



IMPERIAL
G I N S E N G

Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Three-Month Periods Ended
September 30, 2017 and 2016

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Three-Month Period ended September 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 November 23, 2017 unless otherwise indicated. All amounts are stated in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three-month period ended September 30, 2017 and 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 the Distributors (see "Transactions with Related Parties").

Overview and Outlook

At the date of this report, the Company has finished harvesting its 29 acres of 4-year-old gardens and is in the midst of processing the root. While the processing is not yet complete, the Company is confident that the yield per acre this year will easily exceed last year's. Last year, the Company harvested 118 acres of 4-year-old gardens and produced 323,000 lbs of ginseng, yielding approximately 2,740 lbs per acre. At this time, the Company estimates that the yield this year will exceed 3,500 lbs. per acre and total production will exceed 100,000 lbs.

The selling of the ginseng is getting off to a slow start this year and, while prices have not yet been established, our best estimate at this time is that prices will be off marginally from last year.

As for the new planting, the Company's long run target is to plant approximately 125 acres per year. In fiscal 2017, the Company's own seed deteriorated but we were able to buy enough seed to still plant 109 acres. The Company is pleased to report that the green seed from the fiscal 2017 harvest matured in excellent condition and it was able to plant 149 acres for fiscal 2018, 25 acres more than the Company's long run target so as make up for a relatively smaller planting in fiscal 2017. For fiscal 2018, the Company has a total of 600 acres under cultivation. This compares to 481 acres under cultivation for fiscal 2017.

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. The negative impact to revenues and cash flow in this fiscal 2018 will be significant, especially given that the Company has 25% more acres under cultivation at present over last year, which results in proportionately higher cash input demands. The good news is that the Company has been planning for this event for four years. With a combination of careful cash management over the last few years, better yields, better prices since 2014, and the availability of our bank line of credit, the Company is confident it is well positioned to manage through the negative cash flow resulting from the small fiscal 2018 harvest.

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

	2018	2017	2016
Number of acres harvested:			
3-year-old	1	-	14
4-year-old	29	118	82
	<u>30</u>	<u>118</u>	<u>96</u>
Total production (pounds of ginseng)	N/A	323,000	283,000
Average yield per acre (pounds of ginseng)	N/A	2,740	2,960
Number of acres planted	149	109	173
Number of acres under cultivation ⁽¹⁾ :			
1-year-old	149	109	173
2-year-old	109	173	170
3-year-old	173	170	29
4-year-old	169	29	118
	<u>600</u>	<u>481</u>	<u>490</u>
Average selling price, root only	N/A	\$32	\$46
Average selling price, root and by products	N/A	\$30	\$36

(1) As this is a November dated report, the acres below will not correspond to their reported ages until the following summer.

On September 14, 2017, the Company filed a notice with the TSX Venture Exchange to make a normal course issuer bid to repurchase outstanding common shares on the open market for cancellation. As approved by the TSX Venture Exchange, the Company may repurchase for cancellation up to 360,492 common shares, representing approximately 5% of the issued and outstanding Common Shares of the Company at the time of the bid. The purchases are to be made through the facilities of TSX Venture Exchange during the period October 2, 2017 to September 30, 2018, or until such time as the bid is completed or terminated at the Company's option.

In fiscal 2018, the Company has also harvested all of Ponderosa's 4-year-old acres (10 acres). The Company will continue maintaining the remaining 50 acres for Ponderosa until they are gradually harvested out in fiscal 2020.

Results of Operations

For the three-month period ended September 30, 2017 (first quarter of fiscal 2018), the Company reports a net income of \$1,125,000, with basic earnings of \$0.16 per share and diluted earnings of \$0.15 per share. This compares to a net loss of \$513,000 or \$0.07 per share for the same quarter of fiscal 2017. The following table compares the operating results for the three months ended September 30, 2017 and 2016.

