



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Three-Month Periods Ended
September 30, 2019 and 2018

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Three-Month Period ended September 30, 2019

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 28, 2019 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, 2019 and the audited consolidated financial statements and the notes thereto for the year ended June 30, 2019.

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 China, through the Distributor (see "Transactions with Related Parties").

Overview and Outlook

As at the reporting date of this MD&A, the Company has completed planting 66 acres for fiscal 2020, compared with 137 acres planted in fiscal 2019. As discussed in the MD&A for the year ended June 30, 2019, given the current state of the market and also to alleviate the capacity constraint resulting from an anticipated larger production in the next few years, in addition to carrying some of its 4-year-old gardens for one more year, the Company also reduced its fiscal 2020 planting to half of its usual scale. This is anticipated to save the Company some cash over the next four years as well as help work off the excess production.

At the date of this report, the Company has completed its fall harvest of approximately 110 acres, of which 54 acres were 5-year-old gardens. While the processing of ginseng is still underway, the Company anticipates that the average yield from this fall harvest will be approximately 15% to 20% less than last year's average due to an extremely rainy summer this year. That said, last year's yields were near record and albeit reduced, this year's yields are still anticipated to be well above the last five years' average. The wet weather also caused damage to a small number of 3-year-old gardens, from which only a small quantity of ginseng could be salvaged.

As discussed in the prior periods' MD&A, in addition to a slowdown in the Chinese economy, the unresolved trade and tariff situation between China and the United States, and the political tension between Canada and China have caused most Chinese importers to become very cautious and, as a result, notwithstanding declining prices, ginseng sales have slowed down considerably since the beginning of 2019. At the date of this report, the Company still has approximately 60,000 lbs of its fiscal 2019 harvest in inventory.

Since the changes in the industry starting last winter, the Company has responded by actively cutting costs and postponing non-essential purchases, including suspending the purchases of new equipment and shadecloth. This year is however, going to be again a very challenging year as the causes of the sluggish sales and falling prices are out of the Company's control. If the trade, tariff and political issues are not

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resolved favourably in the near future, the ginseng industry may be faced with ongoing low prices and reduced sales, or even the inability to sell its roots in a timely manner. While we are not expecting such a dire outcome, the impact on the ginseng industry in general, including the Company, could be calamitous. The Company has been, and will continue to, closely monitoring the situation and make revisions to its operating plans and update shareholders of changes in status when and if required.

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

	Q1 FY2020	FY2019	FY2018
Number of acres harvested:			
3-year-old	-	-	1
4-year-old	56	115	29
5-year-old	54	-	-
	<u>110</u>	<u>115</u>	<u>30</u>
Total production (pounds of ginseng)	not yet available	487,000	143,000
Average yield per acre (pounds of ginseng)	not yet available	4,240	4,700
Number of acres planted	66	137	149
Number of acres under cultivation ⁽¹⁾ :			
New planting	66	-	-
1-year-old	137	137	149
2-year-old	149	149	109
3-year-old	109	109	173
4-year-old	117	173	169
5-year-old	-	54	-
	<u>578</u>	<u>622</u>	<u>600</u>
Average selling price:			
Root only	not yet available	\$ 22	\$ 33
Root and by-products	not yet available	20	32

⁽¹⁾ The age of crops under cultivation as at the date of this report for Q1 FY2020 does not correspond to its reported age until the following summer.

At the date of this report, the Company also harvested 16 acres for Ponderosa. The Company will continue to maintain the remaining 14 acres for Ponderosa until they are gradually harvested out, anticipated to be by fiscal 2021.

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.

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Results of Operations

For the three-month period ended September 30, 2019 (first quarter of fiscal 2020), the Company reports a net loss of \$889,000 or \$0.12 per share. This compares to a net loss of \$1,118,000 or \$0.15 per share for the same quarter of fiscal 2019. The primary reason for the reported loss in the first quarter of fiscal 2020 was due to management lowering its estimate of the fair value of the ginseng crops as a result of the uncertainty as to when and how the trade, tariff and political issues, as discussed above, will be resolved. Before these issues emerged, the fair value of the crops was significantly higher under the then existing market conditions.

