



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Three-Month Periods Ended
September 30, 2018 and 2017

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Three-Month Period ended September 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 November 27, 2018 unless otherwise indicated. All amounts are stated in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three-month period ended September 30, 2018 and 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. ("CIGO") The Company cultivates and processes North American ginseng in Ontario and sells the root, mainly to Asia, through the Distributor (see "Transactions with Related Parties").

Overview and Outlook

As at the date of this report, the Company has completed its fall harvest program and harvested 92 of its 169 acres of four-year-old gardens. As discussed below, the Company plans to harvest an additional 20 acres of its four-year-old in the spring of 2019 and carry the remainder into the following year.

Whereas the processing of ginseng is still underway, the Company anticipates that the yield of its fall harvest will be approximately 3,900 lbs per acre. Offsetting this very good yield, the selling of ginseng is getting off to a slow start this year and the Company now expects the prices to be quite a bit lower than the prior year's.

As discussed in the previous periods' MD&A, with a larger planting of ginseng acres from four years ago (to catch up a very small planting in the previous year due to seed shortage) and an improved yield, we are now facing a capacity constraint that is expected to continue in the next few years. Besides updating and expanding our annual throughput capacity, starting this year, the Company will adopt a Spring dig regiment in addition to harvesting ginseng in the fall. As a Spring dig needs to happen between the time of the ground thawing and root buds growing, the Company does not expect it to exceed 20 acres due to this tight time frame. As such, in each of the next few years, a portion of the four-year-old will be held for one more year and harvested in the following year as five-year-old ginseng.

In fiscal 2019, the Company planted 137 acres. This compares to 149 acres planted in fiscal 2018. At the date of this report, the Company had a total of 645 acres under cultivation.

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

	Q1 FY2019	FY2018	FY2017
Number of acres harvested:			
3-year-old	-	1	-
4-year-old	92	29	118
	<u>92</u>	<u>30</u>	<u>118</u>

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	Q1 FY2019	FY2018	FY2017
Total production (pounds of ginseng)	not available	143,000	323,000
Average yield per acre (pounds of ginseng)	not available	4,700	2,740
Number of acres planted	137	149	109
Number of acres under cultivation at period end ⁽¹⁾ :			
New planting	137	-	-
1-year-old	149	149	109
2-year-old	109	109	173
3-year-old	173	173	170
4-year-old	77	169	29
	<u>645</u>	<u>600</u>	<u>481</u>
Average selling price:			
Root only	not available	\$ 33	\$ 32
Root and by-products	not available	32	30

⁽¹⁾ The age of crops under cultivation as at the date of this report for Q1 FY2019 does not correspond to its reported age until the following summer.

At of the date of this report, the Company also harvested 16 acres for Ponderosa. The Company will continue maintaining the remaining 34 acres for Ponderosa until they are gradually harvested out, anticipated to be by fiscal 2020.

Pursuant to a normal course issuer bid ("NCIB"), as approved by the TSX Venture Exchange ("TSXV"), the Company could have repurchased, for cancellation, up to 360,492 common shares of the Company during the period from October 2, 2017 to September 30, 2018. During the three-month ended September 30, 2018, the Company repurchased and cancelled 24,900 common shares at an average price of \$1.28 per share. In September 2018, the Company received an approval from the TSXV for the renewal of NCIB. Under the renewed NCIB, the Company may repurchase, for cancellation, up to 363,000 common shares starting from October 1, 2018 and ending on September 30, 2019.

During the three-month ended September 30, 2018, the Company issued 52,000 common shares upon the exercise of stock options.

Results of Operations

For the three-month period ended September 30, 2018 (first quarter of fiscal 2019), the Company reports a net loss of \$1,118,000 or \$0.15 per share. This compares to a net income of \$1,125,000, with basic earnings of \$0.16 per share and diluted earnings of \$0.15 per share for the same quarter of fiscal 2018. The primary reason for the loss in the quarter ending September 30, 2018 was due to management lowering its forecast on the ginseng prices this year thereby reporting a decrease in the fair value of ginseng crops. The following table compares the operating results for the three months ended September 30, 2018 and 2017.

