



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Three-Month Periods Ended
September 30, 2021 and 2020

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Three-Month Period ended September 30, 2021

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 25, 2021 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, 2021 and the audited consolidated financial statements and the notes thereto for the year ended June 30, 2021.

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

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

About the Company

Imperial was incorporated under the laws of the province of British Columbia in 1989. The Company's common shares are listed on the TSX Venture Exchange under the symbol "IGP". The Company cultivates and processes North American ginseng in Ontario and sells the root, almost exclusively to China, through a distributor.

Discussion of Operations and Overview

The exceptionally wet weather in southern Ontario this fall not only delayed the start of but also halted our harvest several times. As a result, the Company was unable to harvest all of the planned 104 acres this fall. At the date of this MD&A, the fall harvest is complete and 97 acres were harvested. The remaining 7 acres that were planned for this fall will be harvested in the coming spring. The Company estimates that production from this fall harvest will be around 290,000 lbs, for an average yield of 3,000 lbs per acre. In fiscal 2021, the Company harvested 169 acres with an average yield of 2,820 lbs per acre for a total production of 479,000 lbs. At the date of this MD&A, there remains 45 acres of ginseng which will all be harvested as five-year-old ginseng in the fall of 2022.

As has been discussed in the MD&A for the previous reporting periods, as a result of the hardship caused by the economic and political factors as well as a shortage of local labour and temporary offshore workers caused by the COVID-19 pandemic, in the fall of 2020, the Board concluded that it would be in the best interest of the stakeholders that the Company exits the ginseng industry. After completing the final harvest in the next fiscal year, the Company will commence liquidating any remaining assets and winding up its ginseng operations in an as orderly fashion as possible.

As discussed in the MD&A for the year ended June 30, 2021, just when the ginseng sales channels started to slowly open up a bit in early 2021, the industry faced another challenge brought about by the COVID-19 pandemic. Global disruptions in the transportation industry have caused either multiple delays or cancellations of shipments due to a shortage of containers and/or labour to deal with them. The Company does not foresee this global issue being resolved or the situation significantly improved in the near future and therefore is expecting that it will take a much longer time to successfully sell and ship the ginseng this year. As at the date of this MD&A, the Company has not made any sales from this fall harvest nor is it aware of any sales or prices from other growers in the industry.

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Despite the challenges discussed above, with the help of government program payments that were recently received, the Company believes that, even with current ginseng prices, it will have sufficient cash flow to cover its operating expenses until the final harvest is complete as well as meeting its financial obligations as they fall due. The Company's goal remains to generate the highest possible end value upon the Company's exit from the ginseng industry.

Results of Operation

For the three-month ended September 30, 2021, the Company reports a net income of \$1,609,000, with basic earnings of \$0.22 and diluted earnings of \$0.21 per share. The primary reason for the income in this quarter was the receipt of government program payments of \$2.74 million. For the same quarter of the prior year, the Company reported a net loss of \$4,200,000 or \$0.57 per share primarily due to the recognition of a loss of \$3.97 million from the abandonment of immature crops. The following table compares the operating results for the three months ended September 30, 2021 and 2020.

For the three months ended September 30,	2021	2020	Change from 2020
Revenue	\$ 903,000	\$ 1,024,000	\$ (121,000)
Cost of sales	835,000	867,000	(32,000)
Gross profit	68,000	57,000	11,000
Administrative expenses	353,000	218,000	135,000
Decrease in fair value of biological assets	524,000	1,704,000	(1,180,000)
Finance income	3,000	2,000	1,000
Finance costs	11,000	59,000	(48,000)
Other income	16,000	20,000	(4,000)
Other expenses	15,000	-	15,000
Government program payments	2,744,000	-	2,744,000
Gain on disposition of property and equipment	26,000	127,000	(101,000)
Loss on abandonment of biological assets	-	3,972,000	(3,972,000)
Income tax (expense) recovery	(345,000)	1,547,000	(1,892,000)
Net income (loss)	1,609,000	(4,200,000)	5,809,000
Earnings (loss) per share			
Basic	0.22	(0.57)	0.79
Diluted	0.21	(0.57)	0.78

Revenue from the sale of ginseng root

For the three months ended September 30, 2021, the Company sold 79,000 lbs of ginseng that was inventory from the harvest in the prior year and generated revenues of \$903,000 with an average selling price of \$11.48 per lb. In the same quarter of the prior year, the Company sold 134,000 lbs of ginseng and generated revenues of \$1,024,000 with an average selling price of \$7.60 per lb. The selling price in the prior year was much lower due to weather damage to the ginseng over the past years.

