



# **Imperial Ginseng Products Ltd.**

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

For the Years Ended  
June 30, 2023 and 2022

## **IMPERIAL GINSENG PRODUCTS LTD.**

Management's Discussion and Analysis

Year ended June 30, 2023

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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 September 21, 2023 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, 2023.

Additional information related to the Company is available for view on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) 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". Until March 2023, the Company cultivated and processed North American ginseng in Ontario and sold the root, almost exclusively to China, through a distributor. As a result of the hardship caused by economic and political factors, and a shortage of labour caused by the COVID-19 pandemic, the Board concluded that it would be in the best interest of the stakeholders that the Company exited the ginseng industry. In 2020, the Company made a public announcement that it would wind up its ginseng operation upon its final harvest, which was completed in FY2023.

### **Discussion of Operations and Overview**

In FY2023, the Company completed its final harvest and produced 235,000 lbs of 5-year-old ginseng from 45 acres, or approximately 5,300 lbs per acre, which is an historical record of the Company. This exceptional yield was a result of favourable environmental factors during the final growing stage of the crops and the ongoing dedication and skill of the farm management and crew. In FY2022, the Company harvested 104 acres and produced 374,000 lbs of 4-year-old ginseng with an average yield of 3,570 lbs per acre.

During the year ended June 30, 2023, the Company sold all its remaining ginseng, totaling 377,000 lbs, and generated net revenue of \$4.3 million with an average all in selling price of \$11.45 per lb. This compares to 341,000 lbs of ginseng sold for \$3.4 million with an average all in selling price of \$10.19 per lb. in the prior year. Prices this year were higher as the majority of the ginseng sold was the more valuable 5-year-old root whereas the ginseng sold in the prior year was all 4-year-old root.

In the fall of 2022, the Company started selling its farm assets which included its principal operating site in Milldale, Ontario for \$2.6 million and substantially all the farm equipment. At June 30, 2023, there remained a few pieces of equipment and a farm property, which were eventually sold after year end. At the date of this report, the Company has liquidated all its farm assets.

In FY2023, the Company applied for several government programs from which it received approximately \$2.4 million. The claim resulted from the large decline in the Company's income due to the sharp decreases in ginseng prices since 2020.

No stock options were granted or cancelled in FY2023. At June 30 2023, there were no outstanding options as they were all exercised during the year ended June 30, 2023.

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### Outlook

As of the date of this report, the Company has concluded the windup of its ginseng business. The Company is currently working with legal and tax advisors to finalize a cash distribution plan. The Company's goal remains to generate the highest possible return to shareholders.

### 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.

	2023	2022	2021
<b>Statements of Financial Position data:</b>			
Non-current assets classified as held for sale	\$ 1,284,000	\$ -	\$ -
Biological assets	-	813,000	1,856,000
Property and equipment	-	3,336,000	4,467,000
Total assets	18,476,000	16,339,000	12,950,000
Total non-current liabilities	-	596,000	199,000
Total liabilities	1,140,000	1,999,000	938,000
<b>Statements of Income data:</b>			
Total revenue from sale of root	\$ 4,300,000	\$ 3,444,000	\$ 7,196,000
Net income (loss)	2,917,000	2,318,000	(4,482,000)
Earnings (loss) per share – basic and diluted	0.38	0.31	(0.61)

### Results of Operation

The following table compares the operating results for the years ended June 30, 2023 and 2022.

	2023	2022	Change from 2022
Revenue	\$ 4,300,000	\$ 3,444,000	\$ 856,000
Cost of sales	4,249,000	3,649,000	600,000
Gross profit (loss)	51,000	(206,000)	257,000
Administrative expenses	2,472,000	1,865,000	607,000
Change in fair value of biological assets	372,000	(882,000)	1,254,000
Finance income	402,000	25,000	377,000
Finance costs	38,000	44,000	(6,000)
Other income	246,000	84,000	162,000
Gain on disposition of property and equipment	3,359,000	300,000	3,059,000
Government program payments	2,386,000	5,819,000	(3,433,000)
Wind up expenses	221,000	153,000	68,000
Write-down of inventories	54,000	95,000	(41,000)
Income tax expense	1,113,000	665,000	448,000
Net income	2,917,000	2,318,000	599,000
Earnings per share, basic and diluted	0.38	0.31	0.07

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For the year ended June 30, 2023, the Company reported a net income of \$2,917,000, with basic and diluted earnings of \$0.38 per share. This compares to a net income of \$2,318,000, with basic and diluted earnings of \$0.31 per share for the prior year. The increase in net income was due to an increase in the fair value of biological assets as a result of higher than expected yield, which was partly offset by an increase in administrative expenses. Also contributing to the increase was an increase in interest income on term deposits as a result of rising interest rates over the past year.

