



IMPERIAL
G I N S E N G

Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Years Ended
June 30, 2017 and 2016

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Year ended June 30, 2017

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 September 12, 2017 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, 2017.

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 Distributors (see "Transactions with Related Parties").

Overall Performance and Discussion of Operations

The Company is very pleased to report that fiscal 2017 produced the largest annual net income in the Company's 26-year history as well as the largest gross revenue since 1996. A large part of the credit for this must go to the dedicated management and employees of the Company who have worked very hard to bring about the change in the Company's performance and financial health. That said, and as discussed below, even though the current crops appear to be in excellent health, the fiscal 2018 harvest will be exceptionally small and the Company expects a year of negative income and cash flow. The good news is the Company has been planning for years for this small harvest and is not only well positioned to manage through it but to prosper from the much larger harvests that will follow over the next few years.

In fiscal 2017 the Company harvested 118 acres and produced 323,000 lbs of ginseng, yielding approximately 2,740 lbs per acre. This compares to 96 acres harvested for 283,000 lbs of ginseng and a yield of approximately 2,960 lbs per acre in fiscal 2016. A significant part of the lower yield per acre this fiscal year is attributable to a decision by the Company to leave in the field, as well as pull out on the production lines, the "cuts and culls" which in a normal harvest year will average around 5% of the yield. The decision to high grade the good root in fiscal 2017 was in anticipation of a more difficult selling season.

In fiscal 2017 the Company sold all of its fall 2016 harvest as well as the remaining inventory from its fiscal 2016 harvest, for a total of 401,000 lbs, generating approximately \$12 million in gross revenues. As discussed in the MD&A of the previous quarters, ginseng prices declined significantly starting in the spring of 2016. At fiscal year end 2016, the Company had approximately 78,000 lbs of root in inventory, which was sold in the first quarter of fiscal 2017 at prices significantly lower than the average selling price achieved by the Company in fiscal 2016. Heading into the fall 2016 selling season, prices had somewhat recovered but were still 20% to 30% lower than the average price of the prior two years. For fiscal 2017, the Company achieved an average selling price per pound of \$30 for root and by-products combined and \$32 for root only. This compares to an average selling price per pound of \$36 for root and by-products combined and \$46 for root only for fiscal 2016.

As previously reported, in August 2016, approximately 85% of the Company's stratified seed inventory, with a cost of \$600,000, had rotted and was considered unusable. The Company purchased \$300,000 of stratified seed from other sources and managed to plant 109 acres, a little below its long run target of approximately 125 acres per year.

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Below is a summary overview of the Company's ginseng operations:

	2017	2016	2015
Number of acres harvested:			
3-year-old	-	14	5
4-year-old	118	82	102
	<u>118</u>	<u>96</u>	<u>107</u>
Total production (pounds of ginseng)	323,000	283,000	172,000
Average yield per acre (pounds of ginseng)	2,740	2,960	1,610
Number of acres planted	109	173	170
Number of acres under cultivation:			
1-year-old	109	173	170
2-year-old	173	170	29
3-year-old	170	29	132
4-year-old	29	118	82
	<u>481</u>	<u>490</u>	<u>413</u>
Average selling price, root only	\$32	\$46	\$49
Average selling price, root and by products	\$30	\$36	\$43

In May 2017, the Board of Directors of the Company approved the adoption of an amended and restated stock option plan (the "Amended Plan") to increase the maximum number of common shares that may be reserved for issuance from 248,216 to 720,000, representing approximately 10% of the total issued and outstanding common shares of the Company. The Company intends to grant an additional 522,000 stock options to officers and directors of the Company at a price of \$0.85 per common share. The filing of the Amended Plan has been accepted by the TSX Venture Exchange and the Company will be seeking shareholder approval for the Amended Plan at its annual shareholder meeting scheduled to be held in December 2017.

