400 - 725 Granville Street, Pacific Centre, Vancouver, British Columbia, Canada V7Y 1G5.

Numinus develops proprietary, psychedelic-centered, therapeutic products and services through its own laboratory and research & development processes, to be delivered through its network of physical locations, digital solutions, and partnerships.

Numinus’ clinic network in Canada consists of Numinus Health Corp. (“Numinus Health”), Mindspace Services Inc. (“Mindspace”) and the Neurology Centre of Toronto Inc. (“NCT”). Numinus’ clinic network in the United States consists of Cedar Psychiatry Inc. (“Cedar Psychiatry”) and Foundations for Change Inc. (“FFC”). Numinus’ clinic network provides services including ketamine-assisted psychotherapy (“KAP”) for depression, transcranial magnetic stimulation (“TMS”), neurological care and psychotherapy and counselling by registered psychologists. Numinus develops KAP protocols for other clinical indications, psychedelic neurology programming and therapeutic protocols for other psychedelic substances.

Numinus Bioscience is the Company’s Health Canada-licensed laboratory developing intellectual property, advancing research, and providing contract research and innovation services. Key activities include the cultivation, production, and extraction of natural *Psilocybe* and other psychoactive fungi species, the development of proprietary processes and products, standardizing methods for controlled psychedelics and development of a pipeline for product development, protocol development and safety and efficacy studies.

The Company currently holds the following Health Canada licenses:

- *Controlled Drugs and Substances Dealer’s License* enables the Company to possess, produce, assemble, sell, export, test and research & develop psychedelics such as Trimethoxyphenethylamine (“mescaline”), methylenedioxyamphetamine (“MDMA”), Dimethyltryptamine (“DMT”), Psilocybin, Ketamine, LSD, Psilocin, Harmaline and Harmalol.
- *Analytical Testing License* under the Cannabis Act and Cannabis Regulations allowing for the analytical testing of cannabis for quality assurance purposes.

Cedar Clinical Research (“CCR”) is the Company’s research arm based in various cities in the state of Utah in the United States, focused on hosting phase I and phase IV clinical trial and research focused on emerging treatment options in neuropsychiatry on behalf of third-party sponsors. CCR provides select contract research organization services for pharmaceutical companies. CCR also hosts and sponsors investigator-initiated studies to answer research questions unaddressed by clinical trials and to validate psychedelic-assisted psychotherapy treatment protocols.

## **COMPANY HIGHLIGHTS**

### **Company Highlights During the Quarter**

#### *Corporate Updates*

- On June 10, 2022, following exemplary shareholder approval, Numinus completed the acquisition of Novamind Inc. – providing a strong US wellness clinic platform and a clinical research management division.
- On June 10, 2022, Numinus announced several executive appointments. Michael Tan was promoted to President and Chief Operating Officer, Reid Robison was appointed Chief Clinical Officer, and Paul Thielking has been appointed Chief Science Officer.
- On June 27, 2022, Numinus introduced its new logo and brand identity, which will unify Numinus’ presence across North America. The rebranding activities will be accomplished in phases and completed by the end of 2022.
- As indicated on June 10, 2022, following 2.5 years with Numinus, Dr. Evan Wood will no longer continue in his role as Chief Medical Officer of the Company, to enable him to continue with his tenured teaching and leadership university career. Dr. Wood remains an active supporter of Numinus and will continue working with the Company as a highly-engaged advisor.

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#### *Numinus Wellness Clinic Network*

- Q4 2022 revenue of \$3.7 million, a 404% sequential increase from \$0.7 million in Q3 2022, and an 821% increase compared to \$400,306 during the same period last year. The increase in clinic network revenues is primarily due to acquisitions completed during the year and the expansion of clinic services.
- During Q4 2022, Numinus completed more than 17,000 client appointments (including one-on-one and group therapy sessions, neurology-related appointments, paid group programs, Ketamine-assisted psychotherapy, transcranial medical stimulation (TMS) and Ketamine/Spravato medicine appointments, representing a 202% increase in clinic appointments compared to more than 5,600 appointments in Q3 2022, mostly due to the acquisition of Novamind at the beginning of the quarter.
  - 12.5% of appointments during Q4 2022 were made by new clients.
  - TMS continues to show strong demand, with 1,568 TMS appointments made during Q4 2022 and continued growth throughout the quarter.
  - At the end of Q4 2022, Numinus had 122 practitioners providing client treatments through its wellness clinics and virtual services, a 10% increase from the beginning of the quarter.
- As of August 31, 2022, Numinus had 13 wellness clinics offering services to clients (one in Vancouver, one in Toronto, three in Montreal, six in Utah and two in Arizona). In addition, the Company had four dedicated research clinics where psychedelic studies are being conducted (two in Salt Lake City, one in Vancouver and one in Montreal).
- Following a strategy to identify operating efficiencies, Numinus consolidated two clinic locations in the Salt Lake City area, to reduce leasehold expenses while still retaining all medical staff, practitioners and area clients. As a result of this activity, today Numinus has 12 wellness clinics across North America.
- On June 23, 2022, Numinus launched a pilot mental health program for corporate clients: Corporate Ketamine-Assisted Psychotherapy (“Corporate KAP”). This Utah-based program is aimed at helping businesses improve employee mental health by offering ketamine-assisted psychotherapy as a health benefit for eligible employees.

