



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Years Ended
June 30, 2019 and 2018

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Year ended June 30, 2019

This management's discussion and analysis ("MD&A") reviews the operating results, financial position and liquidity of Imperial Ginseng Products Ltd. ("Imperial" or the "Company"). Information contained herein is presented as at October 10, 2019 unless otherwise indicated. All amounts are stated in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended June 30, 2019.

Additional information related to the Company is available for view on SEDAR at www.sedar.com or the Company's website at www.imperialginseng.com.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information speaks only as of the date it is provided, is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "Cautionary Note Regarding Forward-Looking Information and Business Risks" in this MD&A.

About the Company

Imperial was incorporated under the laws of the province of British Columbia in 1989. The Company's common shares are listed on the TSX Venture Exchange under the symbol "IGP". Imperial has one wholly owned subsidiary, Canadian Imperial Ginseng Ontario Ltd. The Company cultivates and processes North American ginseng in Ontario and sells the root, mainly to Asia, through the Distributors (see "Transactions with Related Parties").

Overall Performance and Discussion of Operations

In fiscal 2019, out of the 169 acres of 4-year-old ginseng available, the Company harvested 115 acres and produced 487,000 lbs. of ginseng. As discussed in the MD&A for the previous reporting periods, in order to deal with the capacity constraint issue as a result of a larger volume of crops approaching maturity in the next few years, starting in 2019, besides adopting a spring dig regiment in addition to a fall harvest, which is the general practice in the industry, the Company will hold a portion of the four-year-old ginseng for harvest in the following year. In 2019, after completing the spring dig, 54 acres of 4-year-old ginseng were held back and will be harvested as five-year-old ginseng in the fall of 2019.

In fiscal 2019, the Company achieved an average yield of 4,240 lbs per acre, an exceptional 55% improvement over the last five-year's average of 2,730 lbs per acre. In 2018, the Company achieved an extraordinary yield of 4,700 lbs per acre that produced 143,000 lbs of ginseng from 30 acres. The Company had only 30 acres to harvest in 2018 due to seed issues, as discussed in the MD&A for the prior years.

Unfortunately, offsetting the impressive yields this fiscal year is the meaningful drop in ginseng prices and, even more alarming, the apparent stalling of sales to China since December 2018. Both the drop in prices and stalling of sales were attributed to a slowdown in the Chinese economy, which had been exacerbated by the escalating trade and tariff situation between China and the United States, and political tensions between Canada and China. As discussed in the prior period MD&A, subsequent to the start of the ginseng selling season, in December 2018 Canada entered into a diplomatic dispute with China with the arrest of a Huawei executive at the request of the United States. Coincidentally, in early 2019, China revoked canola import licenses for two Canadian exporters, citing pests being found in shipments and in mid 2019, China also put a ban on the import of certain Canadian meat. It has also been reported that other agricultural exporters have seen sales severely curtailed or even stopped. The new tensions between Canada and China has caused most Chinese importers to become very cautious and, as a result, notwithstanding declining prices, ginseng sales have slowed down considerably since the beginning of 2019. At the time of this MD&A, it has been reported that half of Wisconsin's fall 2018 harvest and up to 30% of Ontario's fall 2018 harvest remains unsold.

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Unlike in most prior years where the Company was able to sell all its harvest and carried no inventories at year end, in fiscal 2019, the Company managed to sell approximately 80% of its harvest and was able to have the remaining inventory committed, albeit with much reduced prices when compared to the beginning of the selling season in 2019. As at the date of this report, 87% of the Company's fiscal 2019 root has been sold and the funds collected. For 2019, the overall average price per lb. was \$20, a decrease of 38% when compared to \$32 in 2018. Undoubtedly, the state of the Chinese economy and the tension between China and Canada has had a severe negative impact on ginseng prices. Given the fact that there has been no progress since the emergence of the issues discussed above, the Company revised its estimates and reported a decrease of \$5.60 million in the fair value of its crops and a write-down of \$260,000 of its ginseng inventory, resulting in an overall loss of \$4.97 million for the year ended June 30, 2019.