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	Three months ended Sep 30		Change from
	2018	2017	Sep 30, 2017
Administrative expenses	\$ 461,000	\$ 325,000	\$ 136,000
Change in the fair value of biological assets	(719,000)	1,440,000	(2,159,000)
Finance income	12,000	26,000	(14,000)
Finance costs	77,000	65,000	12,000
Other income	107,000	21,000	86,000
Gain from sale of property and equipment	20,000	28,000	(8,000)
Net income (loss)	(1,118,000)	1,125,000	(2,243,000)
Earnings (loss) per share:			
Basic	(0.15)	0.16	
Diluted	(0.15)	0.15	

Administrative expenses

Administrative expenses increased by \$136,000 to \$461,000 in the first quarter of fiscal 2019 from \$325,000 in the same quarter of fiscal 2018, due mainly to an allowance paid to the former president of the Company who retired on August 31, 2018. The following table details the composition of administrative expenses in the first quarters of fiscal 2019 and 2018:

Three-month periods ended Sep 30,	(Q1 FY2019)	(Q1 FY2018)	Change from Q1 FY2018
	2018	2017	
Filing and transfer agent	\$ 6,000	\$ 5,000	\$ 1,000
Insurance	9,000	9,000	-
Investor relations	1,000	-	1,000
Office	15,000	15,000	-
Professional fees	16,000	19,000	(3,000)
Rent	12,000	11,000	1,000
Salaries	394,000	262,000	132,000
Travel	8,000	4,000	4,000
	\$ 461,000	\$ 325,000	\$ 136,000

Change in fair value of biological assets

In the first quarter of fiscal 2019, the Company reported a decrease of \$719,000 in the fair value of ginseng crops. Unlike the prior few years, this year the ginseng market is getting off to a slow start and therefore, we are not as optimistic as we were just a few months ago with respect to the prices this year. We anticipate that the prices this year will be quite a bit lower than those of last year, resulting in a decrease in the fair value of ginseng crops as compared to their fair value at June 30, 2018.

In the first quarter of fiscal 2018, the Company reported an increase of \$1,440,000 in the fair value of ginseng crops in the first quarter of fiscal 2018 as a better yield was expected when we got closer to the harvest season.

Finance income

Finance income is interest earned on demand deposits with Canadian chartered banks. Interest income fluctuates depending on the cash position of the Company. In the first quarter of fiscal 2019, the Company reported interest income of \$12,000. This compares to interest income of \$26,000 in the same quarter of fiscal 2018. The decrease in interest income was due to a gradual depletion of cash on hand for operations as a result of a smaller revenue in the prior year.

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Finance costs

Finance costs consist of interest accretion on long-term loans and interest on mortgages and equipment loans. Finance costs in the first quarter of fiscal 2019 increased by \$12,000 to \$77,000, compared to \$65,000 in the first quarter of fiscal 2018. The increase was solely due to an increase in interest accretion on long-term loans.

Other income

Other income in the first quarter of fiscal 2019 included a net of \$88,000 from the sale of green seed and planting fee income of \$19,000 from Ponderosa.

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

Summary of Quarterly Results

The table below 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
September 30, 2018	Q1 FY2019	\$ -	\$ (1,118)	\$ (0.15)	\$ (0.15)
June 30, 2018	Q4 FY2018	59	2,156	0.30	0.29
March 31, 2018	Q3 FY2018	2,602	6	-	-
December 31, 2017	Q2 FY2018	1,845	1,444	0.20	0.19
September 30, 2017	Q1 FY2018	-	1,124	0.16	0.15
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

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.

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.

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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 as at September 30, 2018. At September 30, 2018, the Company had a working capital surplus of \$12.22 million compared to \$16.85 million at June 30, 2018. Based on the projected revenues and the available Credit Facility, the Company believes it has sufficient resources to meet the operating cash requirements for the 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 shadecloth 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 which is owned and controlled as to one-third by Stephen McCoach and one-third by Maurice Levesque, who are directors of Imperial, has an administrative agreement with the Company under which Trilogy provides accounting and administrative services to the Company for a monthly fee of \$10,500. For the three months ended September 30, 2018, the Company was charged \$32,000 per annum in administrative fee. No amounts were outstanding to Trilogy at September 30, 2018.

Golden Phoenix Venture Inc. (the "Distributor")

The Distributor, owned and controlled by James Chang, a director of the Company, is the sole distributor of the Company's ginseng root. The terms of the agreement with the Distributor provide that the Distributor will buy all the Company's ginseng harvest at agreed market prices. There were no sales transactions with the Distributor during the three months ended September 30, 2018.