#### *Numinus Clinical Research*

- Revenues from Cedar Clinical Research (“CCR”) during Q4 2022 were \$0.5 million. CCR revenue streams are generated through the management of third-party clinical trials that use CCR’s two clinical research sites. The business division joined Numinus through the acquisition of Novamind in June 2022.
- On June 22, 2022, Numinus Bioscience filed a patent application to the World Intellectual Property Organization (WIPO), an agency of the United Nations, for a rapid production process for Psilocybe and other fungi species containing psilocybin and other compounds. A provisional patent application for the process was submitted to the United States Patent & Trademark Office (USPTO) on June 24, 2021. With this additional filing, international patent protection would extend to all WIPO member states that have signed the Patent Cooperation Treaty (PCT), including Australia, Germany, Netherlands, and the United Kingdom, where psychedelic research is currently active.

#### *Other Items*

- A non-cash impairment charge of \$13.3 million and transaction costs of \$2.5 million related to the acquisition of Novamind Inc. were incurred during the fourth quarter and are not considered to be recurring operating expenses. Excluding these expenses, adjusted net loss for the fourth quarter was \$11.4 million, or \$0.04 per share.

### **Company Highlights Subsequent to the Quarter**

#### *Numinus Wellness Clinic Network*

- On September 13, 2022, Numinus launched a new financing option for clinic patients in Canada. This new payment option will increase the accessibility of its traditional therapy and Ketamine-assisted therapy to a wider client population. Offered through iFinance, a third-party financing partner, Numinus' new financing option will allow Canadian clients to apply for financing with interest rates based on the applicant's credit history. Once approved, Numinus will provide the requested therapy services and collect full payment from iFinance following the completion of the treatment plan.
- On September 19, 2022, Numinus expanded its Ketamine-assisted Therapy offering to its Toronto location (The Neurology Centre of Toronto), to provide KAT services to patients with neurologic conditions.
- On October 28, 2022, Numinus announced the launch of its *Ketamine for Chronic and Serious Medical Illness Program*. This new program will be introduced first in Numinus' clinics in Utah, British Columbia and Quebec. The Company intends to expand the program to other clinics in later months.

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*Numinus Clinical Research*

- On October 5, 2022, the Company announced that Numinus Bioscience has developed a psilocybin-containing tea bag for use in clinical research and, if appropriate regulatory approvals are granted, eventual treatment of clients in psychedelics-assisted therapy.

**Capital and liquidity resources**

The Company has managed to raise investments to fund its near-term business milestones and operations. While the Company will continue to look for additional revenue opportunities, the Company may need to raise additional capital to meet its business milestones.

**Economic Uncertainty**

Global factors could have adverse impacts on the operations of the Company's business. Factors affecting current economic conditions include, but are not limited to, supply chain challenges; on-going impacts of the COVID-19 pandemic; evolving impacts of the conflict in Ukraine; escalating energy supply shortages and costs; inflationary pressures; rising interest rates; changes in monetary and fiscal policies; and other responses from central banks and other government authorities. These factors can increase economic uncertainty, which may affect matters such as issuer liquidity, asset values, exposure to loss, and business continuity. These global challenges may result in increasing estimation uncertainty for those responsible for financial reporting because the assumptions used to prepare the financial statements may materially change in the near term.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The Company implemented health protocols as recommended by the Canadian federal and provincial health authorities to ensure the safety of our employees and clients. The Company's lab and testing facility continued operations during COVID-19 as its facilities had existing health and safety protocols and standards in place as per the Company's Health Canada license guidelines. During the early stages of heightened federal, provincial and state restrictions in response to COVID-19, some of the Company's clinics in Canada were negatively impacted. Other clinics were deemed essential service and remained operating according to strict federal, provincial and state safety measures. Certain practitioners changed their business model to provide remote services and virtual therapy where possible.

The COVID-19 situation continues to be uncertain and varies by region as infection rates of COVID-19 and its variants remain high throughout the world including Canada and the United States, where the Company operates. Currently all of Numinus' Wellness Centers are open for in-person visits and operate according to federal, provincial and state government COVID-19 protocols to ensure the safety of Numinus' staff and clients. Numinus' Wellness Clinics continue to offer virtual therapy services and will continue to expand these offerings to continue to serve our clients in the uncertain event of future pandemic restrictions.

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**SELECTED INFORMATION - RESULTS OF OPERATIONS**

	For the year ended August 31,		
	2022	2021	2020
<b>Revenue</b>	\$ 6,494,074	\$ 1,513,670	\$ 881,178
<b>Cost of revenue</b>	4,717,304	1,595,208	793,131
<b>Gross profit (loss)</b>	\$ 1,776,770	\$ (81,538)	\$ 88,047
<b>Expenses</b>			
General and administration	21,712,729	9,868,079	4,132,564
Share-based compensation	3,454,867	1,821,508	1,876,601
Sales and marketing	2,192,325	2,223,676	906,130
Depreciation	982,341	445,186	431,610
Research and development	1,885,037	1,401,194	188,491
Transaction costs	2,515,935	265,618	-
Impairment of goodwill and intangibles	13,275,005	1,581,210	-
Other items	674,417	1,085,936	2,161,099
<b>Loss from operations before taxes</b>	\$ (44,915,886)	\$ (18,773,945)	\$ (9,608,448)
Deferred income tax recovery	34,000	-	7,884
<b>Net Loss</b>	(44,881,886)	(18,773,945)	(9,600,564)
Other comprehensive income	64,248	-	-
<b>Comprehensive Loss</b>	(44,817,638)	(18,773,945)	(9,600,564)
<b>Basic and diluted loss per share</b>	\$ (0.21)	\$ (0.11)	\$ (0.15)

