Imperial Ginseng Products Ltd.

Management's Discussion & Analysis

For the Six-Month Periods Ended
December 31, 2020 and 2019

This management's discussion and analysis ("MD&A") reviews the operating results, financial position and liquidity of Imperial Ginseng Products Ltd. ("Imperial" or the "Company"). Information contained herein is presented as at February 19, 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 six-month period ended December 31, 2020 and the audited consolidated financial statements and the notes thereto for the year ended June 30, 2020.

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, Overview and Outlook

For fiscal 2021, the Company plans to harvest a total of 169 acres of which 122 acres were completed at the date of this report, leaving 47 acres to be harvested in the spring of 2021. Despite harvesting approximately the same number of acres as in the prior year (166 acres), this year's yield is expected to be lower than the prior year's due to the damages to the crops as a result of the extreme weather conditions in the 2020 growing season. In May 2020, southern Ontario was hit by an unusual and prolonged arctic cold front and in July 2020, severe storms and heavy rainfalls collapsed some of the five-year-old garden structures damaging the crops underneath. As a result of these weather issues, the Company anticipates that the yield for this year will end up being around 2,700 lbs per acre, a decrease of 25% from the prior year, for an estimated total production of 460,000 lbs.

With regards to the sale of the fiscal 2021 fall harvest, 23% was sold as of the end of this reporting period. Together with selling all the inventory of 260,000 lbs from the harvest in the prior year, for the six months ended December 31, 2020, the Company sold a total of 339,000 lbs and generated revenues of $3,060,000. At the date of this report, the Company has sold 95% of its fiscal 2021 fall harvest, bringing the year-to-date sales to $6.85 million with an average root and by-product selling price of $11.50 per lb. for a total of 594,000 lbs sold. While the Company is pleased to report that the pace of sales has improved significantly over last year, and that the average sales price has bounced off the lows of $9 per lb. that existed in the summer of 2020, $11.50 per lb. is still 42% lower than the marginally breakeven price of $20 per pound average that existed two years ago.

As discussed in previous MD&A's, the trade disputes between the US and China, the civil unrest in Hong Kong, a deteriorated Canada-China political relationship and the economic impact from the COVID-19 pandemic, have all led to a rapid fall in ginseng prices and a very tenuous sales and exporting chain. As already reported, the uncertainty with respect to the future of the industry and the existing impairment to cash flow forced the Board, in the fall of 2020, to conclude that, in addition to ceasing any new plantings, it would be in the ultimate best interest of the stakeholders to abandon the one- and two-years old crops and commence winding up the ginseng operations in as orderly a fashion as possible.

The Company's plan is to have a Spring harvest of 47 acres, which will finish the fiscal 2021 harvest, and to then grow out the remaining 149 acres to the fall of 2021. Following this plan the Company believes that, even at current ginseng prices, it will have sufficient working capital for its operations and to meet its debt obligations and should attain the most end value upon the Company's exit from the industry. There are of course still the usual farming and weather risks to overcome to get the 149 acres to harvest as well as the additional risks this coming year from COVID-19, which could dramatically impact labour availability and cost, and the new risk of managing employee retention to ensure that the Company has the skills and manpower to run the operations till the windup is complete.

Subsequent to a public announcement of the decision to abandon the immature crops, the Company found an unrelated party to buy all the immature crops for $500,000. As a condition of the sale, the Company agreed to keep, and allow the purchaser to use, the existing infrastructure on the fields until the crops are harvested, at which time the infrastructure is to be returned to the Company. Upon the completion of the sales transaction in December 2020, all the land lease agreements with respect to the crops sold were assigned to the purchaser, thereby releasing the Company from all the obligations and liabilities under those land lease agreements.

Below is a summary overview of the Company's ginseng operations for the six-month period ended December 31, 2020 and the years ended June 30, 2020 and 2019:

	FY2021 [(1)]	**FY2020**	**FY2019**
Number of acres harvested:			
4-year-old	62	112	115
5-year-old	61	54	-
	123	166	115
Total production (pounds of ginseng)	351,000	592,000	487,000
Average yield per acre (pounds of ginseng)	2,870	3,560	4,240
Number of acres under cultivation:			
1-year-old (sold in FY2021)	-	66	137
2-year-old (sold in FY2021)	-	137	149
3-year-old	149	149	109
4-year-old (to be harvested in the spring of 2021)	47	109	173
5-year-old	-	61	54
	196	522	622
Average selling price:			
Root only	$ 10	$ 15	$ 22
Root and by-products	9	13	20

(1) The numbers for FY2021 are for the six-month reporting period ending December 31, 2020 and therefore, may not be comparable to the annual results of the previous two fiscal years.

