



# **Imperial Ginseng Products Ltd.**

## **Management's Discussion & Analysis**

For the Years Ended  
June 30, 2021 and 2020

## **IMPERIAL GINSENG PRODUCTS LTD.**

Management's Discussion and Analysis

Year ended June 30, 2021

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This management's discussion and analysis ("MD&A") reviews the operating results, financial position and liquidity of Imperial Ginseng Products Ltd. ("Imperial" or the "Company"). Information contained herein is presented as at October 20, 2021 unless otherwise indicated. All amounts are stated in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended June 30, 2021.

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.imperialginseng.com](http://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 Overall Performance**

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. This compares to a yield of 3,560 lbs per acre from 166 acres harvested with a total production of 592,000 lbs in the prior year. Despite having approximately the same number of acres harvested in 2021, the production was 20% lower than 2020 due to the extreme weather conditions in the prior year which had caused considerable damages to the crops. In May 2020, southern Ontario was hit by an unusual and prolonged arctic cold front and then, in July 2020, severe storms and heavy rainfalls collapsed some of the five-year-old garden structures damaging the crops underneath.

As has been discussed in the MD&A for the previous reporting periods, the trade disputes between the US and China, the civil unrest in Hong Kong, a deteriorated Canada-China political relationship as well as the economic impact from the COVID-19 pandemic, had all led to a rapid fall in ginseng prices and a very tenuous sales and exporting chain since 2019. The uncertainty with respect to the future of the industry and the constraints on cash flows forced the Board, in the fall of 2020, to conclude that, in addition to stopping the planting of any new crops going forward, it would be in the ultimate best interest of the stakeholders to abandon the immature crops (one and two-year-old) and commence winding up the ginseng operations in an as orderly fashion as possible. Subsequent to a public announcement of the decision to abandon the immature crops, the Company sold the immature crops at a substantial loss to an unrelated party for \$500,000.

In 2021, the Company sold a total of 630,000 lbs of ginseng and generated net revenues of \$7.2 million with an average selling price of \$11.43 per lb. Of the 630,000 lbs sold, 260,000 lbs were inventory from the harvest in 2020. This compares to 426,000 lbs. of ginseng sold for \$5.79 million with an average selling price of \$13.60 per lb. in the prior year. While the Company is pleased to report that all the remaining inventory, being 109,000 lbs., has either been sold or committed at the date of this report, the current average selling price is still 40% below the breakeven price of \$20 per pound that was obtainable two years ago.

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

	2021	2020	2019
Number of acres harvested:			
4-year-old	108	112	115
5-year-old	61	54	-
	<u>169</u>	<u>166</u>	<u>115</u>
Total production (pounds of ginseng)	479,000	592,000	487,000
Average yield per acre (pounds of ginseng)	2,820	3,560	4,240
Number of acres under cultivation:			
1-year-old (sold in 2021)	-	66	137
2-year-old (sold in 2021)	-	137	149
3-year-old	-	149	109
4-year-old	149	109	173
5-year-old	-	61	54
	<u>149</u>	<u>522</u>	<u>622</u>
Average selling price:			
Root only	\$ 13	\$ 15	\$ 22
Root and by-products	11	13	20

In 2021, the Company also harvested the final 7 acres for Ponderosa, which were planted for Ponderosa under a farming agreement (see "Transactions with Related Parties").

As it is crucial for the Company to retain the current management team and certain employees to complete the final harvest, the sale of ginseng and subsequently winding up its ginseng operations, in the fourth quarter of 2021, the Company and these key employees entered into a retention agreement. Under the agreement, employees will receive a pre-determined lump-sum amount at the end of the retention period. As this retention payment is designed to incentivize the employee to stay with the Company until he/she is no longer required, no payment will be made if the employee decides to resign during the retention period. It is expected that all the employees who entered into a retention agreement will continue their employment with the Company until the end of their retention period. The approximate payout of \$2.2 million is amortized over the expected retention period and included as post-employment benefits in salaries within administrative expenses.