**Revenue**

Revenues increased 329% for the year ended August 31, 2022, compared to August 31, 2021. This increase in revenue was a result of the consolidated revenues arising from the acquisitions of Mindspace, NCT, and Novamind. The following table summarizes the revenues generated by the Company's US clinic network, Canadian clinic network, and clinical research operations:

	For the year ended August 31,	
	2022	2021
<b>US Clinic Network</b>	\$ 3,041,472	\$ -
<b>Canadian Clinic Network</b>	\$ 2,703,121	\$ 1,034,168
<b>Clinical Research Operations</b>	\$ 749,481	\$ 479,502

Given sector consolidation, the decreasing corporate client base for psychedelic substance analytical services and limited revenue generating opportunities, Numinus Bioscience intends to focus purely on proprietary research activities for the foreseeable future. Numinus Bioscience's analytical testing capabilities remain available for proprietary and on-request basis. The Company has, however, eliminated its business development and sales activities for these services to reduce expenses in this period of sector dislocation. As this business decision was implemented partway through Q3 2022, Numinus Bioscience generated revenue of \$257,668 for the year ended August 31, 2022, and is not expected to generate any further revenue from analytical testing services until and unless sector dynamics improve to sustain those business operations.

**Loss for the period**

The Company reported comprehensive loss of \$44,817,638 compared to \$18,773,945 for the years ended August 31, 2022, and August 31, 2021, respectively. The increase in net loss is due to the consolidated operations of Mindspace, NCT, and Novamind, impairment of goodwill and intangible assets, increased research and development activities and increased people, consulting, and legal costs due to the Company's continued growth.

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The Company reported general and administration expenses of \$21,712,729 compared to \$9,868,079 for the years ended August 31, 2022, and August 31, 2021, respectively. The below items are included in the Company's general and administration costs and contributed to the increase.

- Salaries and wages incurred were \$9,499,745 compared to \$3,016,666 for the years ended August 31, 2022, and August 31, 2021, respectively. This increase was a result of key leadership and staff hires from the acquisition of Mindspace, NCT, and Novamind, in addition to growth in the Company's clinic operations, protocol development, marketing, finance and technology teams.
- Professional and consulting fees incurred were \$5,859,391 compared to \$5,067,478 for the years ended August 31, 2022, and August 31, 2021, respectively. The increase is due to higher legal fees related to the Company's acquisition of NCT and Novamind (Note 5, *Acquisitions*) and resourcing to support the Company's growth.
- Office and miscellaneous expenses incurred were \$6,353,593 compared to \$1,783,935 for the years ended August 31, 2022, and August 31, 2021, respectively. The increase is a result of the consolidated operations of Mindspace, NCT, and Novamind.

The Company incurred research and development costs of \$1,885,037 compared to \$1,401,194 for the years ended August 31, 2022, and August 31, 2021, respectively. The increases in research and development expenditures are a result of the Company's investments in the following initiatives during the year:

- Online group therapy programming and educational training programs
- Research and development of *Psilocybe* natural extracts to be used in its Phase 1 clinical trial
- Ketamine Assisted Psychotherapy protocols to be implemented its clinics
- MAPS MDMA-assisted psychotherapy for PTSD single-arm, open label trial
- Compassionate access trial of psilocybin-assisted psychotherapy for substance use disorder

The Company completed its annual impairment test on goodwill and intangible assets as at August 31, 2022 and recognized an impairment loss of \$13,275,005 for the period ending August 31, 2022 (2021 – 1,581,210). The Company made acquisitions during the year as part of its strategy to build the infrastructure for certain psychedelic assisted therapies that the Company expects to be regulated in the future. The reason for the impairment was primarily related to the exclusion of future revenues derived from these therapies as the timing of regulatory changes are uncertain.

### SUMMARY OF QUARTERLY RESULTS

The following table summarizes the Company's selected financial information for each of the past eight quarters ending August 31, 2022:

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	4,177,289	741,064	786,104	789,617	490,899	562,076	231,507	229,188
Net loss and comprehensive loss	(24,617,835)	(7,008,112)	(7,837,602)	(5,354,089)	(7,782,912)	(4,824,424)	(4,237,872)	(1,928,737)
Basic and diluted loss per share <sup>(1)</sup>	(0.11)	(0.03)	(0.06)	(0.03)	(0.04)	(0.02)	(0.03)	(0.02)

<sup>(1)</sup> Fully diluted loss per share amounts are not shown as they would be anti-dilutive.

The Company's consolidated revenues have increased by 463% quarter over quarter as a result the consolidated revenues from the acquisition of Novamind during Q4 2022. The Company recognized an additional \$3,041,472 of revenues from its US clinic operations since completing the acquisition. The quarter over quarter increase in net loss is due to the consolidated operating costs related to the acquisition of Novamind in Q4 2022 compared to Q3 2022.