In 2019, the Company planted 137 acres compared to 149 acres planted in 2018. At June 30, 2019, the Company had a total of 622 acres under cultivation.

Below is a summary overview of the Company's ginseng operations for the past three fiscal years:

	2019	2018	2017
Number of acres harvested:			
3-year-old	-	1	-
4-year-old	115	29	118
	<u>115</u>	<u>30</u>	<u>118</u>
Total production (pounds of ginseng)	487,000	143,000	323,000
Average yield per acre (pounds of ginseng)	4,240	4,700	2,740
Number of acres planted	137	149	109
Number of acres under cultivation:			
1-year-old	137	149	109
2-year-old	149	109	173
3-year-old	109	173	170
4-year-old	173	169	29
5-year-old	54	-	-
	<u>622</u>	<u>600</u>	<u>481</u>
Average selling price:			
Root only	\$ 22	\$ 33	\$ 32
Root and by-products	20	32	30

In 2019, the Company also harvested 20 acres for Ponderosa. The Company will continue to maintain the remaining 30 acres for Ponderosa until they are gradually harvested out, anticipated to be by fiscal 2021.

In September 2018, the Company received an approval from the TSX Venture Exchange ("TSXV") for the renewal of a normal course issuer bid ("NCIB"). Under the renewed NCIB, the Company may repurchase, for cancellation, up to 363,000 common shares starting from October 1, 2018 and ending on September 30, 2019. During the year ended June 30, 2019, the Company repurchased and cancelled 95,300 common shares at an average repurchase price of \$1.44 per share. In September 2019, the Company received approval from the TSXV to renew the NCIB for an additional year, expiring September 30, 2020.

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During the year ended June 30, 2019, the Company issued 180,000 common shares upon the exercise of stock options.

Outlook

Despite the impressive yield achieved this year, revenues generated were much less than expected due to an unforeseeable, significant drop in prices as a result of the economic, trade, tariff and political issues discussed above. The Company, largely through the successful efforts of Golden Phoenix, our distributor, outsold most other growers as it is reported that up to 30% of last year's Ontario harvest remains unsold. Since the changes in the industry starting last winter, the Company has responded by actively cutting costs, including suspending the purchases of new equipment and shade cloth. In addition, given the current state of the market and also to alleviate the capacity constraint resulting from an anticipated larger production due to improved yields, the Company has reduced its planting in 2020 by half to approximately 65 acres.

At June 30, 2019, the Company reported a fair value of \$16.25 million of its ginseng crops. This estimate of fair value is however dependent on the ability to sell the root through normal historical channels. If the trade, tariff and political issues are not resolved favourably in the near future, the ginseng industry may be faced with ongoing low prices and reduced sales, or even the inability to sell its roots in a timely manner. In such a case, the impact on the ginseng industry in general, including the Company, could be calamitous.

Over the past years, the Company has made quite a few changes to its operations which have proven to be a success, as evidenced by its significantly improved yields in the last two years. Fiscal 2020 is however going to be a very challenging year as the causes of the sluggish sales and falling prices are out of the Company's control. The Company has been, and will continue to, closely monitoring the situation and make revisions to its operating plans when and if required.

Selected Annual Information

The table below is selected financial information derived from the Company's audited consolidated financial statements for the years stated. This data should be read together with the consolidated financial statements for the years then ended.

(\$000 except per share data)	2019	2018	2017
Statements of Income data:			
Total revenue from sale of root	7,813	4,506	11,990
Net income (loss)	(4,953)	4,730	4,115
Earnings (loss) per share – basic	(0.68)	0.66	0.57
Earnings (loss) per share – diluted	(0.68)	0.63	0.56
Statements of Financial Position data:			
Biological assets	16,252	23,802	13,839
Property and equipment	7,551	6,518	5,953
Total assets	32,061	39,062	31,799
Total non-current liabilities	4,921	6,933	4,917
Total liabilities	8,016	10,321	7,846

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Results of Operations

The following table compares the operating results for the years ended June 30, 2019 and 2018.

