



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Years Ended
June 30, 2020 and 2019

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Year ended June 30, 2020

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 20, 2020 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, 2020.

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". The Company cultivates and processes North American ginseng in Ontario and sells the root, mainly to China, through the Distributor (see "Transactions with Related Parties").

Discussion of Operations and Overall Performance

In fiscal 2020, the Company harvested a total of 166 acres with an average yield of 3,560 lbs per acre for a total production of 592,000 lbs. This compares to a yield of 4,240 lbs per acre from 115 acres harvested in the prior year with a total production of 487,000 lbs. The Company decided to harvest 50% acres more than last year due to a foreseeable decrease in revenues as a result of a continuing decline in ginseng prices and an anticipated drop in yield due to an extremely wet summer of 2019 that had resulted in most growers reporting a 25% to 30% decrease in yields. That said, last year's yield was a near record for the Company and albeit reduced, this year's yield was still well above the average of the Company's last five years and the current industry.

Generally, the ginseng marketing season starts in mid to late November and is the most active from December until the Chinese New Year. This year, up until the point when China and the United States signed a phase one trade deal in early January, the ginseng market was extremely quiet as a result of the US-China trade war, a deteriorated Canada-China relationship, a stagnant economy in China, civil unrest in Hong Kong and the inventories from the prior year just arriving into China. When China and the United States signed a phase one trade deal in early January, the Company was able to make a few sales swiftly and sold approximately half of its fall 2019 harvest as well as all the remaining inventory from the prior fiscal year.

When the situation seemed to be easing a bit, the world was hit by a novel coronavirus (COVID-19). On January 31, 2020, the World Health Organization declared COVID-19 a public health emergency and on March 11, 2020, upgraded it to a global pandemic. Soon after the outbreak of the coronavirus in January 2020, China, in an effort to prevent the spread of the virus, put Wuhan and certain other major cities on lockdown. Like many industries, the ginseng market came to a complete halt until China started lifting certain lockdown restrictions in April. Whereas the ginseng activities slowly resumed, prices had fallen by 15% since before the pandemic, or almost 50% from the fall of 2018. It appeared that ginseng inventories were not used up during the lockdown as all the retail stores and grading facilities were closed, which made it impossible for the consumers to purchase ginseng.

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Each year, approximately 60,000 temporary foreign workers come to work on farms in Canada and this source of labour is crucial to the agricultural industry as a whole. Since the pandemic, a number of countries were on a complete lockdown, meaning no travelling to or out of the country. Fortunately, after some delay, the Canadian government was successful in working with some of these countries to allow their workers to leave and come to work in Canada. The Company was able to get approximately two-thirds of its work force requirements in the Spring of 2020. Eventually, subsequent to the year end, in mid August, the rest of the offshore workers arrived and joined the work force just in time for the start of the fiscal 2021 harvest season.

Adding to the difficulties this year were the extreme weather conditions experienced in Ontario. In May 2020, all of Southern Ontario was hit by a record 6-day cold spell with both snow and temperatures up to 20 degrees below normal as well as multiple days of heavy frost. In July 2020, certain regions in Ontario were hit by severe storms and heavy rainfalls which, unfortunately, collapsed some of our five-year-old garden structures, damaging some of the ginseng below the structures. The Company's initial assessment of the damages caused by the extreme weather conditions is a 15% loss in yield for the upcoming harvest in the fall of 2020.

For the year ended June 30, 2020, the Company sold a total of 426,000 lbs, of which 94,000 lbs was all the inventory from the prior year, with an average price per pound of \$15 for root only and \$13 for root and by-products combined. This compares to 393,000 lbs sold with an average selling price of \$22 for root only and \$20 for root and by-products combined in the prior year. Despite the fact that the Company was able to sell more ginseng during this difficult time than in the prior year, significantly less revenues were generated as the ginseng prices have been declining since the fall of 2018 as a result of the trade, political and COVID-19 factors discussed above. At June 30, 2020, the Company had 260,000 lbs in inventory and approximately half of it has been sold at the date of this report, albeit at an even lower average price of \$10 for root only and \$7.70 for root and by-products combined.