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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 ginseng harvested.

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.

Administrative expenses

Administrative expenses in the first quarter of the current fiscal year increased to \$353,000 from \$218,000 in the same quarter of the prior year. The increase was mainly due to an increase in salaries for a bonus of \$65,000 and an accrual of \$63,000 for post-employment benefits, which were recognized starting from the fourth quarter of the prior year when the Company entered into retention agreements with certain key employees. The following table details the composition of administrative expenses for the three-month periods ended September 30, 2021 and 2020.

For the three months ended September 30,	2021	2020	Change from 2020
Depreciation	\$ 16,000	\$ 15,000	\$ 1,000
Insurance	15,000	16,000	(1,000)
Office	8,000	7,000	1,000
Professional fees	19,000	16,000	3,000
Salaries	295,000	164,000	131,000
	\$ 353,000	\$ 218,000	\$ 135,000

Change in fair value of biological assets

In the first quarter of the current fiscal year, the Company reported a decrease of \$524,000 in the fair value of ginseng crops. In the first quarter of the prior year, the Company, based on the then recent sales prices and yield estimates, further lowered its forecast resulting in a decrease of \$1,704,000 in the fair value of ginseng crops.

Finance costs

Finance costs were \$11,000 in the first quarter of the current fiscal year as compared to \$59,000 in the same quarter of the prior year. Finance costs in the current year were a lot lower and consisted of interest on post-employment benefits and accretion on lease liabilities only as the Company had paid off all of its loans and borrowings in the second half of the prior fiscal year.

Other income

Other income in the first quarter of the current fiscal year included a management fee of \$13,000 from Knightswood. Other income in the first quarter of the prior year included a management fee of \$13,000 from Knightswood and a planting fee of \$4,000 from Ponderosa. The planting agreement with Ponderosa ended in the prior year upon the completion of harvesting all the crops and selling all the ginseng for Ponderosa.

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Other expenses

Other expenses were outlays not related to ginseng cultivation or administration of the Company, such as site cleanup and windup expenses.

Government program payments

During the three months ended September 30, 2021, the Company received government program payments of \$2.74 million from Agristability as a result of the large decline in income caused by market conditions in 2020. AgriStability is a risk management program delivered by the provincial government that helps farmers who are faced with disaster situations. The eligibility to receive benefits from the program is dependent on the production margin and its calculation is subject to change by the program.

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 consolidated financial statements and the discussions below.

		Total revenues	Net income (loss)	Earnings (loss) per share, basic	Earnings (loss) per share, diluted
September 30, 2021	Q1 FY2022	\$ 903,000	\$ 1,609,000	\$ 0.22	\$ 0.21
June 30, 2021	Q4 FY2021	349,000	(1,059,000)	(0.14)	(0.14)
March 31, 2021	Q3 FY2021	3,787,000	(192,000)	(0.03)	(0.03)
December 31, 2020	Q2 FY2021	2,036,000	969,000	0.13	0.13
September 30, 2020	Q1 FY2021	1,024,000	(4,200,000)	(0.57)	(0.57)
June 30, 2020	Q4 FY2020	1,710,000	(5,166,000)	(0.70)	(0.70)
March 31, 2020	Q3 FY2020	3,519,000	(811,000)	(0.11)	(0.11)
December 31, 2019	Q2 FY2020	13,000	(488,000)	(0.07)	(0.07)

Generally, ginseng sales activities start in the winter and conclude in the spring of the following year. Consequently, the Company generates most of, and at times all of, its revenues for the year in the second and third fiscal quarters. The actual timing and volume of sales each year is however dependent on general economic conditions, market demand, global supply and inventory. Significantly adding to these factors since 2020 were the economic and political impact from the COVID-19 pandemic and the global disruptions of the transportation industry.

Fluctuations in net income (loss) 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 which result from changes in the estimate of prices and yields and the number of acres under cultivation. The income reported for the first quarter of FY2022 was due to the receipt of government program payments whereas the significant loss reported for the same quarter of FY2021 was due to selling the immature crops at a deep discount.