	2019	2018	Change from 2018
Revenue	\$ 7,813,000	\$ 4,506,000	\$ 3,307,000
Cost of sales	7,570,000	4,037,000	3,533,000
Gross profit	242,000	469,000	(227,000)
Administrative expenses	1,298,000	1,683,000	(385,000)
Change in fair value of biological assets	(5,586,000)	7,911,000	(13,497,000)
Finance income	57,000	78,000	(21,000)
Finance costs	275,000	274,000	1,000
Other income	329,000	330,000	(1,000)
Gain from disposition of equipment	42,000	53,000	(11,000)
Write-down of inventories	260,000	9,000	251,000
Share-based payment	-	329,000	(329,000)
Income tax expense (recovery)	(1,795,000)	1,816,000	(3,611,000)
Net income (loss)	(4,953,000)	4,730,000	(9,683,000)
Earnings (loss) per share:			
Basic	(0.68)	0.66	
Diluted	(0.68)	0.63	

For the year ended June 30, 2019, the Company reported a net loss of \$4,953,000, with basic loss of \$0.68 per share. This compares to a net income of \$4,730,000, with basic earnings of \$0.66 per share and diluted earnings of \$0.63 per share in 2018. The primary reason for the reported loss in 2019 was due to management lowering its estimate on the fair value of the ginseng crops as a result of the uncertainty of when and how the trade, tariff and political issues, as discussed under Outlook, will be resolved. Before these issues emerged, the fair value of the crops was significantly higher under the then market conditions resulting in a reported net income in 2018.

Revenue from the sale of ginseng root

In 2019, the Company sold approximately 80% or 393,000 lbs of its 2019 harvest and generated gross revenue of \$7,813,000 with an average selling price of \$22 for root only and \$20 for root and by-products combined. This compares to gross revenues of \$4,506,000 generated from the sale of all of the 2018 harvest of 141,000 lbs, with an average selling price of \$33 for root only and \$32 for root and by-products combined. As discussed above, the current trade, tariff and political issues have created significant pressure on sales and prices while making each subsequent sale more difficult despite declining prices.

Cost of sales and Gross Profit

The components of cost of sales are crop costs, drying cost and depreciation charge on the processing equipment. Under IAS 41 – Agriculture, crop costs are the fair value of harvested crops which is estimated based on the Company's best knowledge of market prices at the point of harvest. As the crop costs, a major component of the cost of sales, are predominately an estimate, the cost of sales has little direct correlation to the actual cost of the harvested crops.

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The Company's actual cost of sales consists of all the expenses incurred on cultivating the crops and ultimately, the cost of harvesting and processing the ginseng. For the year ended June 30, 2019, the actual cost of sales was \$4,296,000 for a gross profit of \$3,517,000 or 45% in gross profit margin. This compares to cost of sales of \$7,570,000 and a gross profit of \$242,000 reported under IFRS.

For the year ended June 30, 2018, the actual cost of sales was \$1,900,000 for a gross profit of \$2,606,000 or 58% in gross profit margin. This compares to cost of sales of \$4,037,000 and a gross profit of \$469,000 reported under IFRS.

Administrative expenses

Administrative expenses in 2019 decreased by \$385,000 to \$1,298,000 from \$1,683,000 in 2018 with the most significant decrease in salaries primarily due to a reduction in bonuses. This reduction in bonuses was partially offset by an allowance paid to a former executive of the Company who retired during the year. Professional fees in 2019 decreased by \$28,000 to \$75,000 due to relatively fewer activities in connection with an ongoing shareholder dispute. Also contributing to the decrease in expenses was a decrease in marketing activities in relation to promotional farm tours for potential overseas ginseng buyers.