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

	2020	2019	2018
Number of acres harvested:			
3-year-old	-	-	1
4-year-old	112	115	29
5-year-old	54	-	-
	<u>166</u>	<u>115</u>	<u>30</u>
Total production (pounds of ginseng)	592,000	487,000	143,000
Average yield per acre (pounds of ginseng)	3,560	4,240	4,700
Number of acres planted	66	137	149
Number of acres under cultivation:			
1-year-old ⁽¹⁾	66	137	149
2-year-old ⁽¹⁾	137	149	109
3-year-old	149	109	173
4-year-old	109	173	169
5-year-old	61	54	-
	<u>522</u>	<u>622</u>	<u>600</u>

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	2020	2019	2018
Average selling price:			
Root only	\$ 15	\$ 22	\$ 33
Root and by-products	13	20	32

(1) Refer to Outlook for the Board's decision made subsequent to the year ended June 30, 2020.

In 2020, the Company also harvested 23 acres for Ponderosa. The Company will continue to maintain the remaining 7 acres for Ponderosa, which will be harvested in the fall of 2020.

While it is unknown how long the ginseng prices will be depressed, it is almost certain that the economic impact from the COVID-19 pandemic is enormous and it is unknown whether or when the ginseng prices will recover to the level before the emergence of the factors discussed above and in previous reports. As such, management further revised its forecast on future prices and wrote down the fair value of its crops by \$7.25 million and ginseng inventory by \$940,000 for the year ended June 30, 2020. In fiscal 2019, the write downs were \$5.59 million on the fair value of ginseng crops and \$260,000 on ginseng inventory. In fiscal 2020, the Company also wrote off right-of-use assets of \$418,000, seed inventory of \$310,000 and pre-planting costs of \$177,000 for the reason that there will be no new plantings going forward (see Outlook). Primarily a result of these write downs and write-offs, for the year ended June 30, 2020, the Company reported a net loss of \$7.35 million.

On January 6, 2020, the Company and Auxly Cannabis Group Inc. entered into a share purchase agreement under which the Company bought all the issued and outstanding shares of Knightswood Holdings Ltd. ("Knightswood") for \$10. Knightswood is in the business of providing its subsidiaries a qualified investment, as defined in the *Income Tax Act* (Canada), for their debentures or debt securities.

In December 2019, the Company, pursuant to a final order by the Supreme Court of British Columbia, made a payment totaling \$327,000 to a dissenting shareholder in respect of a plan of arrangement completed in 2015.

In September 2019, 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 366,000 common shares starting from October 1, 2019 and ending on September 30, 2020. No shares were repurchased during the year ended June 30, 2020.

Subsequent to the year end, in September 2020, the Company completed the sale of one of its farm properties, which will be idle after harvest this year, for \$1.28 million.

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Outlook

The Company has been in the ginseng business for almost 30 years and although there were downturns where some growers exited the industry, the Company was always able to work with and around its available resources, kept the situation under control and made it through. Unfortunately, the past year was a very different year as there were multiple causes of the rapidly falling ginseng prices, all out of the Company's control. The escalating trade war between US and China, the growing civil unrest in Hong Kong, a deteriorated Canada-China political relationship as a result of Canada turning down China's request for the release of the CFO of Huawei, and the global economic impact from the COVID-19 pandemic had not only caused a sharp decline in ginseng prices but also made sales very difficult. Although the Company has responded by actively cutting costs and postponing non-essential capital purchases, as times went by, none of the above situations improved. The Company had serious doubts if things would be improved or resolved in the near future. With all these uncertainties that are not under the Company's control and the fact that ginseng prices have further declined this summer, the Company had to make some drastic decisions. In May 2020, the Board decided to stop planting a new crop in fiscal 2021. In June 2020, the Board, after taking into account the current industry position and the following risks and uncertainties, made a difficult and ultimate decision to completely cease all new plantings but will continue with the existing crops until they are gradually harvested out in the next few years. Here are some of the key risks that face the Company:

- A coronavirus outbreak in our farm would completely shut down operations, jeopardizing all the crops.
- The supply for offshore labour will be cut off if their home countries impose travel bans due to the possibility of another coronavirus outbreak.
- Any further steps that may be taken by China for Canada not agreeing to the release of the Chief Financial Officer of Huawei Technologies Co., Ltd.
- Ginseng prices continue to decline as a result of the trade war, political factors and the economic impacts from COVID-19.