The Company is currently generating revenues from its clinics in Canada and the United States. The Company is continuing to build out its virtual therapy services to meet the ongoing demand on wellness psychotherapy services given the impact on mental health during the pandemic. The significant increase in net loss and comprehensive loss during Q4 2022 is due to the impairment recognized upon the completion of the Company's annual impairment assessment of goodwill and intangible assets.

### PROPOSED TRANSACTIONS

The Company does not currently have any proposed transactions subsequent to August 31, 2022.

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company did not generate any cash flow from operations for the year ended August 31, 2022. The Company’s financial success is reliant on management’s ability to identify and evaluate suitable growth and acquisition opportunities including the recent acquisition of Novamind. Future cash flows from operations will be dependent on maximizing the potential of these opportunities.

In order to finance the acquisition of growth opportunities and to fund corporate overhead required to oversee these opportunities, the Company is dependent on investor sentiment remaining positive towards the psychedelics sector, and towards the Company in particular, so that funds can be raised through the sale of its securities. Many factors have an influence on investor sentiment including a positive climate from investors to support new companies in the psychedelics sector, past financial performance of a company and the experience and caliber of a company’s management. There is no certainty that equity funding will be available at the times and in the amounts required to fund the Company’s activities. As at August 31, 2022, the Company had cash and cash equivalents of \$33,044,045. Management estimates that the Company has sufficient working capital to continue operations for the next twelve months.

The Company has, in the past, financed its activities through equity financings. It is anticipated that, as general sentiment towards investment in companies in the psychedelic sector turns positive, the Company can continue to raise the necessary capital to secure and finance additional investments that are accretive to shareholder value.

The Company had working capital of \$31,538,866 as at August 31, 2022, compared to \$59,057,075 as at August 31, 2021. The decrease in working capital was a result of the Company’s acquisition of NCT and Novamind, due diligence work related to the acquisition of Novamind, continued advancement on research and development, and its ongoing operations.

The Company has no commitments for capital expenditures.

*Lease obligations*

- a) The Company is committed under lease agreements, to various offices and warehouse premises located in Canada and the United States
- b) The Company has short-term and low-value leases on various office printers and lab equipment with annual renewal periods in June, September and November with a general maintenance agreement amounts based on usage.

The following table presents the projected amounts due under the agreements in future years:

	Years					Total
	0- 1	2-3	4-5	6-10	>10	
Lease Payments	\$2,043,264	\$3,601,064	\$2,081,916	\$2,116,490	-	\$9,842,734

*Retention Shares*

In connection with the acquisition of MindSpace, the Company has an obligation to issue \$100,000 in common shares per year, at the market price of the common shares at the time of issuance, on each of the first three anniversaries of the closing date, February 8, 2021. The first-year anniversary shares were issued on February 8, 2022.

*Notice of Claims*

The Company was served with a Notice of Claim dated December 23, 2019, which has been filed in the Supreme Court of British Columbia naming the Company as the defendant. The Notice of Claim alleges the wrongful termination of the former CEO/CFO and unpaid termination benefits of \$360,000. The Company believes the lawsuit is without merit and has filed a response accordingly. No provision has been made by the Company with regards to the Notice of Claim and the claim is ongoing.

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*Cash and Financial Conditions*

The company had a cash balance of \$33,044,045 as at August 31, 2022, compared to a cash balance of \$59,292,968 as at August 31, 2021. The decrease in cash is primarily a result of cash flows used in operating activities of \$26,229,650.

The Company does not have any unused lines of credit or other arrangements in place to borrow funds and has no off-balance sheet arrangements. The Company does not use hedges or other financial derivatives.

*Investing Activities*

The Company recognized a net cash inflow of \$123,191 for the year ended August 31, 2022, compared to cash outflows of \$739,249 for the comparative period. The net cash inflow from investing activities for the year ended August 31, 2022, is due to the cash acquired as part of the Novamind acquisition.

*Financing Activities*

During the year ended August 31, 2022, the Company issued 1,902,000 common shares of the Company on the exercise of options for gross proceeds of \$340,445. The Company also reclassified \$306,805 from reserves to share capital on the exercise of these options.

During the year ended August 31, 2022, the Company issued an aggregate of 4,352,160 common shares on the exercise of warrants for gross proceeds of \$351,382. The Company also reclassified \$1,346,937 from reserves to share capital on the exercise of these warrants.

**SHARE CAPITAL AND RESERVES**

*Common Shares*

The Company has unlimited authorized common shares with no par value.

As at August 31, 2022, nil shares (August 31, 2021 – 8,967,640) were held in escrow.

On September 22, 2021, the Company issued 206,228 common shares with a fair value of \$171,169 as part of the NCT acquisition consideration (Note 5).

On January 4, 2022, the Company issued 2,000,000 common shares with a fair value of \$1,220,000 as share-based compensation related to the departure of Numinus' former Chief Strategy Officer.

On February 8, 2022, the Company issued 151,515 common shares with a fair value of \$100,000 as part of the retention shares on the first anniversary of the acquisition of Mindspace.