On January 19, 2021, the Company and certain option holders, who were directors and officers of the Company, mutually agreed to cancel the stock options granted in 2017 that were exercisable to acquire up to 182,000 common shares of the Company at \$0.85 per share. No consideration was paid to the option holders for the cancellation of these stock options.

On January 12, 2021, the Company granted stock options to directors and officers to acquire up to an aggregate of 326,000 common shares of the Company at an exercise price of \$0.26 per share. The options vested on the date of grant and will expire on June 30, 2023.

In September 2020, the Company completed the sale of one of its farm properties for \$1.28 million. The sales contract was entered in the year ended June 30, 2020.

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Subsequent to the year end, the Company received subsidy payments from the government of approximately \$2.74 million as a result of the large decline in income due to the sharp decrease in ginseng prices. In October 2021, the Company received a final liquidating distribution of \$176,000 from Ponderosa in which the Company held 9.8% of the common shares.

### Outlook

In 2021, southern Ontario experienced several unusual weather patterns and the Company estimates that approximately 10% to 15% of its crops were damaged as a result. In May 2021, there were again multiple days of frost and in September 2021, severe localised storms resulted in some water damage and collapsed the structure of two of the gardens. Other ginseng growers have reported similar problems.

Like last year, the Company is faced with labour shortages as a result of the continuation of COVID-19, which has dramatically impacted both timely labour availability and cost. Whereas the Company's original plan was to harvest all the remaining 149 acres in fiscal 2022, the size of the crops and the shortage of labour has now limited the Company's ability to harvest all these crops in one season. In September 2021, the Company decided that the best course of action is to carry some of the crops for one more year. After the Company has harvested all the remaining crops in fiscal 2023, it will commence liquidating any remaining assets and winding up its ginseng operations.

When the ginseng sales channels started to slowly open up a bit in 2021, the Company then 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 has already had to deal with these issues on its most recent sales. While it is unknown when the transportation industry will resolve the issue, the Company expects that it will take a much longer time to successfully sell and ship the ginseng in fiscal 2022.

Despite the challenges discussed above, with the help of the government subsidies received subsequent to the year end, 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.

### Selected Annual Information

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

	2021	2020	2019
<b>Statements of Financial Position data:</b>			
Non-current assets classified as held for sale	-	1,093,000	-
Biological assets	1,856,000	8,172,000	16,252,000
Property and equipment	4,467,000	5,902,000	7,551,000
Total assets	12,950,000	20,715,000	32,061,000
Total non-current liabilities	199,000	1,884,000	4,921,000
Total liabilities	938,000	4,299,000	8,016,000

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	2021	2020	2019
<b>Statements of Income data:</b>			
Total revenue from sale of root	\$ 7,196,000	\$ 5,788,000	\$ 7,813,000
Net loss	(4,482,000)	(7,354,000)	(4,953,000)
Loss per share – basic and diluted	(0.61)	(1.00)	(0.68)

### Results of Operation

For the year ended June 30, 2021, the Company reported a net loss of \$4,482,000 or \$0.61 per share. The primary reason for the significant loss was due to the sale of immature crops, which the Company originally planned to abandon, at a deep discount. This compares to a net loss of \$7,354,000 or \$1.00 per share for the prior year. In 2020, the Company made a substantial negative adjustment for ginseng prices resulting in a decrease of \$7,248,000 in the fair value of the crops and a decrease of \$940,000 in the net realizable value of ginseng inventory at year end. The following table compares the operating results for the years ended June 30, 2021 and 2020.