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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 a credit facility with a Canadian chartered bank, which includes a revolving line of credit for day-to-day operations. At September 30, 2021, the Company did not draw on this facility.

At September 30, 2021, the Company had a working capital surplus of \$8.88 million of which 76% was cash on hand. The Company believes that its current cash position has provided sufficient liquidity for its operations until the final harvest is complete and to cover all the financial liabilities as they come due.

At September 30, 2021, the Company did not have any commitments for capital expenditures.

Transactions with Related Parties

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

Under a business management agreement between the Company and the Operator (the "Knightswood Agreement"), Knightswood, a wholly owned subsidiary of the Company, is solely managed by the Operator. Elcyc Holdings Ltd. is owned and controlled by Maurice Levesque, executive vice-president and director of the Company and Canterra Capital Corp. is owned and controlled by Stephen McCoach, CEO and director of the Company.

Under the Knightswood Agreement, the Company will not commit its management or resources and is under no obligation to advance funds to or cover the expenses of Knightswood. The Operator is solely responsible for managing the business operations and financial affairs, making decisions and setting out policies of Knightswood. In return, the Operator is entitled to all the cash surplus in Knightswood after paying a fixed annual fee of \$50,000 to the Company for holding the shares of Knightswood (the "Fixed Fee"). The Fixed Fee is due in four equal instalments at the end of each calendar quarter and will be paid by Knightswood directly to the Company. For the three months ended September 30, 2021, the Company reported \$13,000 in other income. No amount was outstanding from Knightswood at September 30, 2021.

Key management personnel compensation

The Company's key management personnel include members of the Board and executive officers of both the Company and its subsidiary, Canadian Imperial Ginseng Ontario Ltd. ("CIGO"). Compensation of key management personnel consists of short-term benefits which include salaries, bonuses and medical benefits. Short-term benefits for the president of CIGO are included in crop expenses. Post-employment benefits are pre-determined lump-sum amounts payable at the end of the retention period. The Company does not provide any other long-term employee benefits. For the three-month periods ended September 30, 2021 and 2020, compensation to key management personnel was as follows:

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For the three months ended September 30,	2021	2020
Executive officers		
Short-term benefits	\$ 244,000	\$ 175,000
Post-employment benefits	60,000	-
	304,000	175,000
Directors		
Short-term benefits	2,000	2,000
	\$ 306,000	\$ 177,000

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 weather, market prices and a number of other uncontrollable factors. These factors could significantly affect the fair value of the crops resulting in fair value re-measurement in the future accounting periods.

Fair value of investments

Management estimates the fair value of its investment in Ponderosa using a discounted expected cash flows model based on its own industry knowledge, historical experience and expectations of future operating results believed to be reasonable under the circumstances. These estimates are subject to a number of factors including the realization of expected yields, volatility of the ginseng market, a discount rate based on management's judgment and a number of uncontrollable factors. Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less the estimated expenses necessary to make the sale. These estimates are based on current market conditions, which could change significantly.

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Assessment of property, plant and equipment

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

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.

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.

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.

Determination of control of subsidiaries

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

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Going concern assessment

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

Accounting Standards Adopted

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2, which amends IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases*, relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities. The amendments are effective for annual periods beginning on or after January 1, 2021. The adoption of these amended standards did not have a significant impact on the Company's consolidated financial statements.

Financial Instrument and Risk Management

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

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. Generally, the Company does not have sales receivables as the transactions with the sole distributor of the Company 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 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, 2021 and the date of this report, there were 7,391,747 common shares issued and outstanding and stock options with a weighted average exercise price of \$0.26 per common share for the purchase of 260,800 common shares.

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Cautionary Note Regarding Forward-Looking Information and Business Risks

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

Although management believes that the assumptions made and the expectations represented in such forward-looking statements are reasonable, there is no assurance that such forward-looking statement or information herein will prove to be correct. Forward-looking information includes, without limitation, statement or information about management's forecast for the yields and prices of ginseng, and its expectation of carrying out an orderly wind up after completing the final harvest in fiscal 2023.

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.*
- *having adequate and timely labour supply during the COVID-19 pandemic.*
- *retaining employees for the skills and manpower required for the final harvest and an orderly wind up thereafter.*

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.