The following table details the composition of administrative expenses for the years ended June 30, 2019 and 2018 and the change from 2018:

	2019	2018	Change from 2018
Filing and transfer agent	\$ 13,000	\$ 17,000	\$ (4,000)
Insurance	9,000	9,000	-
Investor relations	7,000	7,000	-
Marketing	11,000	29,000	(18,000)
Office	53,000	50,000	3,000
Professional fees	75,000	103,000	(28,000)
Rent	47,000	46,000	1,000
Salaries	1,069,000	1,404,000	(335,000)
Travel	14,000	18,000	(4,000)
	<u>\$ 1,298,000</u>	<u>\$ 1,683,000</u>	<u>\$ (385,000)</u>

Change in fair value of biological assets

For the year ended June 30, 2019, the Company reported a decrease of \$5,586,000 in the fair value of ginseng crops. Due to continuing declining ginseng prices, resulting from a slowdown in the Chinese economy and the trade, tariff and political issues described previously, the Company lowered the price forecast further in the fourth quarter of fiscal 2019. In addition, the Company decreased its expectation of the yields on the harvests in the next two years due to an unusual rainy summer this year, which has caused a certain degree of damages to some of the crops.

For the year ended June 30, 2018, the Company reported an increase of \$7,911,000 in the fair value of the ginseng crops due to having more acres of crops approaching maturity in the year as well as an anticipation of better yields on these crops.

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Finance income

Finance income is interest earned on demand deposits with Canadian chartered banks. Interest income fluctuates depending on the cash position of the Company. For the year ended June 30, 2019, the Company reported interest income of \$57,000. This compares to interest income of \$78,000 in 2018. The decrease was due to redeeming the term deposits needed for the Company's operating requirements.

Finance costs

Finance costs consist of interest accretion on the discount of long-term loans and interest on mortgages and equipment loans. For the year ended June 30, 2019, the Company reported \$275,000 in finance costs, including \$215,000 in interest accretion and \$60,000 of interest charges on mortgage and equipment loan interest. Finance costs of \$274,000 in 2018 consisted of \$226,000 in interest accretion and \$48,000 in mortgage and equipment loan interest.

Other income

Other income of \$329,000 in 2019 included planting fee income of \$68,000 and a yield bonus of \$72,000 from Ponderosa, \$94,000 from the sale of surplus seed and \$95,000 in government program payments.

Other income of \$330,000 in 2018 included planting fee income of \$77,000 and a yield bonus of \$88,000 from Ponderosa, \$161,000 in government program payments and \$4,000 from the sale of scrapped root and miscellaneous.

Write down of inventories

For the year ended June 30, 2019, the Company wrote down its ginseng inventory by \$260,000 to its net realizable value due to lower expected prices resulting from a slowdown of the Chinese economy, the diplomatic dispute and the uncertainty as to when the trade and tariff issues will be resolved, as discussed under the Outlook. In 2018, the Company wrote off \$9,000 of unusable chemical inventory.

Share-based payment

No share-based payment was incurred in 2019 as no stock options were granted or issued during the year.

In 2018, the Company issued 522,000 stock options to officers and directors of the Company with each option entitling the holder to purchase 1 common share of the Company at an exercise price of \$0.85 per common share. All these options vested immediately upon issuance. Each option was fair-valued at \$0.63 on the date of grant using the Black-Scholes option pricing model. Accordingly, the Company reported share-based payment of \$329,000 in 2018.

Income tax expense (recovery)

Income tax recovery of \$1,795,000 in 2019 consisted solely of deferred tax recovery. Income tax expense of \$1,816,000 in 2018 consisted of deferred tax expense of \$2,557,000 and income tax recovery of \$741,000 for carrying back current year loss to the prior year.

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Summary of Quarterly Results

The following table summarizes the Company's unaudited consolidated quarterly operating results for each of the eight most recently completed quarters. These unaudited quarterly results should be read in conjunction with the audited consolidated financial statements and the discussion below.

		Total Revenues (\$'000)	Net income (loss) (\$'000)	Earnings (Loss) per share - Basic	Earnings (Loss) per share - Diluted
June 30, 2019	Q4 FY2019	\$ 1,307	\$ (932)	\$ (0.13)	\$ (0.13)
March 31, 2019	Q3 FY2019	2,269	(2,624)	(0.36)	(0.36)
December 31, 2018	Q2 FY2019	4,237	(279)	(0.04)	(0.04)
September 30, 2018	Q1 FY2019	-	(1,118)	(0.15)	(0.15)
June 30, 2018	Q4 FY2018	59	2,156	0.30	0.29
March 31, 2018	Q3 FY2018	2,602	6	-	-
December 31, 2017	Q2 FY2018	1,845	1,444	0.20	0.19
September 30, 2017	Q1 FY2018	-	1,124	0.16	0.15

Generally, ginseng sales activities start in the winter and conclude in the spring of the following year. Consequently, the Company generates most of, and at times all of, its revenues for the year in the second and third fiscal quarters. The actual timing and volume of sales each year is however dependent on general economic conditions, market demand and global supply and inventory. Added to these were the trade, tariff and political issues in fiscal 2019, which are anticipated to continue into fiscal 2020.