	2021	2020	Change from 2020
Revenue	\$ 7,196,000	\$ 5,788,000	\$ 1,408,000
Cost of sales	7,017,000	5,630,000	1,387,000
Gross profit	179,000	158,000	21,000
Administrative expenses	1,259,000	1,020,000	239,000
Decrease in fair value of biological assets	1,174,000	7,248,000	(6,074,000)
Finance income	8,300	29,000	(20,700)
Finance costs	128,000	238,000	(110,000)
Other income	209,000	149,000	60,000
Gain on disposition of property and equipment	225,000	1,000	224,000
Loss on abandonment of biological assets	(3,978,000)	-	(3,978,000)
Extinguishment of lease liabilities	329,000	-	329,000
Stock-based payments	62,000	-	62,000
Windup expenses	60,000	-	60,000
Impairment of right-of-use assets	-	(418,000)	418,000
Write-down of inventories	-	1,250,000	(1,250,000)
Write-off of pre-planting costs	-	177,000	(177,000)
Income tax recovery	1,230,000	2,660,000	(1,430,000)
Net loss	(4,482,000)	(7,354,000)	2,872,000
Loss per share, basic and diluted	(0.61)	(1.00)	0.39

### Revenue from the sale of ginseng root

In 2021, the Company generated a net revenue of \$7,196,000 from the sale of 630,000 lbs of ginseng with an average selling price of \$11.43 per lb., Of all the ginseng sold, 260,000 lbs was inventory from the harvest in the prior year. This compares to \$5,788,000 from the sale of 426,000 lbs of ginseng with an average selling price of \$13.60 per lb. in 2020. As discussed in the MD&A for the previous reporting periods and also in the above under Discussion of Operations and Overall Performance, ginseng prices have been declining sharply since early 2020 for reasons beyond the control of the Company or the industry.

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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.

### Administrative expenses

In 2021, administrative expenses increased by \$239,000 to \$1,259,000 from \$1,020,000 in the prior year. The increase was mainly due to an accrual for post-employment benefits of \$347,000, partially offset by a saving of \$63,000 as a result of the termination of an administrative service agreement with Trilogy Bancorp Ltd. ("Trilogy") effective January 1, 2020 and a decrease in legal expenses related to a shareholder dispute that was settled in December 2019. Depreciation in 2021 increased by \$36,000 as a result of the recognition of a right-of-use asset (office lease) in 2020, which is depreciated over the term of the lease. In 2020, the rent paid for the office was reported as short-term leases as permitted under IFRS 16.

The following table details the composition of administrative expenses for the years ended June 30, 2021 and 2020. The charges by Trilogy, which were previously allocated to office and salaries, are now reported separately for comparison purposes.

	2021	2020	Change from 2020
Depreciation	\$ 61,000	\$ 25,000	\$ 36,000
Filing and transfer agent	11,000	13,000	(2,000)
Insurance	16,000	10,000	6,000
Office and travel	18,000	27,000	(9,000)
Professional fees	72,000	117,000	(45,000)
Salaries	1,081,000	722,000	359,000
Short-term leases	-	43,000	(43,000)
	1,259,000	957,000	302,000
Charges by Trilogy	-	63,000	(63,000)
	\$ 1,259,000	\$ 1,020,000	\$ 239,000

### Change in fair value of biological assets

For the year ended June 30, 2021, the Company reported a decrease of \$1,174,000 in the fair value of ginseng crops. The Company lowered its forecast on the yield of the crops still under cultivation as a result of the damages caused by the unusual weather patterns discussed above under Outlook.

For the year ended June 30, 2020, the Company reported a decrease of \$7,248,000 in the fair value of ginseng crops. The Company lowered the price forecast further in the fourth quarter of 2020 due to a continuing decline in ginseng prices resulting from a deterioration in the Chinese consumer economy caused by the COVID-19 pandemic. The Company also decreased its expectation of the yields on future harvests due to a prolonged arctic frost in Ontario in May 2019, which had caused a certain degree of damage to some of the crops.

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#### Finance income

Finance income is interest earned on demand deposits with Canadian chartered banks. Interest income fluctuates depending on the cash position of the Company. For the year ended June 30, 2021, the Company reported interest income of \$8,000. This compares to interest income of \$29,000 in the prior year. The decrease of interest income in 2021 was due to the depletion of cash for operations since 2020.