#### Revenue from the sale of ginseng root

In FY2023, the Company sold all its ginseng totaling 377,000 lbs and generated a net revenue of \$4,300,000 with an average all in selling price of \$11.45 per lb. This compares to a net revenue of \$3,444,000 from the sale of 341,000 lbs of ginseng with an average all in selling price of \$10.19 per lb. in FY2022. The average selling price in FY2023 was higher than that in FY2022 because a vast majority of the ginseng sold was the more valuable 5-year-old root whereas all the ginseng sold in FY2022 was 4-year-old root.

#### 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 FY2023, administrative expenses increased by \$607,000 to \$2,472,000 from \$1,865,000 in the prior year. Within administrative expenses, salaries increased by \$508,000 to \$2,184,000 mainly due to increasing the accrual of post-employment benefits as a result of a change in the timing of payment, as well as bonuses paid on the exceptional yield and performance. In addition, management salaries and operating expenses of CIGO that were previously included in crop costs were included in administrative expenses upon completion of the final harvest. Operating expenses increased by \$85,000 to \$134,000 as office rent that was previously recognized as a reduction of lease liabilities under IFRS became an expense upon lease expiry. Also added to the increase were office moving costs and rising costs in almost all areas due to inflation. Professional fees increased by \$53,000 to \$128,000 as a result of tax and legal advice regarding the wind up affairs.

The following table summarizes the composition of administrative expenses for the years ended June 30, 2023 and 2022.

	2023	2022	Change from 2022
Depreciation	\$ 25,000	\$ 64,000	\$ (39,000)
Operating expenses	134,000	49,000	85,000
Professional fees	128,000	75,000	53,000
Salaries	2,184,000	1,676,000	508,000
	<u>\$ 2,472,000</u>	<u>\$ 1,865,000</u>	<u>\$ 607,000</u>

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#### Change in fair value of biological assets

For the year ended June 30, 2023, the Company reported an increase of \$372,000 in the fair value of harvested crops due to an increase in yield, which was substantially higher than the previous estimates.

For the year ended June 30, 2022, the Company reported a decrease of \$882,000 in the fair value of ginseng crops as a result of lowering its price forecast.

#### Finance income

Finance income consists of interest earned on bank balance and demand deposits. Since 2022, the Company had been investing the cash that was in excess of working capital requirements in cashable guaranteed investments. As a result of rising interest rates over the past year, interest income earned in FY2023 was significantly more than that in the prior year. For the year ended June 30, 2023, the Company reported finance income of \$402,000. This compares to \$25,000 in the prior year.

#### Finance costs

In FY2023 and FY2022, the Company incurred finance costs of \$38,000 and \$44,000, respectively, which were primarily interest accretion on post-employment benefits.

#### Other income

Other income earned in FY2023 was significantly higher than that in the prior year due to selling tools and supplies that were no longer required after the final harvest. Also included in other income in both FY2023 and FY2022 was a management fee of \$50,000 from Knightswood.

#### Gain on disposition of property and equipment

Once the Company finished its final harvest in the fall of 2022, more equipment was available for sale. Since almost all the equipment sold was fully depreciated, an accounting gain of \$3,359,000 was reported for the year ended June 30, 2023.

#### Government program payments

As a result of the large decline in income from the sale of ginseng caused by market conditions in the previous years, the Company applied to several government programs that aim at providing financial aid to farmers who are faced with disaster situations. In FY2023, the Company received benefit payments of \$2,386,000 from these programs for the 2022 program year. In FY2022, the Company received benefit payments totalling \$5,819,000 for the 2020 and 2021 program years.

#### Wind up expenses

Wind up expenses included labour cost for carrying out the wind up activities and expenses for site clean up and scrap and garbage disposals. The increase in expenses in FY2023 was due to the Company concluding its wind up activities at the farm sites.