	Three months ended Sep 30		Change from
	2017	2016	Sep 30, 2016
Revenue	\$ -	\$ 1,723,000	\$ (1,723,000)
Cost of sales	-	1,681,000	(1,681,000)
Gross profit	-	42,000	(42,000)
Administrative expenses	325,000	223,000	102,000
Change in the fair value of biological assets	1,440,000	195,000	1,245,000
Finance income	26,000	10,000	16,000
Finance costs	65,000	59,000	6,000

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	Three months ended Sep 30		Change from
	2017	2016	Sep 30, 2016
Other income and expenses	21,000	90,000	(69,000)
Gain from sale of property and equipment	28,000	-	28,000
Loss from deteriorated inventories	-	567,000	(567,000)
Net income (loss)	1,125,000	(513,000)	1,638,000
Earnings (loss) per share:			
Basic	0.16	(0.07)	
Diluted	0.15	(0.07)	

Revenue from the sale of ginseng root

There was no revenue from the sale of root in the first quarter of fiscal 2018 as the Company sold all its root in fiscal 2017 and did not have any root inventory carried over to fiscal 2018.

In the first quarter of fiscal 2017, the Company sold all its remaining inventory of approximately 78,000 lbs, from its fiscal 2016 harvest and generated gross revenue of \$1,723,000.

Administrative expenses

Administrative expenses increased by \$102,000 to \$325,000 in the first quarter of fiscal 2018 from \$223,000 in the same quarter of fiscal 2017, due mainly to performance bonuses paid to executive officers recommended and approved by the Board in September 2017. The following table details the composition of administrative expenses for the first quarters ended September 30, 2017 and 2016 and the change from 2016:

	Three months ended Sep 30		Change from
	2017	2016	Sep 30, 2016
Filing and transfer agent	\$ 5,000	\$ 3,000	\$ 2,000
Insurance	9,000	9,000	-
Investor relations	-	2,000	(2,000)
Legal and audit	19,000	14,000	5,000
Office	15,000	11,000	4,000
Rent	11,000	11,000	-
Salaries	262,000	169,000	93,000
Travel	4,000	4,000	-
	<u>\$ 325,000</u>	<u>\$ 223,000</u>	<u>\$ 102,000</u>

Change in fair value of biological assets

In the first quarter of fiscal 2018, the Company reported an increase of \$1,440,000 in the fair value of ginseng crops. This compares to an increase of \$195,000 in the fair value of ginseng crops in the first quarter of fiscal 2017. The significant increase in fiscal 2018 was primarily due to having approximately 120 more acres under cultivation this year.

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. In the first quarter of fiscal 2018, the Company reported interest income of \$26,000. This compares to interest income of \$10,000 in the same quarter of fiscal 2017.

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Finance costs

Finance costs consist of interest accretion on long-term loans and interest on mortgages and equipment loans. Finance costs in the first quarter of fiscal 2017 increased by \$6,000 to \$65,000, compared to \$59,000 in the same period of fiscal 2017. The increase was primarily due to an increase in interest accretion on long-term loans.

Other income and expenses

Other income in the first quarter of fiscal 2018 was primarily planting fee income of \$21,000 from Ponderosa.

Other income in the first quarter of fiscal 2017 included planting fee income of \$51,000 from Ponderosa and \$36,000 from the sale of surplus green seed.

Loss from deteriorated inventories

In August 2016, a substantial quantity of the Company's stratified seed inventory was infected by an unknown disease resulting in a loss of \$567,000 being reported in the first quarter of fiscal 2017.

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
September 30, 2017	Q1 FY2018	\$ -	\$ 1,125,000	\$ 0.16	\$ 0.15
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

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.

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 as at September 30, 2017. At September 30, 2017, the Company had a working capital surplus of \$7.45 million, compared with \$12.55 million at June 30, 2017. 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.

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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 three months ended September 30, 2017, the Company was charged \$32,000 per annum in administrative fee. No amounts were outstanding to Trilogy at September 30, 2017.

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. There were no sales transactions with the Distributors during the three months ended September 30, 2017.

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 fiscal 2017, Ponderosa notified the Company that it wished to terminate the planting of new acres effective in the fall of 2016. 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 three months ended September 30, 2017, the Company incurred Actual Costs of \$139,000. Total planting fee income realized in the period was \$21,000. At September 30, 2017, the balance of Prepayment was \$381,000.

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 at the annual meeting of shareholders to be held in December 2017, the Company granted 522,000 stock options to directors and officers of the Company in fiscal 2017. No stock options were granted to key management personnel during the three-month period ended September 30, 2017.

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For the three months ended September 30, 2017 and 2016, compensation to key management personnel, which comprised solely of short-term benefits, was as follows:

Three months ended September 30,	2017	2016
Executive officers	\$ 28,000	\$ 3,000
Directors	232,000	167,000
	\$ 260,000	\$ 170,000

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.

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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.

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.

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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.

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 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 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

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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.