#### Finance costs

Finance costs consist of interest on mortgages and equipment loans, as well as interest accretion on long-term loans, lease liabilities and post-employment benefits. In 2021, finance costs decreased to \$128,000 from \$238,000 in 2020. The significant decrease was due to the cessation of interest accretion on long-term loans that were completely paid off when the final payments were made in January 2021. Also contributed to the decrease was the transfer of land leases to the buyer upon the sale of immature crops, and the cancellation of the leases for the land that the Company did not plant, resulting in a removal of those lease liabilities and an end to interest accretion. Below is the composition of finance costs for the years ended June 30, 2021 and 2020:

	2021	2020	Change from 2020
Interest accretion on long-term loans	\$ 48,000	\$ 135,000	\$ (87,000)
Interest accretion on lease liabilities	19,000	41,000	(22,000)
Mortgage and equipment loan interest	50,000	62,000	(12,000)
Interest on post-employment benefits	11,000	-	11,000
	<u>\$ 128,000</u>	<u>\$ 238,000</u>	<u>\$ (110,000)</u>

#### Other income

In 2021, other income of \$209,000 included a planting fee of \$15,000 from Ponderosa, a management fee of \$50,000 from Knightswood, government program payments of \$105,000 and rental income of \$38,000. Other income of \$149,000 in 2020 included a planting fee income of \$69,000 from Ponderosa, government program payments of \$55,000 and a management fee of \$25,000 from Knightswood.

#### Gain on disposition of property and equipment

Included in the gain was \$127,000 from the sale of a farm property that was re-classified as held for sale in fiscal 2020 when a sales agreement was entered in June 2020. The property was measured at the carrying amount, which was the lower of its fair value less costs to sell. The sale was completed in fiscal 2021.

#### Loss on abandonment of biological assets, net of recovery

In 2021, the Company sold all of its immature crops that it originally planned to abandon to an unrelated party for \$500,000 and reported a loss of \$3,978,000 (See "Discussion of Operations and Overall Performance").

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### Extinguishment of lease liabilities / Impairment of right-of-use assets

In 2020, the land leases for future plantings, totaling \$418,000, were recognized as an impairment of right-of-use assets when the Company decided to cease planting new crops going forward. In December 2020, the landlords agreed to cancel these leases for no monetary consideration effective December 31, 2020 and forever discharge the Company from the obligations and liabilities for the remaining term of these leases. As a result, the remaining lease liabilities of \$329,000 were extinguished.

### Share-based payments

In 2021, the Company granted stock options to directors and key management personnel of the Company entitling the holders to purchase up to an aggregate of 326,000 common shares of the Company at an exercise price of \$0.26 per share. The options vested immediately on the date of grant with each option fair-valued at \$0.19 using the Black-Scholes option pricing model. Accordingly, the Company reported a share-based payment of \$62,000.

### Income tax recovery

Income tax recovery in 2021 and 2020 consisted solely of deferred tax recovery of \$1,230,000 and \$2,660,000, respectively.

## 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.

		<b>Total revenues</b>	<b>Net income (loss)</b>	<b>Earnings (loss) per share, basic and diluted</b>
June 30, 2021	Q4 FY2021	\$ 349,000	\$ (1,059,000)	\$ (0.14)
March 31, 2021	Q3 FY2021	3,787,000	(192,000)	(0.03)
December 31, 2020	Q2 FY2021	2,036,000	969,000	0.13
September 30, 2020	Q1 FY2021	1,024,000	(4,200,000)	(0.57)
June 30, 2020	Q4 FY2020	1,710,000	(5,166,000)	(0.70)
March 31, 2020	Q3 FY2020	3,519,000	(811,000)	(0.11)
December 31, 2019	Q2 FY2020	13,000	(488,000)	(0.07)
September 30, 2019	Q1 FY2020	546,000	(889,000)	(0.12)

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 trade disputes between China and the United States, a poor political relationship between Canada and China, and the economic impact and uncertainty from COVID-19 that continued into 2021.