Outlook

Given the healthy seed production in fiscal 2017, the Company decided to harvest significantly more seed than usual to provide itself extra security from any shortage of seed supply or deterioration, such as the Company experienced in the past few years. We are pleased to report that the green seed from the fiscal 2017 harvest matured in excellent condition. The Company in fact, has had such good success with this seed from the summer of 2016 that it is experimenting with a program to try to maintain a multi-year holdover with a portion of the seed providing an additional seed buffer over future years. To make up for the relatively smaller planting of 109 acres in fiscal 2017, the Company will increase the fiscal 2018 planting to approximately 145 acres.

In fiscal 2018, the Company will be harvesting all of its own 4-year-old acres (29 acres) and all of Ponderosa's 4-year-old acres (10 acres). The Company will also harvest approximately 5 acres of its 3-year-old gardens. As reported previously, in fiscal 2014 the Company was only able to plant 29 acres of ginseng due to industry wide seed issues that year. Our normal planting goal at that time was 120 acres per year. While the impact to revenues and cash flow in fiscal 2018 will be significant, the Company has been planning for this event for nearly four years. With a combination of careful cash management, better yields, better prices since 2014 and much larger plantings in fiscal 2015 and 2016, the Company is very confident it is well positioned to manage through the small fiscal 2018 harvest.

The Company is also pleased to report that, as a result of our healthy financial position and the support of its bank, the Company recommenced its program of updating equipment and replacing old shade cloth in fiscal 2017. We expect this asset update program to continue over the next few years.

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Selected Annual Information

The following 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)	2017	2016	2015
Statements of Income data:			
Total revenues	11,990	7,512	7,442
Net income	4,115	1,335	4,115
Earnings per share – basic	0.57	0.19	3.29
Earnings per share – diluted	0.56	0.18	3.26
Statements of Financial Position data:			
Biological assets	13,839	11,506	12,691
Property and equipment	5,953	5,102	3,619
Total assets	31,799	26,615	24,464
Total non-current liabilities	4,917	4,521	3,915
Total liabilities	7,846	6,777	5,968

Results of Operations

For the year ended June 30, 2017, the Company reported a net income of \$4,115,000, with basic earnings of \$0.57 per share and diluted earnings of \$0.56 per share. This compares to a net income of \$1,335,000, with basic earnings of \$0.19 per share and diluted earnings of \$0.18 per share for the prior year. The significant increase in net income in 2017 was primarily due to an increase in the fair value of the ginseng crops as better yields are expected on approximately 40% of the crops that are approaching maturity. Also, in 2016 the Company wrote down its inventory by \$1,798,000 to its net realizable value, resulting in a lower net income when compared to 2017.

The following table compares the operating results for the years ended June 30, 2017 and 2016.

	2017	2016	Change from 2016
Revenue	\$ 11,990,000	\$ 7,512,000	\$ 4,478,000
Cost of sales	10,698,000	6,205,000	4,493,000
Gross profit	1,291,000	1,307,000	(16,000)
Administrative expenses	1,012,000	1,021,000	(9,000)
Change in fair value of biological assets	5,839,000	2,421,000	3,418,000
Finance income	69,000	42,000	27,000
Finance costs	244,000	217,000	27,000
Other income	224,000	377,000	(153,000)
Other expenses	6,000	67,000	(61,000)
Loss from deteriorated inventories	567,000	-	567,000
Gain from disposition of equipment	-	25,000	(25,000)
Write-off of inventories	-	1,798,000	(1,798,000)
Income tax expense (recovery)	1,479,000	(265,000)	1,744,000
Net income	4,115,000	1,335,000	2,780,000
Earnings per share:			
Basic	0.57	0.19	0.38
Diluted	0.56	0.18	0.38

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Revenue from the sale of ginseng root

In fiscal 2017, the Company sold all its 2017 harvest and the remaining inventory from its 2016 harvest, totalling 401,000 lbs, and generated gross revenue of \$11,990,000. This compares to gross revenue of \$7,512,000 for 205,000 lbs, or 72% of its 2016 harvest, sold in fiscal 2016. Despite the Company selling almost twice the volume of root in 2017, gross revenue in 2017 increased by only 60% as a result of the declining ginseng prices since the spring of 2016, as discussed above. The average overall price per pound achieved by the Company was \$30 in 2017 and \$36 in 2016.

