



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Years Ended
June 30, 2018 and 2017

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Year ended June 30, 2018

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 4, 2018 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, 2018.

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

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

About the Company

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

Overall Performance and Discussion of Operations

We are pleased to report that in fiscal 2018 we not only greatly exceeded our anticipated yield per acre but we also achieved the highest average yield in the Company's 27-year history. As previously reported, the Company harvested only 30 acres as a result of the small 2014 planting and produced 143,000 lbs of ginseng, a yield of approximately 4,700 lbs per acre. This compares to 118 acres harvested for 323,000 lbs of ginseng and a yield of approximately 2,740 lbs per acre in 2017. As well as the high yield, the average root size was also the best we have realized in many years. The farm management team is again to be congratulated for these outstanding yields and quality improvements. Looking forward, we are optimistic that, while it is not likely to be able to achieve such yields as this current year on larger acres, the improvement in average yields and better quality root trend will continue into future harvests.

In 2018, the Company sold all of its harvest and generated revenues of \$4.51 million with an average selling price per pound of \$33 for root only and \$32 for root and by-products combined. In 2017, the Company generated revenues of \$12 million with an average selling price per pound of \$32 for root only and \$30 for root and by-products combined in 2017. The better size and quality of the root this year resulted in the Company achieving an average price per pound slightly better than last year's, even as the industry as a whole saw a slight decline in average prices.

In 2018, the Company planted 149 acres, a bit above its long-run target of around 130 acres per year, to make up for a relatively smaller planting in 2017. At year end June 30, 2018, the Company has a total of 600 acres under cultivation. This compares to 481 acres under cultivation at June 30, 2017. The large increase in acres under current cultivation is a result of planting substantially more acres in 2015 and 2016 to make up for the very small planting in 2014. In the summer of 2018 (fiscal 2019), we planted approximately 137 acres.

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

	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)	143,000	323,000	283,000
Average yield per acre (pounds of ginseng)	4,700	2,740	2,960
Number of acres planted	149	109	173
Number of acres under cultivation:			
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	\$ 33	\$ 32	\$ 46
Root and by-products	32	30	36

In 2018, the Company also harvested 11 acres for Ponderosa. The Company will continue maintaining the remaining 50 acres for Ponderosa until they are gradually harvested out, anticipated to be by fiscal 2020 or 2021.

In September 2017, the Company filed a notice with the TSX Venture Exchange ("TSXV") to make a normal course issuer bid ("NCIB") to repurchase outstanding common shares on the open market for cancellation. 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. Any purchases are to be made through the facilities of the TSXV 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. No Common Shares were repurchased during the year ended June 30, 2018. Subsequent to the year end and as of September 30, 2018, the expiry date of the NCIB, the Company repurchased 24,900 Common Shares at an average price of \$1.28 per share. These repurchased Common Shares have been cancelled. In September 2018, the Company received approval from the TSXV for the renewal of NCIB for the period starting from October 1, 2018 and ending on September 30, 2019. From October 1, 2018 to the date of this report, the Company has repurchased an additional 8,300 Common Shares at an average price of \$1.49 per share.

In December 2017, upon the receipt of shareholder approval of an amended and restated stock option plan, the Company issued stock options to officers and directors of the Company entitling the option holders to purchase 522,000 Common Shares on or before May 26, 2022, at an exercise price of \$0.85 per Common Share. The adoption of the amended and restated stock option plan and the grant of stock options were approved by the Board, and announced in a press release, in May 2017. During the year, 32,000 Common Shares were issued upon the exercise of stock options.

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In June 2018, after the Board of Directors of the Company had carefully considered the current and projected working capital position of the Company, the Company paid a special cash dividend of \$0.03 per share on its Common Share.

Outlook

As reported in detail in previous periods' Management's Discussion and Analysis, and as can be seen from the above table, the Company has dramatically more acres currently under cultivation than in past years and, given higher anticipated future yields, has more pounds of ginseng maturing than its facility and labour can process. At this time, we are planning to deal with this capacity constraint issue by holding a portion of each of the next few years' harvests to five-year-old ginseng as well as, at the same time, updating and expanding our annual throughput capacity. Over the next few years, this may include a new or expanded processing and drying facility.

In the Spring of 2018, the Company undertook a very small experimental Spring harvest and was satisfied with both the quality and the yield of the resulting ginseng root. Following this, commencing in the Spring of 2019 and for the next few years, to help alleviate the capacity constraint issue the Company will be adopting a Spring dig regiment in addition to harvesting ginseng in the fall, which is the general practice in the industry. To produce a quality root, a Spring dig needs to happen between the time of the ground thawing and root buds growing. As this time frame is usually very tight, the Company does not expect the Spring dig to exceed 20 acres per year.