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, the age of the crops and the number of acres under cultivation.

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The significant loss reported for the first quarter of 2021 was due to selling the immature crops at a deep discount.

### **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 June 30, 2021, the Company did not draw on this facility.

At June 30, 2021, the Company had a working capital of \$6.68 million, of which approximately 63% was cash on hand. Subsequent to the year end, the Company received approximately \$2.74 million in government subsidies. 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 June 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 year ended June 30, 2021, the Company reported \$50,000 in other income. No amount was outstanding from Knightswood at June 30, 2021.

Ponderosa Ginseng Farms Corp. ("Ponderosa")

The ginseng farming agreement (the "Farming Agreement") between the Company and Ponderosa, a private company having a director in common with the Company, came to an end in June 2021 when the Company had harvested all the ginseng acres for Ponderosa (the "Ponderosa Acres"), sold all the ginseng for Ponderosa and subsequently settled all the amounts due. Below is a description of the transactions with Ponderosa during the year ended June 30, 2021 and 2020.

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Under the Farming Agreement, the Company planted and maintained a certain number of Ponderosa Acres in Ontario for Ponderosa in return for a planting fee equal to 15% of the farming expenses. The Company was also entitled to a yield bonus if the yield of the root harvested in a year exceeded a pre-determined base yield. In 2017, Ponderosa notified the Company to terminate planting new acres but continue with maintaining the existing Ponderosa Acres until they were gradually harvested out. All the Ponderosa acres were harvested during the year ended June 30, 2021.

For the year ended June 30, 2021, the Company incurred farming expenses of \$102,000 and earned a planting fee of \$15,000. No amounts were outstanding from Ponderosa at June 30, 2021.

Also pursuant to the Farming Agreement, the Company would sell the ginseng for Ponderosa. For the year ended June 30, 2021, the Company made sales totaling \$656,000 for Ponderosa. No amounts were outstanding to Ponderosa at June 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.

In 2021, the Company granted stock options to key management personnel entitling the holders to acquire up to an aggregate of 326,000 common shares of the Company at an exercise price of \$0.26 per share. The options vested on the date of grant and will expire on June 30, 2023. Also in 2021, the Company and certain option holders, who were key management personnel of the Company, mutually agreed to cancel the stock options that were granted in 2017 that were exercisable to acquire up to 182,000 common shares of the Company at \$0.85 per share. No consideration was paid to the option holders for the cancellation of these stock options.

For the years ended June 30, 2021 and 2020, compensation to key management personnel was as follows:

	2021	2020
Executive officers		
Short-term benefits	\$ 831,000	\$ 844,000
Post-employment benefits	239,000	-
Stock options	50,000	
	1,120,000	844,000
Directors		
Short-term benefits	22,000	32,000
Post-employment benefits	2,000	-
Stock options	12,000	-
	36,000	32,000
	\$ 1,156,000	\$ 876,000

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### **Fourth Quarter**

Generally, the Company reviews its inventories in the fourth quarter and determines if write down or write-off is required. The Company's inventories consisted of ginseng and chemicals. Due to the nature of chemicals, the Company makes purchases only when required. Chemical inventory at the end of a reporting period is generally due to the timing of its applications. At June 30, 2021, the Company estimated that the ginseng inventory approximated its net realizable value and no write down was required.

The following expenses were recognized in the fourth quarter of 2021:

- Post-employment benefits of \$347,000 upon the Company entering into retention agreements with certain key employees.
- A completion bonus of \$122,000 that is payable to the Distributor when the Distributor completes selling the ginseng from the final harvest in the year ending June 30, 2023.

### **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.

### **Future Changes in Accounting Policies**

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, with early application permitted. The Company has determined that the amendments will not have a significant impact on its 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 attempts to manage 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 June 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.*