The following table compares the operating results for the three months ended September 30, 2019 and 2018.

	Three months ended Sep 30		Change from
	2019	2018	Sep 30, 2018
Revenue	\$ 545,000	\$ -	\$ 545,000
Cost of sales	450,000	-	450,000
Gross profit	95,000	-	95,000
Administrative expenses	262,000	461,000	(199,000)
Change in the fair value of biological assets	(1,075,000)	(719,000)	(356,000)
Finance income	17,000	12,000	5,000
Finance costs	70,000	77,000	(7,000)
Other income	12,000	107,000	(95,000)
Gain from sale of property and equipment	-	20,000	(20,000)
Income tax recovery	394,000	-	394,000
Net loss	(889,000)	(1,118,000)	229,000
Loss per share, basic and diluted	(0.12)	(0.15)	

Revenue from the sale of ginseng root

Generally, the Company does not have root for sale in the first quarter of a fiscal year as the processing of harvest of the current year will not be completed until late November to early December. Any root available for sale in the first quarter is typically inventory from the harvest in the previous year.

During the three months ended September 30, 2019, the Company sold approximately 32,000 lbs or 35% of its inventory carried over from its fiscal 2019 harvest, and generated \$545,000 with an average selling price of \$17.50 per lb.

No revenues were generated in the same quarter of fiscal 2019 as there was no root available for sale at that time.

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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 three-month period ended September 30, 2019, the actual cash cost of sales was \$390,000, or \$13 per lb, for a gross profit of \$155,000 or 28% gross profit margin. This compares to cost of sales of \$450,000 and a gross profit of \$95,000, or 17% gross profit margin, reported under IFRS.

Administrative expenses

Administrative expenses in the first quarter of fiscal 2020 decreased by \$199,000 to \$262,000 from \$461,000 in the same quarter of fiscal 2019. The decrease was due mainly to an allowance paid to a former executive of the Company who retired in the prior year, partially offset by an increase of \$27,000 in professional fees due to legal activities in connection with an ongoing shareholder dispute.

The following table details the composition of administrative expenses for the three-month periods ended September 30, 2019 and 2018 and the change from 2018:

Three-month periods ended September 30,	2019	2018	Change from 2018
Filing and transfer agent	\$ 5,000	\$ 6,000	\$ (1,000)
Insurance	9,000	9,000	-
Investor relations	-	1,000	(1,000)
Office	13,000	17,000	(4,000)
Professional fees	43,000	16,000	27,000
Rent	-	9,000	(9,000)
Salaries	175,000	394,000	(219,000)
Short-term leases	10,000	-	10,000
Travel	7,000	9,000	(2,000)
	<u>\$ 262,000</u>	<u>\$ 461,000</u>	<u>\$ (199,000)</u>

Change in fair value of biological assets

In the first quarter of fiscal 2020, the Company reported a decrease of \$1,075,000 in the fair value of ginseng crops. Due to declining ginseng prices, resulting from a slowdown in the Chinese economy and the trade, tariff and political issues described previously, the Company lowered the price forecast further in the first quarter of fiscal 2020. In addition, the Company decreased its expectation of the yields on the harvests in the next two years due to an unusual rainy growing season this year, which has caused a certain degree of damage to some of the crops.

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 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.

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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 the first quarter of fiscal 2020, the Company reported interest income of \$17,000. This compares to interest income of \$12,000 in the same quarter of fiscal 2019. The increase in interest income was due to better interest rates as well as a comparatively larger sum of proceeds from the sale of last year's harvest was available for short-term investment.

Finance costs

Upon the adoption of IFRS 16 on July 1, 2019, finance costs now include the interest accretion on the discount of lease liabilities. Prior to the adoption of IFRS 16, the Company included the payments for its operating leases in current crop costs within biological asset 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 income.