Fluctuations in net income among the quarters in a fiscal year, or between the same quarters in consecutive fiscal years, are primarily due to a change in the fair value of ginseng crops as a result of changes in the estimate of prices and yields, the age of the crops and the number of acres under cultivation. For each of the quarters of fiscal 2019, the Company adjusted the fair value of its crops based on its best estimate under the then situation, resulting in a substantial decrease, hence the reported loss in each quarter.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance, liquidity or capital resources of the Company.

Liquidity and Capital Resources

The Company's approach to managing its liquidity is to ensure that it has sufficient resources to meet its liabilities when they come due and to have sufficient working capital to fund operations for the ensuing fiscal year. The Company has established credit facilities with a Canadian chartered bank (the "Credit Facility") which include a revolving line of credit for day-to-day operations. The Company did not draw on this facility as at June 30, 2019. At June 30, 2019, the Company had a working capital surplus of \$13.42 million compared to \$16.85 million at June 30, 2018. With the availability of the Credit Facility, and a materially reduced size of planting for fiscal 2020, the Company believes it has sufficient resources to manage the operating cash requirements until harvest this coming fiscal year.

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The Company's capital resources include the Credit Facility, long-term borrowings, long-term loans and shareholders' equity. Given the current trade and political situations, the Company has postponed most major equipment purchases and an expansion of its drying and processing facility in order to conserve cash.

Transactions with Related Parties

Trilogy Bancorp Ltd. ("Trilogy")

Trilogy, a private company which is owned and controlled as to one-third by Stephen McCoach and one-third by Maurice Levesque, who are directors of the Company, has an administrative agreement under which Trilogy provides accounting and administrative services to the Company for a monthly fee of \$10,500. For the years ended June 30, 2019 and 2018, the Company was charged \$126,000 per annum in administrative fee. No amounts were outstanding to Trilogy at June 30, 2019 and 2018.

Golden Phoenix Venture Inc. (the "Distributor")

The Distributor, owned and controlled by James Chang, a director of the Company, is the sole distributor of the Company's ginseng root. The terms of the agreement with the Distributor provide that the Distributor will buy all the Company's ginseng harvest at agreed market prices. During the year ended June 30, 2019, the Company and the Distributor had sales transactions totaling \$7,813,000. No amounts were outstanding from the Distributor at June 30, 2019.

Ponderosa Ginseng Farms Corp.

The Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a private company having a director in common with the Company, have a ginseng farming agreement (the "Farming Agreement") under which the Company plants and maintains certain number of acres of ginseng in Ontario for the benefit of Ponderosa each year (the "Ponderosa Acres"). Pursuant to the Farming Agreement, Ponderosa reimburses the Company the actual farming and root processing expenses (the "Actual Costs"), which are estimated and prepaid annually (the "Prepayment") prior to the beginning of the Company's fiscal year. In return, the Company earns a planting fee equal to 15% of the Actual Costs from Ponderosa. Subsequent to the completion of a farming year, the Company will calculate the Actual Costs and settle the account with Ponderosa accordingly.

In 2017, Ponderosa notified the Company that it wished to terminate planting new acres but to continue with the Ponderosa Acres under cultivation until they are harvested. At the date of this report, 30 Ponderosa Acres remain under cultivation and will be gradually harvested out by the fall of 2020.