Cost of sales

The components of the cost of sales are crop costs, drying cost and depreciation charge on the processing equipment. Under IFRS, 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.

Administrative expenses

Total administrative expenses in 2017 were approximately the same as in 2016. Within administrative expenses, expenses on legal were \$19,000 lower in 2017 as more legal fees were incurred in 2016 as a result of dealing with shareholder matters. The decrease in legal expenses was offset by an increase in rent resulting from the move to a new office in the spring of 2016.

The following table details the composition of administrative expenses for the years ended June 30, 2017 and 2016 and the change from 2016.

	2017	2016	Change from 2016
Filing and transfer agent	\$ 12,000	\$ 12,000	\$ -
Insurance	9,000	9,000	-
Investor relations	6,000	8,000	(2,000)
Legal and audit	70,000	89,000	(19,000)
Office	53,000	49,000	4,000
Rent	45,000	26,000	19,000
Salaries	807,000	819,000	(12,000)
Travel	10,000	9,000	1,000
	<u>\$ 1,012,000</u>	<u>\$ 1,021,000</u>	<u>\$ (9,000)</u>

Change in fair value of biological assets

For the year ended June 30, 2017, the Company reported an increase of \$5,839,000 in the fair value of the ginseng crops as the Company is foreseeing better yields on approximately 40%, or 200 acres, of the crops that are approaching maturity. This is somewhat offset as softer ginseng prices are expected in the next two years.

For the year ended June 30, 2016, the Company attributed an increase of \$2,421,000 in the fair value of the ginseng crops to approximately 30% or 150 acres of the crops approaching maturity.

Finance income

Finance income is interest earned on demand deposits with Canadian chartered banks. Interest income fluctuates depending on the bank's interest rate and the cash position of the Company. For the year ended June 30, 2017, due to a larger cash deposit, the Company reported interest income of \$69,000 as compared with \$42,000 for the prior year.

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Finance costs

For the year ended June 30, 2017, the Company reported \$244,000 in finance costs, including \$186,000 in interest accretion on the discount of long-term loans and \$58,000 in mortgage and equipment loan interest.

For the year ended June 30, 2016, the Company reported \$217,000 in finance costs, including \$152,000 in interest accretion on the discount of long-term loans and \$63,000 in mortgage and equipment loan interest.

Other income and expenses

Other income in 2017 included a planting fee of \$100,000 from Ponderosa, \$36,000 from the sale of surplus green seed and \$84,000 in government program payments.

Other income in 2016 included a planting fee of \$80,000 from Ponderosa, \$190,000 from the sale of surplus stratified seed and \$107,000 in government program payments.

Other expenses in 2016 included \$64,000 of cash crop development costs that the Company decided not to proceed with after evaluating its costs and benefits.

Loss from deteriorated inventories

In August 2016, the Company disposed of a substantial quantity of its stratified seed which was infected by an unknown disease, resulting in a loss of \$567,000 being reported in fiscal 2017.

Write-off of inventories

Under IFRS, biological assets are measured at fair value at the point of harvest. When the Company harvested its root in the fall of 2015, the average selling price was around \$40 per pound. The prices had dropped since early 2016 and by June 30, 2016, they were below \$30 per lb. At June 30, 2016, the Company wrote down the value of its root inventory by \$1,768,000 based on a sale realized subsequent to the year end.

Income tax expense

Income tax expense in 2017 consisted of deferred tax expense of \$738,000 and current tax expense of \$741,000 as a result of the depletion of farm loss carry-forwards.

Income tax expense in 2016 comprised solely deferred tax recovery of \$265,000.