On March 18, 2022, the Company issued 408,712 common shares with a fair value of \$183,920 as part of year 1 revenue milestone shares related to Mindspace.

On June 10, 2022, the Company issued 43,474,659 common shares with a fair value of \$15,868,251 as part of consideration for acquisition of Novamind.

On July 11, 2022, the Company issued 444,444 common shares with a fair value of \$108,889 for advisory fee.

During the year ended August 31, 2022, the Company issued 220,588 common shares with a fair value of \$333,088 as part of the time-based payout of 441,176 common shares over the course of 24 months from the acquisition date of Mindspace on February 8, 2021.

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During the year ended August 31, 2022, the Company issued 1,902,000 common shares of the Company on the exercise of options for gross proceeds of \$340,445. The Company also reclassified \$306,805 from reserves to share capital on the exercise of these options.

During the year ended August 31, 2022, the Company issued an aggregate of 4,352,160 common shares on the exercise of warrants for gross proceeds of \$351,382. The Company also reclassified \$1,346,937 from reserves to share capital on the exercise of these warrants.

During the year ended August 31, 2021, the Company completed a short form prospectus offering of 18,400,000 units (the "September Units") at a price of \$0.25 per September Unit for gross proceeds of \$4,600,000. Each September Unit consists of one common share and one-half of one common share purchase warrants of the Company (each a "September Warrant"). Each September Warrant is exercisable to acquire one common share of the Company for a period of 24 months at an exercise price of \$0.35 per Warrant. In connection with the closing of short form prospectus offering, the Company issued 1,472,000 non-transferrable options (the "Compensation Options") to the Agent with a fair value of \$176,038. Each Compensation Options entitled the Agent to purchase one September Unit with the same term as the September Unit sold under the offering. The Company also incurred \$646,630 share issuance costs. The warrants in September Unit have a residual value of \$368,000 recorded in reserves.

During the year ended August 31, 2021, the Company completed a bought deal financing of 25,367,850 units (the "December Units") at a price of \$0.68 per December Unit with gross proceeds of \$17,250,138. Each December Unit consists of one common share and one-half of one common share purchase warrants of the Company (each a "December Warrant"). Each December Warrant is exercisable to acquire one common share of the Company for period of 24 months at an exercise price of \$0.90 per Warrant. In connection with the closing of bought deal financing, the Company issued 183,824 common shares price of \$0.68 per share with a fair value of \$125,000 (the "Corporate Finance fee"), and 1,522,071 warrants (the "Compensation Warrants") to the Agent with a fair value of \$1,243,566. The Company also incurred \$1,559,612 share issuance costs.

During the year ended August 31, 2021, the Company completed a bought deal financing of 32,200,000 units (the "March Units") at a price of \$1.25 per March Unit with gross proceeds of \$40,250,000. Each March Unit consists of one common share and one-half of one common share purchase warrants of the Company (each a "March Warrant"). Each March Warrant is exercisable to acquire one common share of the Company for period of 24 months at an exercise price of \$1.75 per Warrant. In connection with the closing of bought deal financing, the Company issued 1,932,000 non-transferrable options (the "Compensation Options") to the Agent with a fair value of \$1,075,128. Each Compensation Options entitled the Agent to purchase one March Unit with the same term as the March Unit sold under the offering. The Company also incurred \$2,745,149 share issuance costs. The warrants in March Unit have a residual value of \$3,220,000 recorded in reserves.

During the year ended August 31, 2021, the Company issued 3,176,878 common shares of the Company on the exercise of options with a weighted average exercise price of \$0.25 per share. The Company also reclassified \$494,949 from reserves to share capital on the exercise of these options.

During the year ended August 31, 2021, the Company issued an aggregate of 27,786,856 common shares on the exercise of warrants with a weighted average exercise price of \$0.59 per share. The Company also reclassified \$1,035,546 from reserves to share capital on the exercise of these warrants.

During the year ended August 31, 2021, the Company issued 110,294 common shares valued at \$166,544 as part of the Mindspace acquisition consideration valued at the closing price of our shares on the Exchange on February 8, 2021.

As at August 31, 2022, the Company had 256,237,380 Common Shares issued and outstanding.

Subsequent to the year ended August 31, 2022, the Company issued 2,699,278 common shares pursuant to the exercise of options, compensation options, and warrants for proceeds of \$915,997.

Subsequent to the year ended August 31, 2022, the Company issued 55,147 common shares valued at \$83,272 as part of the Mindspace acquisition consideration valued at the closing price of the Company's shares on February 8, 2021.

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Subsequent to the year ended August 31, 2022, the Company issued 3,758,031 common shares valued at \$383,567 on the vested RSUs.

On the date of this MD&A, the Company had 262,749,836 Common Shares issued and outstanding.

*Options*

During the year ended August 31, 2022, the Company issued 1,902,000 common shares of the Company on the exercise of options for gross proceeds of \$340,445. The Company also reclassified \$306,805 from reserves to share capital on the exercise of these options.

Subsequent to the year ended August 31, 2022, the Company issued 287,504 common shares on the exercise of options for proceeds of \$71,876.

Subsequent to the year ended August 31, 2022, the Company granted 110,000 stock options.

Subsequent to the year ended August 31, 2022, 493,622 options expired

As at August 31, 2022, the Company had 11,637,307 stock options outstanding.