Whereas it is certain that the Company will conclude its business after the final harvest of the existing crops, management has worked out different scenarios, taking into account the possible downturns, for the most return of the end value of the Company and the Company's ability to generate sufficient cash flows for its operations without having to seek additional capital or financing resources other than the existing available ones. Management concluded that, after weighing the risk of a complete cut off of labour supply due to COVID-19 and/or a continuing decline of ginseng prices, it would be in the Company's best interest to abandon all its one and two years old immature crops, totaling 203 acres. By doing so, there would be less cash flow uncertainties and the Company should have sufficient working capital for its operations and meeting of all its debt obligations. Management also believes this plan will attain the most end value upon the Company's exit. In October 2020, the Board accepted management's recommendation and approved the plan of abandoning all the immature crops. The remaining 319 acres are expected to be completed in the next two years and the final harvest will be in fiscal 2022.

For the harvest in fiscal 2021, the current plan is to harvest all the 4-year-old and 5-year-old crops in two harvests, one in the fall of 2020 and the other in the spring of 2021.

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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.

	2020	2019	2018
Statements of Income data:			
Total revenue from sale of root	\$ 5,788,000	\$ 7,813,000	\$ 4,506,000
Net income (loss)	(7,354,000)	(4,953,000)	4,730,000
Earnings (loss) per share – basic	(1.00)	(0.68)	0.66
Earnings (loss) per share – diluted	(1.00)	(0.68)	0.63
Statements of Financial Position data:			
Non-current assets classified as held for sale	1,093,000	-	-
Biological assets	8,172,000	16,252,000	23,802,000
Property and equipment	5,902,000	7,551,000	6,518,000
Total assets	20,715,000	32,061,000	39,062,000
Total non-current liabilities	1,884,000	4,921,000	6,933,000
Total liabilities	4,299,000	8,016,000	10,321,000

Results of Operations

For the year ended June 30, 2020, the Company reported a net loss of \$7,354,000 or \$1.00 per share. This compares to a net loss of \$4,953,000 or \$0.68 per share for the year ended June 30, 2019. The primary reason for the loss in 2020 was due to a substantial negative adjustment for the ginseng prices in the next two years, resulting in a further decrease of \$7,248,000 in the fair value of the crops under cultivation and a decrease of \$940,000 in the net realizable value of ginseng inventory at year end. Also contributing to the net loss was writing off all the seed inventory of \$310,000, pre-planting costs of \$177,000 and impairment of right-of-use assets of \$418,000 as the Company has decided to cease planting new crops going forward. The following table compares the operating results for the years ended June 30, 2020 and 2019.

	2020	2019	Change from 2019
Revenue	\$ 5,788,000	\$ 7,813,000	\$ (2,025,000)
Cost of sales	5,630,000	7,570,000	(1,940,000)
Gross profit	158,000	242,000	(84,000)
Administrative expenses	1,020,000	1,298,000	(278,000)
Decrease in fair value of biological assets	7,248,000	5,586,000	1,662,000
Finance income	29,000	57,000	(28,000)
Finance costs	238,000	275,000	(37,000)
Other income	149,000	329,000	(180,000)
Gain from disposition of equipment	1,000	42,000	(41,000)
Write-down of inventories	1,240,000	260,000	980,000
Write-off of pre-planting costs	177,000	-	177,000
Impairment of right-of-use assets	418,000	-	418,000
Income tax recovery	2,660,000	1,795,000	865,000
Net loss	(7,354,000)	(4,953,000)	(2,401,000)
Loss per share, basic and diluted	(1.00)	(0.68)	(0.32)

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Revenue from the sale of ginseng root

In fiscal 2020, the Company generated gross revenues of \$5,788,000 from the sale of 426,000 lbs of ginseng, of which 332,000 lbs or 56% were from its current year harvest and the remaining 94,000 lbs were all the inventory from the harvest in the prior year. This compares to \$7,813,000 from the sale of 393,000 lbs of ginseng or 80% of its harvest in fiscal 2019. Despite selling 33,000 lbs more this year, revenue was \$2,025,000 or 26% less than the prior year due to a continuing decline in prices since early 2019. In fiscal 2020, the average price per pound decreased to \$13 from \$20 in the prior year for the reasons discussed under Operations and Overall Performance.

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.

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, 2020, the actual cost of sales was \$5,831,000. This compares to cost of sales of \$5,630,000 reported under IFRS.

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.

Administrative expenses

Administrative expenses in fiscal 2020 decreased by \$278,000 to \$1,020,000 from \$1,298,000 in fiscal 2019 mainly due to an allowance paid to a former executive in the prior year and the savings from not replacing the position after then, a cutback on marketing activities and travel and the termination of administrative services provided by Trilogy effective January 1, 2020. These savings were partially offset by an increase of \$42,000 in legal fees for finalizing an old shareholder dispute. Rent that was previously classified as operating leases under IAS 17 prior to fiscal 2020 has now been replaced by short-term leases per the Company's election permitted under IFRS 16. The following table details the composition of administrative expenses for the years ended June 30, 2020 and 2019.