The composition of finance costs for the three-month periods ended September 30, 2019 and 2018 is as follows:

Three-month periods ended September 30,	2019	2018	Change from 2018
Interest accretion on long-term loans	\$ 45,000	\$ 64,000	\$ (19,000)
Interest accretion on lease liabilities	12,000	-	12,000
Mortgage and equipment loan interest	13,000	13,000	-
	\$ 70,000	\$ 77,000	\$ (7,000)

Other income

Other income in the first quarter of fiscal 2020 consisted solely of planting fee income of \$12,000 from Ponderosa.

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.

Income tax recovery

Income tax recovery in the first quarter of fiscal 2020 consisted solely of deferred tax recovery of \$394,000.

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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
September 30, 2019	Q1 FY2020	\$ 545	\$ (889)	(0.12)	(0.12)
June 30, 2019	Q4 FY2019	1,307	(932)	(0.13)	(0.13)
March 31, 2019	Q3 FY2019	2,269	(2,624)	(0.36)	(0.36)
December 31, 2018	Q2 FY2019	4,237	(279)	(0.04)	(0.04)
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

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 and global supply and inventory. Adding to these items currently are the trade, tariff and political issues started in fiscal 2019, which have continued into fiscal 2020.

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 September 30, 2019, the Company did not draw on this facility.

Whereas the Company had a working capital surplus of \$9.93 million at September 30, 2019, 84% of it was made up of ginseng in the form of dried root inventory and mature crops. As discussed above under Overview and Outlook, fiscal 2020 will be a very challenging year as the current trade, tariff and political issues have created significant pressure on sales and prices, making each subsequent sale more difficult. As such, in addition to postponing most major equipment purchases and an expansion of its drying and processing facility, the Company has started looking at other financing and cost cutting means in case the timing of sales of the current year harvest do not go as expected.

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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 the Company, has an administrative agreement under which Trilogy provides accounting and administrative services to the Company for a monthly fee of \$10,500. For the three-month ended September 30, 2019, the Company was charged \$32,000 in administrative fee. No amounts were outstanding to Trilogy at September 30, 2019.

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. During the three-month period ended September 30, 2019, the Company and the Distributor had sales transactions totaling \$545,000. No amounts were outstanding from the Distributor at September 30, 2019.

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 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.

In 2017, Ponderosa notified the Company that it wished to terminate planting new acres but to continue with the Ponderosa Acres under cultivation until they are harvested. At the date of this report, 14 Ponderosa Acres remain under cultivation and these will be gradually harvested out by the fall of 2020.

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 \$72,000. For the year ended June 30, 2019, the Company incurred Actual Costs of \$454,000. Total planting fee income realized in the year was \$140,000. At June 30, 2019, the balance of Prepayment was \$363,000.

Pursuant to the Farming Agreement, the Company will undertake the selling of ginseng root harvested from the Ponderosa Acres and pay to Ponderosa the full amount of proceeds from each completed sale within 30 days of receipt by the Company. During the year ended June 30, 2019, the Company made sales totaling \$1,383,000 for Ponderosa. No sales proceeds were outstanding to Ponderosa at June 30, 2019.

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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 in the three-month periods ended September 30, 2019 and 2018.

For the three-month periods ended September 30, 2019 and 2018, compensation to key management personnel was as follows:

For the three-month periods ended September 30	2019	2018
Executive officers		
Short-term benefits	\$ 170,000	\$ 193,000
Termination benefits	-	199,000
	170,000	392,000
Directors		
Short-term benefits	4,000	4,000
	\$ 174,000	\$ 396,000

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 investment

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

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from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

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.

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.

Long-term borrowings and loans

Long-term borrowing and loans are classified as other financial liabilities, recorded at fair value on initial recognition and subsequently measured at amortized cost using the effective interest method. Estimates used in determining the effective interest rate include the risk-free interest rate, cost of borrowing and market risk.

Assessment of property, plant and equipment

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

Income tax

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

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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.

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.

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.
- 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.

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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 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.

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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, 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

At September 30, 2019 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 502,000 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.

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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 ability to sell the ginseng at a reasonable price and in a timely manner.*
- *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.