On the date of this MD&A, the Company had 10,866,178 stock options outstanding.

*Warrants*

During the year ended August 31, 2022, the Company issued an aggregate of 4,352,160 common shares on the exercise of warrants for gross proceeds of \$351,382. The Company also reclassified \$1,346,937 from reserves to share capital on the exercise of these warrants.

During the year ended August 31, 2022, 8,049,987 warrants were expired and unexercised.

Subsequent to the year ended August 31, 2022, the Company issued 3,000 warrants pursuant to the exercise of Compensation options.

Subsequent to the year ended August 31, 2022, the Company issued 2,411,774 common shares on the exercise of warrants for proceeds of \$844,121.

Subsequent to the year ended August 31, 2022, 3,120,000 warrants expired.

As at August 31, 2022, the Company had 44,253,353 warrants outstanding.

On the date of this MD&A, the Company had 38,724,579 warrants outstanding.

**OUTLOOK**

The Company's ability to continue in the normal course of operations is dependent on management's ability to identify and evaluate suitable investments opportunities. In addition, the Company will actively seek out additional revenue opportunities by leveraging its key assets including the laboratory facilities, Health Canada licenses and clinic network.

The Company is largely dependent upon external financings to fund activities. Management and the board of directors of the Company continuously review and examine business proposals for the Company and conduct their due diligence in respect of the same. The Company will continue to seek new investments if it feels there are sufficient opportunities to increase shareholder value and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and will adjust its approach to changing business and economic conditions.

## **OFF-BALANCE SHEET ARRANGEMENTS**

At the date of this report, the Company had no off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, and Chief Strategy Officer. A summary of the remuneration attributed to key management personnel is disclosed in Note 18, *Related Party Transactions* in the Company's consolidated financial statements. There have been no other transactions with related parties.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### *Business Combinations and Goodwill Impairment*

The Company completed two business combinations during the year. The business combinations required significant complex analysis of various components of the transaction to determine the accounting treatment of the transaction and the fair value of assets and liabilities acquired. Management's resource and process constraints led to significant challenges in arriving at the appropriate accounting treatment of the consideration paid and projections of the transactions during the audit. This may have caused a discrepancy in the fair value of consideration and the corresponding accounting entries derived from management's forecasts and projections.

Any potential impact has been remediated by management. Going forward, the Company shall implement improved and robust processes by deploying adequate resources in any future acquisition process to ensure timely technical analysis and projections where the accounting treatment is prepared alongside the due diligence process. Further, the Company shall implement improved and robust processes and approvals in developing projections and estimates in conjunction with the Company's annual impairment assessment for cash generating units including goodwill.

### *Equity Grants*

The Company granted restricted share units during the year but due to communication issues, certain equity instruments were not accounted for in a timely manner.

Management has remediated this issue and all contracts will now be sent to the finance department on a regular basis to ensure timely and appropriate accounting treatment.

## **SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES**

### **Going Concern**

The Company's financial statements have been prepared on a going concern basis, which assumes that the company will continue as a going concern, and which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. In the preparation of the financial statements, management is required to identify when events or conditions indicate that substantial doubt may exist about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern would exist when conditions and events, considered in aggregate, indicate that the Company will be able to meet its obligations as they become due for a period of at least, but not limited to, 12 months from the most recent balance sheet date. Based on management's assessment, the Company has sufficient working capital to operate beyond the next 12 months.

### **Critical Accounting Estimates**

In preparing the Company's consolidated financial statements, the Company makes judgements in applying accounting policies. The judgements that have the most significant effect on the amounts recognized in the Company's consolidated financial

statements are outlined below. In addition, the preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates that affect the amounts reported and disclosed in the consolidated financial statements and related notes. These estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ materially from the amounts included in the consolidated financial statements. The information about significant areas of estimation uncertainty and judgement considered by management in preparing these consolidated financial statements is as follows:

**a) Estimated useful lives and depreciation of property and equipment**

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

**b) Share-based payments**

Management measures share-based payments expense and compensatory warrants using the Black-Scholes pricing model that incorporates key estimates such as the rate of forfeiture of options and warrants granted/issued, the expected life of the option and warrants, the volatility of the value of the Company's common shares and the risk-free interest rate are used. Judgement may be required in determining whether the recipient of a share-based award is treated as an employee or not.

**c) Business combinations**

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Estimates are made as to the fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, as well as the fair value of consideration paid and contingent consideration payable. In certain circumstances, such as the valuation of property, plant and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuers. The determination of these fair values involves a variety of assumptions, include revenue growth rates, expected operating income, discount rates, and earnings multiples.

**d) Impairment of goodwill and long-lived assets**

After initial recognition, goodwill and long lived assets is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, management must make critical estimates and use assumptions to project the value of each cash-generating unit. Assumptions include future revenue, profit margin, and an appropriate discount rate. These assumptions will impact the valuation and impairment of goodwill and long-lived assets.

**e) Right of use lease assets and liabilities**

The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

**f) Going concern**

Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available. This assessment by its nature, relies on estimates of future cash flows, and other future events, whose subsequent changes would materially impact the validity of such an assessment.