Also pursuant to the Farming Agreement, the Company is entitled to a yield bonus if the actual yield of the root harvested in a year exceeds a pre-determined base yield (the "Bonus Root"), calculated as 15% of the revenue from the sale of the Bonus Root. The yield bonus is payable on or before the earlier of 30 days after all the ginseng root is sold and June 30 of the year following the harvest. Included in planting fee income was a yield bonus of \$72,000. For the year ended June 30, 2019, the Company incurred Actual Costs of \$454,000. Total planting fee income realized in the year was \$140,000. At June 30, 2019, the balance of Prepayment was \$363,000.

Pursuant to the Farming Agreement, the Company will undertake the selling of ginseng root harvested from the Ponderosa Acres and pay to Ponderosa the full amount of proceeds from each completed sale within 30 days of receipt by the Company. During the year ended June 30, 2019, the Company made sales totaling \$1,383,000 for Ponderosa. No sales proceeds were outstanding to Ponderosa at June 30, 2019.

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Key management personnel compensation

The Company's key management personnel include members of the Board and executive officers of both the Company and CIGO. Compensation of key management personnel consists of short-term benefits which include salaries, bonuses and medical benefits. Short-term benefits for the president of CIGO are included in crop expenses. Termination benefits include retiring allowance and/or severance as a result of the Company terminating an employment contract. The Company does not provide any post-employment benefits or other long-term employee benefits. No stock options were granted to key management personnel in 2019 and 2018. In 2018, the Company issued stock options to key management personnel entitling the holders to purchase 522,000 common shares. These stock options were granted in 2017 but not issued until shareholder approval was received in 2018.

For the years ended June 30, 2019 and 2018, compensation to key management personnel was as follows:

For the years ended June 30,	2019	2018
Executive officers		
Short-term benefits	1,148,000	\$ 1,611,000
Termination benefits	199,000	-
Stock options	-	95,000
	1,347,000	1,706,000
Directors		
Short-term benefits	69,000	116,000
Stock options	-	234,000
	69,000	350,000
	\$ 1,416,000	\$ 2,056,000

The decrease in short-term benefits in 2019 was due to a reduction in bonuses, which were awarded based on the financial performance of the Company, and the absence of stock compensation expense as no options were granted in 2019.

Fourth Quarter Analysis

Generally, the Company reviews its inventories in the fourth quarter and determines if write down or write-off is required. The Company's inventories in the fourth quarter of 2019 consisted of ginseng root, seed and chemicals.

Due to the nature of chemicals, the Company makes purchases only for the quantity when they are required. Inventory at the end of a reporting period is generally due to timing of their applications.

The Company examined its seed inventory and concluded that no write-off or write-down was required in the fourth quarter of 2019 as the seed was in good condition and its market value exceeded the cost.

As discussed earlier, due to the declining ginseng prices resulting from a slowdown in the Chinese economy and the trade, tariff and political issues, the Company lowered the price forecast on its ginseng resulting in a further decrease in the fair value of its crops in the fourth quarter of fiscal 2019.

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Proposed Transactions

There are no proposed transactions at the date of this report.

Critical Accounting Estimates

Management of the Company is required to make critical accounting estimates and judgments in determining the carrying amount of the following and/or the nature of transaction when preparing the consolidated financial statements in accordance with IFRS. Actual amounts could differ materially from those estimates.

Fair value of biological assets

When determining the fair value of crops, management is required to make a number of estimates including market prices, yields, costs to complete and harvest, and a discount rate to calculate the present value of future cash flows. These estimates are subject to volatility in market prices and a number of uncontrollable factors. These factors could significantly affect the fair value of the crops resulting in fair value re-measurement in the future accounting periods.

Fair value of investment

Management estimates the fair value of its investment in Ponderosa using a discounted expected cash flows model based on its own industry knowledge, historical experience and expectations of future operating results believed to be reasonable under the circumstances. These estimates are subject to a number of factors including the realization of expected yields, volatility of the ginseng market, a discount rate based on management's judgment and a number of uncontrollable factors. Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less the estimated expenses necessary to make the sale. These estimates are based on the current market condition and it could change significantly.

Long-term borrowings and loans

Long-term borrowing and loans are classified as other financial liabilities, recorded at fair value on initial recognition and subsequently measured at amortized cost using the effective interest method. Estimates used in determining the effective interest rate include the risk-free interest rate, cost of borrowing and market risk.