	2020	2019	Change from 2019
Filing and transfer agent	\$ 13,000	\$ 13,000	\$ -
Insurance	10,000	9,000	1,000
Investor relations	6,000	7,000	(1,000)
Marketing and promotion	-	11,000	(11,000)
Office	54,000	53,000	1,000
Professional fees	117,000	75,000	42,000
Rent	-	47,000	(47,000)
Short-term leases	43,000	-	43,000
Salaries	770,000	1,069,000	(299,000)
Travel	7,000	14,000	(7,000)
	\$ 1,020,000	\$ 1,298,000	\$ (278,000)

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Change in fair value of biological assets

For the year ended June 30, 2020, the Company reported a decrease of \$7,248,000 in the fair value of ginseng crops. The Company lowered the price forecast further in the fourth quarter of fiscal 2020 due to a continuing decline in ginseng prices resulting from a deterioration in the Chinese consumer economy caused by the COVID-19 pandemic. In addition, the Company decreased its expectation of the yields on the harvests in the next two years due to a prolonged arctic frost in Ontario last May, which had caused a certain degree of damage to some of the crops.

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 revising its price forecast as a result of a slowdown in the Chinese economy and the emerging political, trade and tariff issues at that time.

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, 2020, the Company reported interest income of \$29,000, a decrease of \$28,000 when compared to interest income of \$57,000 in 2019. The decrease was due to redeeming the term deposits for the Company's operating requirements.

Finance costs

Upon the adoption of IFRS 16 on July 1, 2019, finance costs now include interest accretion on lease liabilities. Prior to the adoption of IFRS 16, the Company included the payments for its operating leases in current crop costs within biological assets on the statements of financial position. On transition to IFRS on July 1, 2019, the Company recognized the net present value of future lease payments, except for those leases having a remaining term of less than 12 months or leases of low-value assets, as lease liabilities and interest accretion is therefore, presented as finance cost on the statements of profit or loss.

The composition of finance costs for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019	Change from 2019
Interest accretion on long-term loans	\$ 135,000	\$ 215,000	\$ (80,000)
Interest accretion on lease liabilities	41,000	-	41,000
Mortgage and equipment loan interest	62,000	60,000	2,000
	<u>\$ 238,000</u>	<u>\$ 275,000</u>	<u>\$ (37,000)</u>

Other income

Other income of \$149,000 in the year ended June 30, 2020 included planting fee income and a yield bonus of \$69,000 from Ponderosa, government program payments of \$55,000 and fee income of \$25,000 from Knightwood.

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.

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Write down of inventories

As a decision to completely cease planting new crops was made in June 2020, the Company wrote off all the seed inventory totaling \$310,000. As for the ginseng inventory, although sales slowly resumed in the fourth quarter of fiscal 2020, prices had plummeted to an unexpected low level and the Company was doubtful when the prices would be back to the pre-2019 level. As such, the Company wrote down its ginseng inventory by \$940,000 to its estimated net realizable value of approximately \$2,147,000.

For the year ended June 30, 2019, the Company wrote down its ginseng inventory by \$260,000 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 would be resolved.

Write-off of pre-planting costs

As the Board has decided to cease planting new crops, all land preparation costs totaling \$177,000 were written off in June 2020.

Impairment of right-of-use assets

Upon the Company's adoption of IFRS 16 *Leases* on July 1, 2019, land leases for new plantings in fiscal 2021 were recognized as right-of-use assets. Since the Company has decided to cease planting new crops going forward, these land leases became impaired and the full unamortized amount of \$418,000 was removed from right-of-use assets in June 2020.

Income tax recovery

Income tax recovery of \$2,660,000 in 2020 and \$1,795,000 in 2019 consisted solely of deferred tax recovery.