**g) Deferred income tax assets and liabilities**

The measurement of deferred income tax provision is subject to the uncertainty associated with the timing of future events and changes in legislation, tax rates, and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax

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deductions against future taxable income prior to the expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

**h) Determination of CGU's**

Management is required to use judgement in determining which assets or group of assets make up appropriate CGUs for the level at which goodwill and intangible assets with indefinite lives are tested for impairment. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

**i) Valuation of financial instruments**

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its investments and, contingent consideration payable. The fair values are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

**Changes in Accounting Standards****New and amended IFRS standards not yet effective**

The Company has evaluated new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted. These standards are not expected to have a material impact on the Company.

**FINANCIAL INSTRUMENT RISK MANAGEMENT**

The Company's exposures and the impact on its financial instruments are summarized below:

**Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, trade receivables and other receivables. The carrying amount of these financial assets represent the maximum credit exposure. Cash and cash equivalents are deposited with major Canadian and US financial institutions, and management believes the exposure to credit risk with respect to these institutions is not significant. The Company is exposed to credit risk inherent in its trade and other receivables which include credit exposures to customers and their outstanding trade receivables and other receivables balances. The maximum credit risk associated with cash and cash equivalents and trade and other receivables is equal to the carrying amount.

**Liquidity risk**

As at August 31, 2022, the Company's financial liabilities consist of accounts payable and accrued liabilities, long-term debt, and current contingent consideration payable which have contractual maturities within one year. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. As at August 31, 2022, the Company has cash and cash equivalents of \$33,044,045 to meet its obligations as they become due.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at August 31, 2022, the Company is exposed to foreign currency risk through its financial assets and liabilities denominated in US dollars. A 10% appreciation (depreciation) of the US dollar against the

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Canadian dollar, with all other variables held constant, would result in an approximate change of \$337,000 to the Company's comprehensive loss for the year ended August 31, 2022.

**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 holds cash in accounts with variable interest rates, and currently does not carry variable interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. As at August 31, 2022, the Company's interest rate risk mainly relates to cash balances and was considered to be minimal.

**Capital management**

The Company manages its capital structure and adjusts it based on the funds available to the Company, to support any business transaction and to safeguard its ability to continue as a going concern. The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is largely dependent upon external financings to fund its operations. To carry out any planned business transaction and to continue to support the general administrative activities, the Company will spend its existing working capital and raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management for the year ended August 31, 2022. The Company is not subject to externally imposed capital requirements.

**RISKS RELATED TO THE PSYCHEDELICS & WELLNESS INDUSTRY**

The industry in which the Company operates could subject us to comply with a myriad of other federal, provincial, state, and local laws and regulations, which could include, among others, laws and regulations relating to psychedelics, psychedelic-assisted psychotherapies, personally identifiable information, wage and hour restrictions, health and safety matters, consumer protection and environmental matters. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and regulatory bodies and obtaining all regulatory approvals, where necessary, for the delivery of its services and the services delivered by those regulated professionals within its network. The Company cannot predict the time required to secure all appropriate regulatory approvals for such services. Compliance with such laws and regulations may be costly and a failure to comply with such laws and regulations could result in fines, penalties, litigation and other liability that could materially adversely affect the Company.

The Company's business is and will continue to be regulated and applicable laws continue to change and develop. Regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. Further, the Company cannot predict what kind of regulatory requirements its business will be subject to in the future. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to conduct its business. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of psychedelic compounds or other controlled substances, or more stringent implementation thereof could have a substantial adverse impact on the Company. Local, provincial, state, and federal laws and enforcement policies concerning psychedelic-related conduct are changing rapidly and will continue to do so for the foreseeable future. Changes in applicable laws and regulations are unpredictable and could have a material adverse effect on the Company. Changes in applicable laws or regulations could significantly diminish the Company's prospects. The Company has little or no control over potential changes to laws or regulations that may affect its business.

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Additionally, governmental regulations affect taxes and levies, healthcare costs, energy usage and labor issues, all of which may have a direct or indirect effect on the Company's business and its clients or suppliers. Changes in these laws or regulations, or the introduction of new laws or regulations, could increase the costs of doing business for the Company, or its customers or suppliers, or restrict the Company's actions, causing the Company to be materially adversely affected.

### ***Changes in Laws, Regulations and Guidelines***

The Controlled Drugs and Substances Act ("CDSA") is Canada's federal drug control statute. Controlled substances are categorized into eight Schedules based upon their perceived danger. Schedule 1 substances are deemed to have the highest potential for abuse and carry the most severe penalties for violations – the severity of the penalties decreases for subsequent Scheduled substances. Most psychedelics are Schedule 3 substances, including LSD, psilocybin and psilocin (magic mushrooms), mescaline (peyote and San Pedro cactus), and DMT (found in many plants, but most commonly an ingredient in ayahuasca). MDMA and Ketamine are both Schedule 1 substances although Ketamine can be legally prescribed by a medical doctor and treatment is delivered through a licensed practitioner to treat a specific medical condition such as depression and anxiety. The CDSA generally prohibits all uses of controlled substances unless an exemption is granted under Section 56 of the CDSA or the regulations allow otherwise, including through a clinical trial. The Canadian Minister of Health can grant exemptions under section 56 of the CDSA to use controlled substances if it is deemed to be necessary for a medical or scientific purpose or is otherwise in the public interest. Since August 2020, federal Minister of Health, has granted approval to numerous Canadians to use psilocybin in the therapeutic treatment of their end-of-life distress.

