



Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Three-Month Periods Ended
September 30, 2022 and 2021

IMPERIAL GINSENG PRODUCTS LTD.

Management's Discussion and Analysis

Three-Month Period ended September 30, 2022

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 23, 2022 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, 2022 and the audited consolidated financial statements and the notes thereto for the year ended June 30, 2022.

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. In the fall of 2020, the Company announced that it would be winding up its ginseng operations, which process is expected to complete by the end of this fiscal year.

Discussion of Operations and Outlook

At the date of this report, the Company has harvested all the remaining 45 acres of 5-year-old ginseng and is in the midst of processing the root, which at this point appears to be in very good condition. The Company estimates that total production will be around 190,000 lbs, or approximately 4,200 lbs per acre.

During the quarter ended September 30, 2022, the Company sold all the remaining inventory from the harvest in the prior year albeit at a lower average price of \$9.17 per lb. At the date of this report, there has been no indication of what the current year's prices will be but given the amount of ginseng inventory in Ontario, the Company is not expecting any significant upward movement of the prices this year.

As has been discussed in the MD&A for the previous reporting periods, as a result of the hardship caused by economic and political factors, and a shortage of labour 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 exited the ginseng industry. The Company has started selling its various farming equipment and in October 2022, the Company accepted an offer on the sale of its farm in Milldale, Ontario for \$2.6 million. Upon the completion of the final harvest, the Company plans to actively liquidate the remaining assets and proceed with an orderly windup of its ginseng operations.

The Company believes that, even with the anticipated depressed ginseng prices, with the government program payments received in the last fiscal year there is sufficient cash to cover all its operating expenses as well as meeting the 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.

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Results of Operation

For the quarter ended September 30, 2022, the Company reports a net loss of \$820,000 or \$0.11 per share. This compares to a net income of \$1,609,000, with basic earnings of \$0.22 and diluted earnings of \$0.21 per share for the same quarter of the prior year. The primary reason for the income reported in the first quarter of the prior year was due to benefit payments received from government programs as a result of the declining ginseng prices in the last two years. The following table compares the operating results for the three months ended September 30, 2022 and 2021.

For the three months ended September 30,	2022	2021	Change from 2021
Revenue	\$ 1,037,000	\$ 903,000	\$ 134,000
Cost of sales	1,131,000	835,000	296,000
Gross profit (loss)	(94,000)	68,000	(162,000)
Administrative expenses	438,000	353,000	85,000
Decrease in fair value of biological assets	363,000	524,000	161,000
Finance income	56,000	3,000	53,000
Finance costs	11,000	11,000	-
Other income	19,000	16,000	3,000
Other expenses	173,000	15,000	158,000
Gain on disposition of property and equipment	121,000	26,000	95,000
Government program payments	-	2,744,000	(2,744,000)
Income tax recovery (expense)	63,000	(345,000)	408,000
Net income (loss)	(820,000)	1,609,000	(2,429,000)
Earnings (loss) per share			
Basic	(0.11)	0.22	
Diluted	(0.11)	0.21	

Revenue from the sale of ginseng root

For the quarter ended September 30, 2022, the Company sold 113,000 lbs of ginseng that was inventory from the harvest in the prior year and generated revenues of \$1,037,000 with an average selling price of \$9.17 per lb. In the same quarter of the prior year, the Company sold 79,000 lbs of ginseng and generated revenues of \$903,000 with an average selling price of \$11.48 per lb. As discussed above, ginseng prices have been falling since 2020 resulting in a lower average price of the ginseng sold in the first quarter of the current fiscal year.

Cost of sales and Gross profit (loss)

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.

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Administrative expenses

Administrative expenses in the quarter ending September 30, 2022 increased to \$438,000 from \$353,000 in the same quarter of the prior year. The increase was mainly due to an increase in an accrual for post-employment benefits and expenses for moving the office. The following table details the composition of administrative expenses for the three-month periods ended September 30, 2022 and 2021.

For the three months ended September 30,	2022	2021	Change from 2021
Depreciation	\$ 16,000	\$ 16,000	\$ -
Insurance	17,000	15,000	2,000
Office	16,000	8,000	8,000
Professional fees	19,000	19,000	-
Salaries	370,000	295,000	75,000
	\$ 438,000	\$ 353,000	\$ 85,000

Decrease in fair value of biological assets

In the first quarter of the current fiscal year, the Company reported a decrease of \$363,000 in the fair value of ginseng crops due to an adjustment to the estimated expenses for completing the harvest.

In the first quarter of the prior fiscal year, the Company reported a decrease of \$524,000 in the fair value of ginseng crops.

Finance income

Finance income consists of interest earned on bank balance and demand deposits. As a result of an increasing interest rate and the Company having a larger cash balance when compared to the prior year, interest income earned in the first quarter of the current fiscal year was significantly higher.

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

In the first quarter of the prior fiscal year, the Company received \$2.74 million of benefit payments from government programs as a result of the large decline in income caused by market conditions in 2020 and 2021. The eligibility to receive benefit payments is subject to change by those programs.

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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 consolidated financial statements and the discussions below.

		Total revenue from sale of ginseng	Net income (loss)	Earnings (loss) per share, basic	Earnings (loss) per share, diluted
September 30, 2022	Q1 FY2023	\$ 1,037,000	\$ (820,000)	\$ (0.11)	\$ (0.11)
June 30, 2022	Q4 FY2022	708,000	1,612,000	0.21	0.22
March 31, 2022	Q3 FY2022	1,833,000	(402,000)	(0.05)	(0.05)
December 31, 2021	Q2 FY2022	-	(502,000)	(0.07)	(0.07)
September 30, 2021	Q1 FY2022	903,000	1,610,000	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

Historically, ginseng sales activities started in the winter and concluded in the spring of the following year. Consequently, the Company generally generated 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 impact from the COVID-19 pandemic, the global disruptions of the transportation industry as well as the political and diplomatic tensions between Canada and China.

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.

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 and contractual obligations when they come due and to have sufficient working capital to fund operations for the ensuing fiscal year. At September 30, 2022, the Company had a working capital surplus of \$10.83 million, a majority of which 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.

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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, a 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, 2022, the Company reported \$13,000 in other income from the Knightswood Agreement. No amount was outstanding from Knightswood at September 30, 2022.

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, 2022 and 2021, compensation to key management personnel was as follows:

For the three months ended September 30,	2022	2021
Executive officers		
Short-term benefits	\$ 159,000	\$ 244,000
Post-employment benefits	149,000	60,000
	<u>308,000</u>	<u>304,000</u>
Directors		
Short-term benefits	2,000	2,000
Post-employment benefits	1,000	-
	<u>3,000</u>	<u>2,000</u>
	<u>\$ 311,000</u>	<u>\$ 306,000</u>

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.

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.

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.

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.

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.

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Financial Instrument and Risk Management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investment, 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 interest on guaranteed investments, which credit risks are 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.

Outstanding Share Data

At September 30, 2022 and the date of this report, there were 7,652,547 common shares issued and outstanding.

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 the fall of 2022.

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.*
- *retaining employees for the skills and manpower required for the final harvest and an orderly wind up thereafter.*

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

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may impact the financial performance of the Company when further information becomes available.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.