The Company is also pleased to report that its overall seed program appears to have improved dramatically over the previous few years where there were some significant yield and disease issues. The multi-year holdover seed experiment has also been successful so far and the Company intends to keep this backup seed supply program in place for the foreseeable future.

Even with this year's exceptional yield, and correspondingly higher than anticipated revenues, the Company's overall revenues this year was, as anticipated, significantly less than the prior years due to the small number of acres that were harvested. For next year, cash flow will be further impacted by the additional shade cloth and hardware required in 2019 as well as steps that will be started to be put in place to expand our drying capacity. Despite these significant financial requirements, the Company is confident that, as a result of the steps taken in the past few years to strengthen the Company's financial position and together with the support from the Company's bank, it is well positioned to manage, fund and grow its operations over the coming years.

Selected Annual Information

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

(\$000 except per share data)	2018	2017	2016
Statements of Income data:			
Total revenue from sale of root	4,506	11,990	7,512
Net income	4,730	4,115	1,335
Earnings per share – basic	0.66	0.57	0.19
Earnings per share – diluted	0.63	0.56	0.18

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(\$000 except per share data)	2018	2017	2016
Statements of Financial Position data:			
Biological assets	23,802	13,839	11,506
Property and equipment	6,518	5,953	5,102
Total assets	39,062	31,799	26,615
Total non-current liabilities	6,933	4,917	4,521
Total liabilities	10,321	7,846	6,777

Results of Operations

For the year ended June 30, 2018, the Company reported a net income of \$4,730,000, with basic earnings of \$0.66 per share and diluted earnings of \$0.63 per share. This compares to a net income of \$4,115,000, with basic earnings of \$0.57 per share and diluted earnings of \$0.56 per share for the prior year. The primary reason for the increase in net income in 2018, despite a considerably smaller revenue, was due to having 140 more acres approaching maturity when compared to 2017, leading to an increase in the fair value of ginseng crops reported for the year ended June 30, 2018.

The following table compares the operating results for the years ended June 30, 2018 and 2017.

	2018	2017	Change from 2017
Revenue	\$ 4,506,000	\$ 11,990,000	\$ (7,484,000)
Cost of sales	4,037,000	10,698,000	(6,661,000)
Gross profit	469,000	1,291,000	(822,000)
Administrative expenses	1,683,000	1,012,000	671,000
Change in fair value of biological assets	7,911,000	5,839,000	2,072,000
Finance income	78,000	69,000	9,000
Finance costs	274,000	244,000	30,000
Other income	330,000	218,000	112,000
Loss from deteriorated inventories	-	567,000	(567,000)
Gain from disposition of equipment	53,000	-	53,000
Share-based payment	329,000	-	329,000
Income tax expense	1,816,000	1,479,000	337,000
Net income	4,730,000	4,115,000	615,000
Earnings per share:			
Basic	0.66	0.57	0.09
Diluted	0.63	0.56	0.07

Revenue from the sale of ginseng root

In fiscal 2018, the Company sold all its 2018 harvest of 141,000 lbs and generated gross revenue of \$4,506,000 with an average selling price per pound of \$33 for root only and \$32 for root and by-products combined. This compares to gross revenue of \$11,990,000 for 401,000 lbs sold in 2017 with an average selling price per pound of \$32 for root only and \$30 for root and by-products combined. As discussed several times in the MD&A over the past two years, the significant decline in revenues in 2018 was due to a much smaller harvest from the small number of acres planted four years ago.

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Cost of sales

The components of the cost of sales are crop costs, drying cost and depreciation charge on the processing equipment. Under International Financial Reporting Standards ("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 cash cost of the harvested crops.

Administrative expenses

Administrative expenses in 2018 were \$1,683,000, an increase of \$671,000 from \$1,012,000 in 2017. The significant increase in 2018 was primarily due to an increase in salary expense, which included a new bonus plan for executive officers of the Company. This new bonus plan was approved by the Board in fiscal 2018 with the awarding of it being dependent on the financial performance of the Company. Also contributing to the increase in salaries was an increase in the annual management acre bonus, a result of the significant increase in yield this past year, as well as wage and benefits adjustments and a new board member meeting attendance fee commencing in 2018.