Assessment of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives, taking into account the residual value at the end of their useful life, and are written down if they are impaired. Management estimates the residual values, useful lives and impairment based on its past experience with assets of similar nature and functions. Actual results could differ from these estimates.

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Income tax

Deferred tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of assets and liabilities, as well as accumulated tax losses. The Company estimates the timing of the reversal of these temporary differences and applies an applicable tax rate. Since there could be changes in the expected operating results or enacted tax rates and legislation, it might result in material adjustments to deferred tax.

Fair value measurement of share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and volatility and making assumptions about them.

Contingencies

Provisions are accrued for liabilities with uncertain timing or amounts if it is likely that both a liability has been incurred and the amount can be reasonably estimated. The adequacy of provisions is regularly assessed as new information becomes available. No accrual will be made if it is not possible to determine whether such a liability has occurred or to reasonably estimate the amount of loss.

Changes in Accounting Policies and Future Changes in Accounting Standards

- (a) Accounting standards adopted effective July 1, 2018

IFRS 9 *Financial Instruments*

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available-for-sale. Rather, it divides all financial assets into three measurement categories on initial recognition: (i) those measured at amortized cost; (ii) those measured at fair value through profit or loss and (iii) those measured at fair value through other comprehensive income. Measurement and classification of financial assets depends on the entity's business model for managing the financial assets and their contractual cash flow characteristics. For financial liabilities, IFRS 9 largely retains the existing requirements in IAS 39. Financial liabilities are either measured at amortized cost or at fair value through profit or loss. In cases where the fair value option is chosen, the part of a fair value change relating to the entity's own credit risk is recorded in other comprehensive income unless it creates an accounting mismatch.

IFRS 9 uses an expected credit loss impairment model for financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. As the Company's sales terms are predominately payment before release of shipment, the adoption of the expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets at amortized cost, and did not result in a transitional adjustment.

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IFRS 9 does not require the restatement of comparative period financial statements for the initial application of the classification and measurement requirements, but instead requires modified disclosures on transition.

The adoption of IFRS 9 did not have a material impact to the Company's classification and measurement of financial assets and liabilities. With the exception of investment in Ponderosa, there are no changes in the carrying amounts under IAS 39 and IFRS 9. Prior to the adoption of IFRS 9, investment in Ponderosa was accounted at cost in accordance with IAS 39 as there was no quoted price in an active market for an identical instrument. At the date of initial adoption of IFRS 9, investment is required to be measured at fair value. Since the Company has elected not to restate the comparative period financial statements for the difference between the carrying amount and the fair value of investment at the date of initial adoption, the transition adjustment has been included in the opening balance of deficit on the transition date.

The following table presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for all financial instruments held by the Company at July 1, 2018.

Financial instruments	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables ⁽¹⁾	Amortized cost
Trade and other receivables	Loans and receivables ⁽¹⁾	Amortized cost
Other assets	Loans and receivables ⁽¹⁾	Amortized cost
Investment	Available-for-sale	FVTOCI
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities ⁽¹⁾	Amortized cost
Other payables	Other financial liabilities ⁽¹⁾	Amortized cost
Loans and borrowings	Other financial liabilities ⁽¹⁾	Amortized cost

⁽¹⁾ measured at amortized cost.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 introduces a new and more comprehensive revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. It also introduces detailed guidance on identifying performance obligations, which requires entities to determine whether promised goods or services are distinct, and determining transaction price, which will be allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time or at a point in time when control of the goods or services is transferred to the customer.

The Company adopted IFRS 15 using the modified retrospective method whereby the cumulative effect of the change determined by applying IFRS 15 for contracts that are incomplete on the date of adoption, if any, are recognized in opening deficit. The adoption of this new standard did not result in any adjustment in the amounts previously recognized and as such, no cumulative effect adjustment was made to opening deficit at the transition date.