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 loss	Loss per share, basic and diluted
June 30, 2020	Q4 FY2020	\$ 1,710,000	\$ (5,166,000)	\$ (0.70)
March 31, 2020	Q3 FY2020	3,519,000	(811,000)	(0.11)
December 31, 2019	Q2 FY2020	13,000	(488,000)	(0.07)
September 30, 2019	Q1 FY2020	546,000	(889,000)	(0.12)
June 30, 2019	Q4 FY2019	1,307,000	(932,000)	(0.13)
March 31, 2019	Q3 FY2019	2,269,000	(2,624,000)	(0.36)
December 31, 2018	Q2 FY2019	4,237,000	(279,000)	(0.04)
September 30, 2018	Q1 FY2019	-	(1,118,000)	(0.15)

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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, global supply and inventory. Significantly adding to these factors now are the trade war between China and the United States, a deteriorating political relationship between Canada and China, and the economic impact and uncertainty from the ongoing COVID-19 pandemic.

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.

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. At June 30, 2020, the Company did not draw on this facility.

The Company had a working capital surplus of \$4.93 million at June 30, 2020, almost all of which consisted of ginseng in the form of dried root inventory and mature crops. As discussed above, fiscal 2020 was a very challenging and difficult year and fiscal 2021 is expected to be a continuation of this. Until January 2020, the significant pressure on sales and prices created by the trade, tariff and political issues had made each subsequent sale more difficult. In late January 2020, with the news of the outbreak of coronavirus, ginseng trade came to an immediate and complete stop. Although some sales activities slowly resumed in April when China started lifting certain lockdown restrictions, the Company's sales subsequent to the March quarter indicated that while there was not much change to the demand of ginseng, prices had fallen sharply probably due to a decrease in household income and hence spending as a result of the economic impact from the lockdown in China.

Whereas it is impossible to predict how far this economic impact will go and how long it will stay, the Company's ability to fund its operations is highly dependent on both ginseng prices and the ability to sell its ginseng. As such, in June 2020, the Board made an ultimate decision to complete cease planting new crops but will continue to maintain the existing crops until they are gradually harvested out in the next few years. The Company also listed one of its farm properties for sale as it will be idle after harvest this fall. The property was sold in September 2020 for \$1.28 million. Subsequent to the year end, after running different scenarios that took into account the possible downsides if the issues noted above continue into the next few years, management concluded that if the Company abandoned all the immature crops, it would likely have sufficient cash flows to cover its operations and debt obligations when they come due without having to seek additional capital resources or financing alternatives, which become very limited given the Company's current operating plan. In October 2020, the Board accepted management's recommendation to abandon all the immature crops (see Outlook).

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Transactions with Related Parties

Golden Phoenix Venture Inc. (the "Distributor")

The Distributor, owned and controlled by James Chang, a former director of the Company who retired from the Board in May 2020, is the sole distributor of the Company's ginseng pursuant to a distribution agreement. Under the agreement, the Distributor will buy all the Company's ginseng harvested in a given year at agreed market prices in return for an exclusive right to distribute the Company's ginseng in Asia and North America. The distribution agreement is still in effect subsequent to the retirement of James Chang from the Board.

For the year ended June 30, 2020, the Company and the Distributor had sales transactions totaling \$5,788,000. No amounts were outstanding from the Distributor at June 30, 2020.

Knightswood Holdings Ltd. ("Knightswood"); Elcyc Holdings Ltd. and Canterra Capital Corp. (collectively the "Operator")

On January 6, 2020, the Company acquired all the issued and outstanding shares of Knightswood and subsequently entered into a business management agreement with the Operator for the management and administration of all the business and affairs of Knightswood (the "Knightswood Agreement"). Elcyc Holdings Ltd. is owned and controlled by Maurice Levesque, executive vice-president and director of the Company and Canterra Capital Corp. is owned and controlled by Stephen McCoach, CEO and director of the Company.

Under the Knightswood Agreement, the Company will not commit its management or resources and is under no obligation to advance funds to or cover the expenses of Knightswood. The Operator is solely responsible for managing the business operations and financial affairs, making decisions and setting out policies of Knightswood. In return, the Operator is entitled to all the cash surplus in Knightswood after paying a fixed annual fee of \$50,000 to the Company for holding the shares of Knightswood (the "Fixed Fee"). The Fixed Fee is due in four equal instalments at the end of each calendar quarter and will be paid by Knightswood directly to the Company. For the year ended June 30, 2020, the Company reported \$25,000 in other income. No amount was outstanding from Knightswood at June 30, 2020.

The Knightswood Agreement has a term of five years expiring January 6, 2025 but may be terminated earlier either by mutual agreement or by providing a 60-day written notice to the other party. Upon termination, the Company will transfer all the shares of Knightswood to the Operator for a consideration of \$10.