Marketing expenses in 2018 increased to \$29,000 from \$2,000 in 2017 mainly due to farm tours for potential overseas ginseng buyers and corporate apparel for promotional purposes. Professional fees increased by \$33,000 to \$103,000 in 2018 due to legal fees related to a shareholder dispute. The following table details the composition of administrative expenses for the years ended June 30, 2018 and 2017 and the change from 2017:

	2018	2017	Change from 2017
Filing and transfer agent	\$ 17,000	\$ 12,000	\$ 5,000
Insurance	9,000	9,000	-
Investor relations	7,000	6,000	1,000
Marketing	29,000	2,000	27,000
Office	50,000	51,000	(1,000)
Professional fees	103,000	70,000	33,000
Rent	46,000	45,000	1,000
Salaries	1,404,000	807,000	597,000
Travel	18,000	10,000	8,000
	<u>\$ 1,683,000</u>	<u>\$ 1,012,000</u>	<u>\$ 671,000</u>

Change in fair value of biological assets

For the year ended June 30, 2018, the Company reported an increase of \$7,911,000 in the fair value of ginseng crops. This compares to an increase of \$5,839,000 reported for the year ended June 30, 2017. The substantial increase over 2017 was due to having approximately 140 more acres of crops approaching maturity in 2018 as well as an anticipation of better yields on these crops.

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Finance income

Finance income is interest earned on demand deposits with Canadian chartered banks. Interest income fluctuates depending on the cash position of the Company. In 2018, the Company reported interest income of \$78,000, an increase of \$9,000 from \$69,000 in the prior year.

Finance costs

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

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

Other income

Other income in 2018 included planting fee income of \$77,000 and a yield bonus of \$88,000 from Ponderosa, and \$161,000 in government program payments.

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

Loss from deteriorated inventories

In 2017, a substantial quantity of the Company's stratified seed inventory that was intended for planting was infected by an unknown disease resulting in a loss of \$567,000 being reported in the year.

Share-based payment

In December 2017, the Company issued 522,000 stock options to officers and directors of the Company with each option entitling the holder to purchase 1 Common Share at an exercise price of \$0.85 per Common Share. These options were granted in fiscal 2017 however, they were not issued until the Company received shareholder approval in December 2017. All these options vested immediately upon issuance. Each option was fair-valued at \$0.63 on the date of grant using the Black-Scholes option pricing model. Accordingly, the Company reported a share-based payment of \$329,000 in 2018.

Income tax expense

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

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.

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Summary of Quarterly Results

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

		Total Revenues (\$'000)	Net income (loss) (\$'000)	Earnings (Loss) per share - Basic	Earnings (Loss) per share - Diluted
June 30, 2018	Q4 FY2018	\$ 59	\$ 2,156	\$ 0.30	\$ 0.29
March 31, 2018	Q3 FY2018	2,602	6	-	-
December 31, 2017	Q2 FY2018	1,845	1,444	0.20	0.19
September 30, 2017	Q1 FY2018	-	1,124	0.16	0.15
June 30, 2017	Q4 FY2017	891	1,224	0.17	0.17
March 31, 2017	Q3 FY2017	1,071	563	0.08	0.08
December 31, 2016	Q2 FY2017	8,304	2,840	0.39	0.39
September 30, 2016	Q1 FY2017	1,723	(512)	(0.07)	(0.07)

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, market demand, global supply and Company 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 as a result of changes in the estimate of prices and yields, the age of the crops and the number of acres under cultivation. For the quarter ended June 30, 2018, the Company had significantly more acres approaching maturity as compared to other quarters in the same fiscal year, resulting in a considerable increase in the fair value of ginseng crops, hence a substantial increase in net income, despite a small revenue generated in the quarter.

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

The Company's approach to managing its liquidity is to ensure that it has sufficient resources to meet its liabilities as they come due and have sufficient working capital to fund operations for the ensuing fiscal year. The Company has established credit facilities with a Canadian chartered bank (the "Credit Facility") which include a revolving line of credit for day-to-day operations. The Company did not draw on this facility throughout fiscal 2018. Despite a negative cash flow in 2018 due to a small harvest hence, less sales revenue, at June 30, 2018, the Company had a working capital surplus of \$16.85 million compared to \$12.55 million at June 30, 2017. Based on the current working capital position and available

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Credit Facility, the Company believes it has sufficient resources to meet the operating cash flow requirements for the next fiscal year.

The Company's capital resources include the Credit Facility, long-term borrowings, long-term loans and shareholders' equity. In addition to the ongoing program of replacing older machinery and purchasing shade cloth as required, which will be financed with a combination of cash on hand and loan facilities, the Company will be undertaking an upgrade and expansion to its drying and processing facility over the next several years. The cost and method of financing this is, at present, unknown. The Company believes that it currently has sufficient capital and financing resources in place to fund its purchases.

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, 2018 and 2017, the Company was charged \$126,000 per annum in administrative fee. No amounts were outstanding to Trilogy at June 30, 2018 and 2017.

Golden Phoenix Venture Inc. and Golden Sunshine International Ltd. ("GSI") (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, 2018, the Company and the Distributors had sales transactions totaling \$4,506,000 (2017 - \$11,990,000).