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	Net income (loss)	Earnings (Loss) per share - Basic	Earnings (Loss) per share - Diluted
June 30, 2017	Q4 FY2017	\$ 891,000	\$ 1,224,000	\$ 0.17	\$ 0.17
March 31, 2017	Q3 FY2017	1,071,000	563,000	0.08	0.08
December 31, 2016	Q2 FY2017	8,304,000	2,840,000	0.39	0.39
September 30, 2016	Q1 FY2017	1,723,000	(512,000)	(0.07)	(0.07)
June 30, 2016	Q4 FY2016	1,573,000	(1,998,000)	(0.27)	(0.27)
March 31, 2016	Q3 FY2016	847,000	443,000	0.06	0.06
December 31, 2015	Q2 FY2016	5,093,000	2,547,000	0.35	0.35
September 30, 2015	Q1 FY2016	-	343,000	0.05	0.05

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Ginseng is harvested in the fall and, generally, the marketing and selling of the dried ginseng root is most active in the winter (Q2) and into the spring (Q3). 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, global supply and inventory.

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 resulting from changes in the estimate of prices and yields, the actual costs of new plantings and immature crops, and the number of acres under cultivation.

In the fourth quarter of fiscal 2016, the Company reported a net loss of \$1,998,000 due to writing down inventories to their lower of cost and net realizable value.

Liquidity

The Company manages liquidity risk by closely monitoring its operating costs and cash flows. The Company has established credit facilities with a Canadian chartered bank (the "Credit Facility") which include a revolving line of credit bearing an annual interest rate at prime plus 1%. Generally, as needed, the Company uses the line of credit in the summer and the fall and starts repaying the line of credit when the ginseng selling season begins in December/January. The line of credit is usually paid off prior to the Company's year-end. The Company did not draw on this facility throughout fiscal 2017. At June 30, 2017, the Company had a working capital surplus of \$12.55 million, compared with \$12.24 million at June 30, 2016. Based on the annual budget and cash flow projection, the Company believes it has sufficient working capital to meet the cash requirements of the next fiscal year.

Capital Resources

The Company's capital resources include the Credit Facility, long-term borrowings, long-term loans and shareholders' equity.

Other than the ongoing program of replacing older machinery and shade cloth as required, which will be financed with a combination of cash on hand and loan facilities, the Company currently has no plans for any major acquisitions. The Company believes that it has sufficient capital and financing resources in place to fund its purchases.

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.

Transactions with Related Parties

Trilogy Bancorp Ltd. ("Trilogy")

Trilogy, a private company owned and controlled by Stephen McCoach, Hugh Cartwright, Maurice Levesque, who are directors of Imperial, and their families, has an administrative agreement with the Company under which Trilogy provides accounting and administrative services to the Company for a monthly fee of \$10,500. For the years ended June 30, 2017 and 2016, the Company was charged \$126,000 per annum in administrative fee. No amounts were outstanding to Trilogy at June 30, 2017 and 2016.

Golden Phoenix Venture Inc. and Golden Sunshine International Ltd. (together the "Distributors")

The Distributors, owned and controlled by James Chang, a director of the Company, are the sole distributors of the Company's ginseng root. The terms of the agreement with the Distributors provide that the Distributors will buy all the Company's ginseng harvest at agreed market prices. During the year ended June 30, 2017, the Company and the Distributors had sales transactions totaling \$11,990,000 (2016 - \$7,512,000).

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Ponderosa Ginseng Farms Corp.

The Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a company having some directors in common with the Company, entered into a ginseng farming agreement (the "Farming Agreement") under which the Company planted and maintained certain number of acres of ginseng in Ontario for the benefit of Ponderosa. Pursuant to the Farming Agreement, Ponderosa will reimburse the Company the farming expenses (the "Actual Costs"), which are estimated and prepaid annually prior to the beginning of the Company's fiscal year (the "Prepayment"). In return, the Company earns a planting fee equal to 15% of the Actual Costs from Ponderosa. The terms of the Farming Agreement provided that it may be terminated by either the Company or Ponderosa with eighteen months written notice.

In August 2016, Ponderosa notified the Company that it wished to terminate the Farming Agreement and the new planting in fiscal 2017, effective the date the notice was given. The Company agreed to waive the eighteen-month notice period and was compensated with the seed Ponderosa had in inventory at that time and a planting fee of \$29,400 for the fiscal 2017 planting that was cancelled. The Company was also reimbursed in full for the land preparation expenses that had already been incurred. The Company will continue with the farming of the 60 Ponderosa acres that are currently under cultivation until they are gradually harvested out by the fall of 2019.