Ponderosa Ginseng Farms Corp. ("Ponderosa")

The Company and 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.

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

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income was \$22,000 of yield bonus estimated from the sale of Bonus Root for the year ended June 30, 2020, which was outstanding at June 30, 2020.

For the year ended June 30, 2020, the Company incurred Actual Costs of \$317,000. Total fee income including yield bonus was \$69,000. At June 30, 2020, the balance of prepayment was \$56,000.

Pursuant to the Farming Agreement, the Company will undertake the selling of ginseng root harvested from the Ponderosa Acres and will pay to Ponderosa the full amount of proceeds from each completed sale within 30 days of receipt by the Company. For the year ended June 30, 2020, the Company made sales totaling \$901,000 for Ponderosa. No amounts were outstanding to Ponderosa at June 30, 2020.

In 2017, Ponderosa notified the Company to terminate planting new acres but continue with maintaining the existing Ponderosa Acres until they are gradually harvested out by the fall of 2020. During the year ended June 30, 2020, the Company harvested 23 Ponderosa Acres. At June 30, 2020, the Company was maintaining 7 Ponderosa Acres, which will all be harvested in the fall of 2020.

Trilogy Bancorp Ltd. ("Trilogy")

Prior to January 1, 2020, the Company had an administrative agreement with Trilogy, a company owned and controlled as to one-third by Stephen McCoach and one-third by Maurice Levesque, who are directors of the Company. Under the administrative agreement, Trilogy provided accounting, office and administrative services to the Company for a monthly fee of \$10,500. The administrative agreement was terminated effective December 31, 2019. For the year ended June 30, 2020, the Company was charged administrative fee of \$63,000. No administrative fee was outstanding to Trilogy at June 30, 2020.

Key management personnel compensation

The Company's key management personnel include members of the Board and executive officers of both the Company and its subsidiary, Canadian Imperial Ginseng Ontario Ltd. ("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 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 during the years ended June 30, 2020 and 2019. Compensation to key management personnel for the year ended June 30, 2020 and 2019 was as follows:

	2020	2019
Executive officers		
Short-term benefits	\$ 844,000	\$ 1,148,000
Termination benefits	-	199,000
	844,000	1,347,000
Directors		
Short-term benefits	32,000	69,000
	\$ 876,000	\$ 1,416,000

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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 consisted of ginseng root, seed and chemicals. Due to the nature of chemicals, the Company makes purchases only when required. Chemical inventory at the end of a reporting period is generally due to the timing of its applications.

As discussed earlier, due to a continuing decline in ginseng prices, at June 30 2020, the Company lowered the expected selling price which resulted in a write down of \$940,000 of its ginseng inventory.

In June 2020, the Company had the following write-offs in relation to the Board's decision to completely cease all new plantings:

- Seed inventory totaling \$310,000.
- Land preparation expenses of \$177,000.
- Unamortized land leases of \$418,000 in right-of-use assets.

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 investments

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.

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.

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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.

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.

Leases

In assessing whether a contract contains a lease, management applies judgments when determining whether the contract involves the use of an identified asset, which should be physically distinct and provide the right to substantially all of the economic benefits from the use of the asset. Judgment is also applied in determining whether the Company has the right to control the use of the identified asset.

Lease liabilities are measured at the present value of the lease payments discounted using the Company's incremental borrowing rate. Management makes estimates in determining the incremental borrowing rate used to measure the lease liability for each lease contract when the interest rate implicit in the lease is not readily available. The incremental borrowing rate should reflect the interest rate that the Company would have to pay to borrow at a similar term and with a similar security. Determination of the incremental borrowing rate requires significant judgment and may have significant impact on the amount of lease liabilities recognized.

When estimating the lease term, on commencement date of the lease, management considers the facts and circumstances when determining whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company periodically reassesses whether it is reasonably certain to exercise the options and accounts for any changes at the date of the reassessment. Judgment on the lease term may significantly affect the amount of lease liabilities and right-of-use assets recognized.

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.

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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.

Determination of control of subsidiaries

The Company relies on its interpretation of the definition of control under IFRS in determining whether consolidation of the financial statements of the Company and its subsidiaries is required. In determining whether the Company controls its subsidiary, management assesses whether the Company has (i) power over the subsidiary; (ii) exposure, or rights, to variable returns from its involvement with the subsidiary and (iii) the ability to use its power over the subsidiary to affect those returns.