Ponderosa Ginseng Farms Corp.

The Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a private company having a director in common with the Company, have a ginseng farming agreement (the "Farming Agreement") under which the Company plants and maintains certain number of acres of ginseng in Ontario for the benefit of Ponderosa each year (the "Ponderosa Acres"). Pursuant to the Farming Agreement, Ponderosa 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. As at the date of this report, 27 Ponderosa Acres have been harvested and there remains 34 Ponderosa Acres under cultivation, which will be gradually harvested out by the end of fiscal 2020.

For the three months ended September 30, 2018, the Company incurred Actual Costs of \$128,000. Total planting fee income realized in the period was \$19,000. At September 30, 2018, the balance of Prepayment was \$399,000.

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Key management personnel compensation

The Company's key management personnel include members of the Board and executive officers of both the Company and CIGO. Compensation of key management personnel consists of short-term benefits which include salaries, bonuses and medical benefits. Short-term benefits for the president of CIGO are included in crop expenses. Termination benefits include retiring allowance and/or severance as a result of the Company terminating an employment contract. The Company does not provide any post-employment benefits or other long-term employee benefits. No stock options were granted to key management personnel during the three-month period ended September 30, 2018.

For the three months ended September 30, 2018 and 2017, compensation to key management personnel is as follows:

Three months ended September 30,	2018	2017
Executive officers		
Short-term benefits	\$ 193,000	\$ 232,000
Termination benefits	199,000	-
	392,000	232,000
Directors		
Short-term benefits	4,000	28,000
	\$ 396,000	\$ 260,000

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.

Assessment of property, plant and equipment

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

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Income tax

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

Fair value measurement of share-based payments

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

Allowance for uncollectible accounts

The Company sells its entire root harvest to the Distributor 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.

Changes in Accounting Policies

Standards issued and adopted

Effective July 1, 2018, the Company adopted the following standards that are mandatory for financial periods beginning on or after January 1, 2018. Many of the pronouncements issued by the International Accounting Standards Board are not applicable or do not have a significant impact to the Company and have been excluded from the discussions below. The adoption of the following standards did not have any material impact on the Company's consolidated financial statements.

IFRS 9, *Financial Instruments* ("IFRS 9") replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9.

The reclassification of financial assets and financial liabilities resulted from the adoption of the new classification requirement under IFRS 9 did not result in any changes in the measurement of the Company's financial assets and financial liabilities. The following table lists the classification of the Company's financial assets and financial liabilities under the original IAS 39 and the new IFRS 9.

Financial assets and financial liabilities	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalent	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Investment	Available-for-sale	Fair value through other comprehensive income
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Long-term borrowings	Amortized cost	Amortized cost
Long-term loans	Amortized cost	Amortized cost

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IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replaces IAS 18 *Revenue*. IFRS 15 requires entities to recognize revenue when the control of goods or services transfers to the customers whereas IAS 18 required entities to recognize revenue when the risks and rewards of the goods or services transfer to the customer. Under IFRS 15, a single five-step model is utilized to achieve the core revenue recognition principle: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when or as the entity satisfies a performance obligation.

The Company concluded that the adoption of IFRS 15 did not result in any changes in the timing of revenue recognition as compared to IAS 18 as the point of transfer of risks and rewards of the goods or services and the transfer of control occur at the same time. As such, the adoption of IFRS 15 has resulted in no adjustment to the opening retained earnings or to the presentation of the Company's financial statements.

Standards issued but not yet effective

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. IFRS 16 is effective for financial periods beginning on or after January 1, 2019, with early adoption 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.

Financial Instrument and Risk Management

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

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

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

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

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

Outstanding Share Data

During the three-month period ended September 30, 2018, the Company issued a total of 52,000 common shares for stock options exercised, and cancelled 24,900 common shares repurchased under the NCIB. At September 30, 2018, the Company had 7,268,947 common shares issued and outstanding and stock options with a weighted average exercise price of \$0.74 per common share for the purchase of 630,000 common shares.

Subsequent to September 30, 2018, the Company cancelled and returned to treasury 32,400 common shares repurchased under the NCIB. At the date of this MD&A, there were 7,236,547 common shares issued and outstanding.

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

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

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

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

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues 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.