The Controlled Substances Act ("CSA") is the United States' federal drug control statute. Under the CSA, Ketamine is currently a Schedule III drug as well as being listed under the associated Narcotic Control Regulations and psilocybin is currently a Schedule III drug. Most US states have enacted the CSA which regulates the possession, use, sale, distribution and manufacture of specified drugs or categories of drugs and establishes penalties for violations and form the basis of much of each state and local drug enforcement programs. Facilities holding and administering controlled substances must be registered with the US Drug Enforcement Agency ("DEA"). As such medical professionals or clinics in which they operate are also required to have a DEA license to obtain and administer ketamine.

Health Canada's Special Access Program ("SAP") was designed to allow Canadian's access to new, potentially life-saving medication before they are formally approved for routine use in health care. Historically, psychedelic medications have been ineligible for SAP applications. In January 2020, Health Canada revised the SAP to permit allow healthcare practitioners to make applications for use of controlled substances on behalf of specific patients or groups of patients on a forward-looking basis access to MDMA, psilocybin, DMT, and LSD for their patients, including for the purposes of psychedelic-assisted psychotherapy. Based on this expansion, the Company feels further Section 56 exemptions could be an avenue for getting access to controlled substances like psychedelics to a broader scope of potential patients and that this may open up additional avenues for access once further clinical studies have been published.

Despite the general prohibition on controlled substances, there are regulations that can allow authorized persons to possess, produce, sell, import/export, and transport-controlled substances. The Food, Drug and Regulations gives authorization to persons (including licensed dealers and those exempted under section 56 of the CDSA) to have access to psychedelic controlled substances. Ketamine is also listed as a Schedule 1 drug under the CDSA; however, it is permitted for common use in accordance with its regulation as a narcotic under the Narcotic Control Regulations and is the only psychedelic permitted for use by this regulation. It is already legally available for medical use. These regulations provide a framework for expanding and monitoring the legal use of controlled substances in Canada as well as, importantly, issuing licenses to prospective dealers.

### ***General Healthcare Regulation***

Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements and, as a result, the Company's businesses operate in an environment in which government regulations and funding play a key role. The level of government funding directly reflects government policy related to healthcare spending, and decisions can be made regarding such funding that are largely beyond the businesses' control. Any change in governmental regulation, delisting of services, and licensing requirements relating to healthcare services, the practice of healthcare services through a corporation, or their interpretation and application, could adversely affect the business, financial condition and results of operations of these business units. In addition, the Company could incur significant costs while complying with any changes in the regulatory

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regime. Non-compliance with any existing or proposed laws or regulations could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

***Risks Relating to the Licensing Process***

Laws applicable to psychedelic drugs and compounds are constantly changing throughout the global psychedelic industry. The future business partnerships, contracting arrangements, and licensee agreements that the Company may make may be subject to receiving regulatory certification or accreditation through Health Canada, or any other applicable regulatory authority or licensing body. Such licensing, certification or accreditation may include, but not be limited to: licenses issued under the CDSA, the Narcotic Control Regulations, GMP Certification and ISO certification. Licensing requirements are stringent and there can be no guarantee that the regulatory authorities will issue, extend or renew any license. Failure to maintain a license or any failure to comply with the requirements of a license would have a material adverse impact on the business, financial condition and operating results of the Company and could lead to a significant decline in the value of its securities.

***Unfavorable Publicity or Consumer Perception***

Numinus believes the psychedelic industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of psychedelic medicines and therapies. Consumer perception may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of psychedelic therapies.

There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the psychedelics market or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed services and the business, results of operations, financial condition, and cash flows of the Company. Numinus' dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's proposed services, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy, and quality of psychedelic therapies in general, or the Company's proposed products and services specifically, or associating the consumption of psychedelic therapies with illness or other 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.

***Liabilities and Enforcement Complaints***

Numinus' participation in the psychedelic industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, provincial, or local governmental authorities. Litigation, complaints, and enforcement actions 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 Psychedelic Industry Faces Significant Opposition***

It is believed by many that large well-funded businesses may have strong economic opposition to the psychedelics industry. The pharmaceutical industry is well funded with a strong and experienced lobby that eclipses the funding of the psychedelics industry. Any inroads the pharmaceutical industry could make in halting or impeding the psychedelics industry could have a material adverse effect on the Company.

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**FORWARD-LOOKING STATEMENTS**

Certain information set forth in this document includes forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including but not limited to: general economic and business conditions related to the psychedelics industry; cash flow projections; currency fluctuations; risks relating to the Company's ability to obtain adequate financing for future activities; the nature of the Company's future activities; and other general market and industry conditions.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. The Company's actual results, programs and financial position could differ materially from those expressed in or implied by these forward-looking statements and accordingly, no assurance can be given that the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive from them. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements.

The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and as such forward looking statements contained into this report should not be relied upon. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to assumptions about general business and economic conditions, the availability of financing for the Company, and the ability to identify and secure a quality asset or a business with a view of completing a transaction subject to receipt of shareholder approval and acceptance by regulatory authorities.