The terms of the agreement with the Distributors also provide that the agreement will be renewed for an additional two years upon its expiry on June 30, 2018. Upon the expiry of the agreement with GSI on June 30, 2018, the Company and GSI mutually agreed to terminate their contractual relationship and not to renew the agreement.

Ponderosa Ginseng Farms Corp.

The Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a private company having some directors 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 will reimburse the Company the actual farming and root processing expenses (the "Actual Costs"), which are estimated and prepaid annually (the "Prepayment") prior to the beginning of the Company's fiscal year. In return, the Company earns a planting fee equal to 15% of the Actual Costs from Ponderosa. Subsequent to the completion of a farming year, the Company will calculate the Actual Costs and settle the account with Ponderosa accordingly.

In 2017, Ponderosa notified the Company that it wished to terminate planting new acres but to continue with the Ponderosa Acres then under cultivation until they are harvested. In 2018, the Company completed the first harvest of 11 Ponderosa Acres. There remains 50 Ponderosa Acres under cultivation which will be gradually harvested out by the fall of 2019 or 2020.

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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, 2018, the Company made sales totaling \$1,596,000 for Ponderosa. No sales proceeds were outstanding to Ponderosa at June 30, 2018.

Also pursuant to the Farming Agreement, the Company is entitled to a yield bonus if the actual yield of the root harvested in a year exceeds a pre-determined base yield (the "Bonus Root"), calculated as 15% of the revenue from the sale of the Bonus Root. The yield bonus is payable on or before the earlier of 30 days after all the ginseng root is sold and June 30 of the year following the harvest. Included in planting fee income was a yield bonus of \$88,000 from the sale of Bonus Root for the year ended June 30, 2018.

For the year ended June 30, 2018, the Company incurred Actual Costs of \$517,000. Total planting fee income realized in the year was \$164,000. At June 30, 2018, the balance of Prepayment was \$492,000.

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.

In December 2017, upon the receipt of shareholder approval of an amended and restated stock option plan, the Company issued stock options to officers and directors of the Company entitling the option holders to purchase 522,000 Common Shares at an exercise price of \$0.85 per Common Share. These stock options were approved for grant by the Board in May 2017. The options are fair-valued at \$0.63 each using the Black-Scholes option pricing model resulting in an inclusion of \$329,000 of stock-based compensation in key management personnel compensation for the year ended June 30, 2018 in the table below.

Year ended June 30,	2018	2017
Executive officers		
Short-term benefits	\$ 1,611,000	\$ 860,000
Stock options	95,000	-
Directors		
Short-term benefits	116,000	62,000
Stock options	234,000	-
	\$ 2,056,000	\$ 922,000

The significant increase in short-term benefits in 2018 was due to a new bonus which the awarding of it is based on the financial performance of the Company, an increase in the acre bonus, as a result of an increase in yield, and the payment of a yield bonus to the President of CIGO pursuant to the terms of his employment agreement.

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Fourth Quarter Analysis

Generally, the Company reviews its inventories in the fourth quarter and determines if any write down or write-off is required. The Company's inventories in the fourth quarter of 2018 consisted of ginseng seed and chemicals. The Company examined its seed inventory and concluded that no write-off was required as the seed was in good condition. The Company also concluded that no write down was required as the fair market value of the seed inventory exceeded its cost. As for the chemical inventory, the Company determined that certain chemicals needed to be disposed of as they had been left unused for too long, which resulted in a write off in the fourth quarter of 2018.

Generally, the Company performs annual impairment tests on the equipment in the fourth quarter and the equipment's carrying value is adjusted if any impairment exists. The Company did not identify any significant impairment of machinery in the fourth quarter of 2018.

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.

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.

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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.

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.

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 in 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 recognized 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.

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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 'capitalized' by recognizing 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 recognizes 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. The Company has concluded that there will be no impact on the Company's consolidated net income.

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.

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Year ended June 30, 2018

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

During the year ended June 30, 2018, the Company issued a total of 32,000 Common Shares for stock options exercised. At June 30, 2018, the Company had 7,241,847 Common Shares issued and outstanding and stock options with a weighted average exercise price of \$0.72 per Common Share for the purchase of 682,000 Common Shares.

Subsequent to the year end, the Company issued 52,000 Common Shares for stock options exercised and cancelled 33,200 Common Shares repurchased under the NCIB. At the date of this MD&A, the Company had 7,260,647 Common Shares issued and outstanding and stock options for the purchase of 630,000 Common Shares.

Cautionary Note Regarding Forward-Looking Information and Business Risks

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

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

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

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

- *the Company's ability to meet the expected yields.*
- *the availability and the affordability of seed and land so as to maintain the same level of planting each year.*

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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.