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- (b) Accounting standards issued but not yet effective

IFRS 16 Leases

IFRS 16 will replace IAS 17 *Leases* for entities with annual period beginning on or after January 1, 2019. There are no changes to lessor accounting under IFRS 16. For a lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases. Instead, it provides a single lessee accounting model requiring lessee to recognize right-of-use assets and lease liabilities for all leases previously classified as operating leases, including but not limited to, land leases and office space leases. Exemption is available if the lease is either short-term or the underlying asset is of low value. At the commencement date, the right-of-use assets are measured at cost whereas the lease liabilities are unpaid lease payments measured at present value using the lessee's incremental borrowing rate. IFRS 16 also changes the nature of expense relating to operating lease from lease expense to depreciation for right-of-use assets and finance cost for lease liabilities. IFRS 16 shall be applied retrospectively either to each prior reporting period (full retrospective approach) or with the cumulative effect of initially applying the standard recognized at the date of initial application (modified retrospective approach).

The Company will adopt IFRS 16 under the modified retrospective approach effective July 1, 2019, where the comparative information will not be restated and the cumulative effect of initial application of the standard will be recognized in the opening balance of deficit on the transition date.

The Company is in the process of finalizing its transition to IFRS 16. At June 30, 2019, all the lease commitments of the Company are operating leases. On the date of initial application of IFRS 16, the Company will recognize these operating leases, excluding those with a term of 12 months or less or having a low value underlying asset, as right-of-use assets and their unpaid lease payments as lease liabilities. The Company expects a significant impact related to its land leases which will require right-of-use assets and lease liabilities to be recognized on the consolidated statements of financial position.

Financial Instrument and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investment, accounts payable and accrued liabilities, long-term loans and long-term borrowings.

Cash and cash equivalents are exposed to credit risk and the Company reduces the credit risk by placing all its cash with Canadian chartered banks in accounts that are drawn on demand.

Trade receivables primarily relate to the timing of sales receivables from the Distributor. Generally, the Company does not have any sales receivables as the transactions with Distributor are cash terms. Other receivables consist of input tax credit and security deposits, which credit risks are considered to be minimal.

The Company is exposed to liquidity risk with respect to its accounts payable and accrued liabilities. The Company manages its liquidity risk by ensuring that there is sufficient working capital for its ongoing operating expenditures through an arrangement with credit facilities.

The Company's term facilities and collateral loans are not subject to interest rate risk as they are fixed interest rate loans. However, the revolving line of credit is subject to interest rate risk as the interest rate is based on the prime rate. The Company does not use derivative instruments to mitigate this risk.

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Outstanding Share Data

During the year ended June 30, 2019, the Company issued a total of 180,000 common shares for stock options exercised, and cancelled 95,300 common shares repurchased under the NCIB. At June 30, 2019 and the date of this report, there were 7,326,547 common shares issued and outstanding and stock options with a weighted average exercise price of \$0.85 per common share for the purchase of 502,000 common shares.

Cautionary Note Regarding Forward-Looking Information and Business Risks

This MD&A contains certain forward-looking statements and forward-looking information within the meaning of applicable securities laws. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements or information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve risks, uncertainties and other factors beyond the Company's ability to predict or control which may cause actual results and performance to differ materially from those anticipated.

Although management believes that the assumptions made and the expectations represented in such forward-looking statements are reasonable, there is no assurance that such forward-looking statement or information herein will prove to be correct. Forward-looking information includes, without limitation, statement or information about the following:

- *management's forecast on the yields and prices of ginseng.*
- *the Company being able to maintain a planting of 120 to 130 acres per year.*

Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect. These assumptions include, but not limited to, the following:

- *the Company's ability to meet the expected yields.*
- *the ability to sell the ginseng at a reasonable price and in a timely manner.*
- *the availability and the affordability of seed and land so as to maintain the same level of planting each year.*

Although we have attempted to identify factors that may cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements or events to not be as anticipated, estimated or intended. Also, many of the factors are beyond our control. The Company cannot guarantee future results, performance or achievements. There can be no assurance that any forward-looking statement will materialize. As actual results and future events could vary materially from those anticipated in such statements and information, readers should not place undue reliance on forward-looking statements or information.

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may impact the financial performance of the Company when further information becomes available.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.