Going concern assessment

The ability of the Company to continue as a going concern involves management judgments in assessing whether the going concern assumption is appropriate, for which management takes into account all available information about the future. Management continues to closely monitor any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Changes in Accounting Policies

Effective July 1, 2019, the Company adopted IFRS 16 *Leases*, replacing IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. Instead, it requires a lessee to recognize a lease liability and a corresponding right-of-use asset at the date at which the leased asset is available for use. Exemption is available if the lease is either short-term or the underlying asset is of low value. A depreciation expense on the right-of-use asset and an interest expense on the lease liability replace the operating lease expense. IFRS 16 changes the presentation of cash flows relating to leases in the statement of cash flows.

The Company adopted IFRS 16 under the modified retrospective approach which does not require restatement of comparative information. Instead, comparative information remained as previously reported under IAS 17. In accordance with the transitional provisions, the cumulative effect of initial application was adjusted in the opening balances as at July 1, 2019.

On initial application, the Company also elected to apply the following practical expedients to leases previously classified as operating leases under IAS 17:

- Used transitional relief not to reassess whether a contract is, or contains a lease at the date of initial application.
- Relied on previous assessments in respect of onerous contracts that confirmed there were no existing onerous lease contracts.
- Applied the exemption not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and leases of low-value assets.
- Applied hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to land leases which had previously been classified as operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate of 4% as at July 1, 2019. Right-of-use assets were measured at an amount equal to the lease liabilities adjusted for the amounts in prepaids.

The following table reconciles the Company's operating lease commitments at June 30, 2019, as previously disclosed in the Company's annual consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at July 1, 2019:

Operating lease commitments at June 30, 2019	\$ 1,582,340
Less: amounts paid before initial application of IFRS 16	(214,828)
Less: short-term leases	(77,884)
<u>Undiscounted lease liabilities at July 1, 2019</u>	<u>1,289,628</u>
<u>Effect of discounting at July 1, 2019</u>	<u>(84,387)</u>
<u>Lease liabilities recognized at July 1, 2019</u>	<u>\$ 1,205,241</u>

The corresponding right-of-use asset was measured at an amount equal to the lease liability adjusted for the amounts in prepaid expenses. The following table reconciles the lease liabilities to the right-of-use assets recognized on initial application of IFRS 16 at July 1, 2019:

Lease liabilities recognized at July 1, 2019	\$ 1,205,241
Add: prepaid lease expenses	155,045
Add: land rental in pre-planting costs	160,218
<u>Right-of-use assets recognized at July 1, 2019</u>	<u>\$ 1,520,504</u>

The Company's accounting policy for leases in accordance with IFRS 16 is provided below.

The definition of a lease under IFRS 16 is applied only to contracts entered into or change on or after July 1, 2019. Substantially all the lands on which the Company cultivates ginseng are leased. At inception of a contract, the Company assesses whether it is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Except for short-term leases and leases of low-value assets, the Company recognizes a right-of-use asset and a corresponding lease liability with respect to all leases at the lease commencement date. Short-term leases are leases with a term of 12 months or less. Payments for these leases relating to cultivation are recognized in current crops costs within biological assets, or administrative expenses for general operations, on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally, the Company uses its incremental borrowing rate as the discount rate and uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments include rent during the lease term and the optional extension period if it is reasonably certain that the Company will exercise the extension option. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rates or changes in the Company's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the

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right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Modifications to a lease will be considered a remeasurement of the lease liability if there are no changes in the scope of the lease. Otherwise, a lease modification is accounted for as a separate lease. For a modification that is not accounted for as a separate lease, the Company will remeasure the liability by discounting the revised lease payments using a revised discount rate and make a corresponding adjustment to the right-of-use asset.

Each lease payment is apportioned between an interest charge and a reduction of the lease liability. Interest charges are included in finance cost in the consolidated statements of income (loss). Lease liability is subsequently increased by the interest charges and decreased when lease payments are made.

The right-of-use asset is initially measured at cost, which includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease term includes periods covered by an extension option if the Company is reasonably certain that the option will be exercised. This determination is made on a lease by lease basis and reviewed periodically. Depreciation is included in current crops costs within biological assets. The right-of-use asset may be adjusted for certain remeasurements of the corresponding lease liability.

Financial Instrument and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investments, 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.

Outstanding Share Data

At June 30, 2020 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 182,000 common shares.

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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 for the yields and prices of ginseng.*

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.*

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.