#### Write-down of inventories

In FY2023, upon the completion of the final harvest, the Company disposed of all the unused pesticide and fertilizer inventories totaling \$53,000. In FY2022, the Company wrote down its ginseng inventory by \$95,000 to its net realizable value due to continuing decline in ginseng prices.

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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
June 30, 2023	Q4 FY2023	\$ -	\$ 3,127,000	\$ 0.41	\$ 0.41
March 31, 2023	Q3 FY2023	2,528,000	(213,000)	(0.03)	(0.03)
December 31, 2022	Q2 FY2023	735,000	823,000	0.11	0.11
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

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 was however dependent on general economic conditions, market demand, global supply and inventory. In FY2023, the Company concluded all its ginseng sales by the third quarter and as such, there was no ginseng revenue reported in the fourth quarter.

Fluctuations in net income (loss) among the quarters in a fiscal year, or between the same quarters in consecutive fiscal years, were primarily due to a change in the fair value of ginseng crops which resulted from changes in the estimate of prices and yields and the number of acres under cultivation. The majority of the income reported in the fourth quarter of FY2023 and FY2022 and also in the first quarter of FY2022 was due to the receipt of benefit payments from government programs.

### 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. At June 30, 2023, the Company had a working capital surplus, not including assets held for sale, of approximately \$16 million. The Company believes that its current cash position provides sufficient liquidity to cover all its financial liabilities.

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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 year ended June 30, 2023, the Company reported \$50,000 in other income. No amount was outstanding from Knightswood at June 30, 2023.

### 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, 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 to the extent that they are related to crop management. 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 years ended June 30, 2023 and 2022, compensation to key management personnel was as follows:

	2023	2022
Executive officers		
Short-term benefits	\$ 1,316,000	\$ 1,039,000
Post-employment benefits	761,000	506,000
	2,077,000	1,545,000
Directors		
Short-term benefits	25,000	16,000
Post-employment benefits	17,000	5,000
	42,000	21,000
	\$ 2,119,000	\$ 1,566,000

### 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 consist of dried ginseng and chemicals. As the Company sold all the ginseng prior to the fourth quarter and also disposed of all the unused chemicals in the fourth quarter, there were no requirements for an inventory adjustment in the fourth quarter.

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### **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. Actual amounts or outcomes could differ materially from those estimates.

#### Going concern assessment

The assessment of whether the Company is to continue as a going concern involves management judgment in determining if the going concern assumption is still appropriate. Since the Company is no longer involved in the activity of buying and selling goods as at June 30, 2023, management concluded that these financial statements should be prepared on a basis other than that of a going concern. Although management has considered all the available information it had about the future and concluded that the Company should not be regarded as a going concern, unexpected future events may have significant impact on management's judgment.

#### 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.

#### Fair value of biological assets

When determining the fair value of crops, management is required to make a number of estimates including future market prices and 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 a material adjustment to the carrying amount in the future accounting periods.

#### Net realizable value of inventories

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

#### Assessment of property and equipment

Property 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 past experience with assets of similar nature and functions. Actual results could differ from these estimates.

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### Value and classification of non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Since it was determined that all the farm assets should be reclassified to held for sale from property and equipment, management was required to estimate their fair value as held for sale assets are measured at the lower of their carrying amounts and their fair value less costs to sell. The realizable value of these assets could differ significantly from management's 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.

## **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 included accrued interest on demand deposits with Canadian chartered banks and a secured promissory note of \$237,000.

The Company believes that its exposure to liquidity risk that it may not be able to meet its financial obligations is minimal as it had a working capital surplus of \$16 million at June 30 2023.

## **Outstanding Share Data**

At June 30, 2023 and the date of this report, there were 7,652,547 common shares issued and outstanding.

## **Subsequent Events**

On August 15, 2023, at a special meeting of shareholders, the Company received approvals authorizing the directors of the Company for the following:

- (i) To wind up the Company's business and distribute the assets to shareholders at a time and in an amount to be determined by the directors of the Company.
- (ii) To dissolve the Company, if deemed desirable, at a time to be determined by the directors of the Company.

On September 15, 2023, the Company completed the sale of its last remaining farm site for net proceeds of approximately \$1.5 million.

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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, statements of, or information about, generating the highest possible return to shareholders upon winding up the Company.*

*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:*

- *Successfully distributing all or substantially all the assets to shareholders*

*Although management has 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.*