For the year ended June 30, 2017, the Company incurred Actual Costs of \$471,000 (2016 - \$534,000). Total planting fee income realized in the year was \$101,000 (2016 - \$80,000). At June 30, 2017, the balance of Prepayment was \$520,000 (June 30, 2016 - \$670,000).

Key management personnel compensation

The Company's key management personnel include members of the Board and executive officers of both the Company and Canadian Imperial Ginseng Ontario Ltd. 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. The Company does not provide any post-employment benefits or other long-term employee benefits. Subject to obtaining shareholder approval of an amended stock option plan, the Company granted 522,000 stock options to directors and officers of the Company in 2017. No stock options were granted in 2016.

For the years ended June 30, 2017 and 2016, compensation to key management personnel was as follows:

Year ended June 30,	2017	2016
Executive officers	\$ 860,000	\$ 893,000
Directors	62,000	48,000
	\$ 922,000	\$ 941,000

Fourth Quarter

In the fourth quarter of fiscal 2017, the Company reviewed the fair value of the seed inventory and concluded that no write down was required. The Company did not have any root inventory at fiscal 2017 year-end. In the fourth quarter of fiscal 2016, the Company wrote down the value of the root inventory by \$1,798,000.

In the fourth quarter of fiscal 2016, management concluded it was probable that the deferred tax assets of the parent company, mainly a result of non-capital loss carryforwards, would be realized through future taxable profits. Deferred tax assets of \$426,000 of the parent company were recognized separately in the consolidated statements of financial positions.

Generally, the Company performs annual impairment tests on the equipment in the fourth quarter and the equipment's carrying value is adjusted if impairment exists. The Company did not identify any significant impairment of machinery in the fourth quarter of both fiscal 2016 and fiscal 2017.

Proposed Transactions

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

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Critical Accounting Estimates

Management of the Company is required to make critical accounting estimates and judgements 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.

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.

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 stock-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.

Allowance for uncollectible accounts

The Company sells its entire root harvest to the Distributors and collects all the sales proceeds prior to releasing the shipment. Trade receivables of the Company are generally related to miscellaneous revenues which are mostly on cash terms. The Company evaluates the collectability of these accounts based on the business relationship with and the financial strength of the customers. The actual collectability of these accounts could differ from the judgments made by the Company.

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Future Changes in Accounting Policies

IFRS 9 *Financial Instruments* is the first of a multi-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9.

IFRS 9 is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted. 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.

IFRS 15 *Revenue from Contracts with Customers* will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding whether revenue is to be recognized over time or at a point in time, and improves disclosures about revenue.

IFRS 15 provides more detailed guidance on contracts involving the delivery of two or more goods and services as to when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price and when to combine contracts. IFRS 15 also provides guidance on how to treat arrangements with variable pricing, such as performance-based pricing and how revenue can be constrained. In addition, IFRS 15 provides guidance on time value of money as to when to adjust a contract price for a financing component. IFRS 15 is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 *Leases* will replace IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The IASB has set the effective date to annual period beginning on or after January 1, 2019. Early adoption of the standard is permitted. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the Company's financial statements.

The Company intends to adopt IFRS 9 and IFRS 15 in its financial year beginning on July 1, 2018, and IFRS 16 in its financial year beginning on July 1, 2019. At this time, the Company cannot reasonably determine the impact of adopting these future accounting standards to its financial reporting.

Financial Instrument and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, deposits, available-for-sale 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.

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Trade receivables primarily relate to the timing of sales receivables from the Distributors. Generally, the Company does not have any sales receivables as the transactions with Distributors 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.

Outstanding Share Data

At the date of this report, the Company had 7,209,847 common shares issued and outstanding. In addition, there were 192,000 stock options outstanding with an exercise price of \$0.29 per common share.

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 110 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 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.