The Company also harvested 7 acres for Ponderosa this fall, which were all the remaining crops planted for Ponderosa under a farming agreement (see "Transactions with Related Parties").

Results of Operation

Three-month periods ended December 31, 2020 and 2019

For the three-month ended December 31, 2020, the Company reports a net income of $968,000 or basic and diluted earnings of $0.13 per share. This compares to a net loss of $488,000 or $0.07 per share for the same quarter of the prior year. The primary reason for the reported income in this quarter was an upward adjustment to the price forecast as the ginseng prices have slightly improved based on recent sales. Also contributing to the reported net income in this quarter was the discharge of certain lease liabilities due to the cancellation of these leases, resulting in a reversal of impairment of their corresponding right-of-use assets that was recognized in the prior year.

The following table compares the operating results for the three months ended December 31, 2020 and 2019.

For the three months ended December 31,	**2020**	**2019**	**Change from 2019**
Revenue	$ 2,036,000	$ 13,000	$ 2,023,000
Cost of sales	2,313,000	11,000	2,302,000
Gross profit (loss)	(277,000)	2,000	(279,000)
Administrative expenses	204,000	251,000	(47,000)
Increase (decrease) in fair value of biological assets	1,471,000	(327,000)	1,798,000
Finance income	1,000	6,000	(5,000)
Finance costs	41,000	72,000	(31,000)
Other income	51,000	21,000	30,000
Loss on sale of biological assets	(5,000)	-	(5,000)
Reversal of impairment of right-of-use assets	329,000	-	329,000
Income tax recovery (expense)	(357,000)	133,000	(490,000)
Net income (loss)	968,000	(488,000)	1,456,000
Earnings (loss) per share, basic and diluted	0.13	(0.07)	0.20

<u>Revenue from the sale of ginseng root</u>

For the three months ended December 31, 2020, the Company sold a total of 205,000 lbs. of ginseng and generated revenues of $2,036,000 with an average selling price of approximately $10 per lb. for root and by-products combined. In the same quarter of the prior year, the Company was only able to make a small sale of $13,000 due to the continuous slowdown in the Chinese economy, the then unresolved trade and tariff situation between China and the United States and unpredictable shipping into China as a result of the civil unrest in Hong Kong that made most Chinese importers hesitate to purchase.

<u>Cost of sales and Gross Profit</u>

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.

Administrative expenses

Administrative expenses in the second quarter of fiscal 2021 decreased to $204,000 from $251,000 in the same quarter of the prior year primarily due to a saving of $32,000 as a result of the termination of an administrative service agreement with Trilogy Bancorp Ltd. effective December 31, 2019. Also contributing to the decrease was no further legal expenses related to a shareholder dispute that was settled in December 2019. Depreciation in the current quarter increased by $14,000 due to the recognition of a right-of-use asset (office lease), which is depreciated over the term of the lease. In fiscal 2020, rent 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 three-month periods ended December 31, 2020 and 2019. The charges by Trilogy, which were previously allocated to office and salaries, are now reported separately for comparison purposes.

For the three months ended December 31,	2020	2019	Change from 2019
Depreciation	$ 16,000	$ 2,000	$ 14,000
Filing and transfer agent	1,000	1,000	-
Insurance	-	1,000	(1,000)
Investor relations	4,000	5,000	(1,000)
Office	-	3,000	(3,000)
Professional fees	21,000	38,000	(17,000)
Salaries	162,000	159,000	3,000
Short-term leases	-	10,000	(10,000)
	204,000	219,000	(15,000)
Charges by Trilogy	-	32,000	(32,000)
	$ 204,000	$ 251,000	$ (47,000)

Change in fair value of biological assets

In the second quarter of fiscal 2021, the Company reported an increase of $1,471,000 in the fair value of ginseng crops due to making an upward adjustment to the price forecast based on the recent sales. In the same quarter of the prior year, the Company reported a decrease of $327,000 in the fair value of ginseng crops due to declining ginseng prices at that time.

Finance income

Finance income is interest earned on demand deposits with Canadian chartered banks. Interest income fluctuates depending on the cash position of the Company. In the second quarter of fiscal 2021, the Company reported interest income of $1,000. This compares to interest income of $7,000 in the same quarter of the prior year. The decrease was due to the Company using its cash reserve for its operating requirements.

Finance costs

Finance costs consist of interest on mortgages and equipment loans, as well as interest accretion on long-term loans and lease liabilities. In the second quarter of fiscal 2021, finance costs decreased to $41,000 from $72,000 in the same quarter of the prior year. The decrease was primarily due to a decrease in interest accretion on long-term loans, on which the final payments are due in January 2021.

Other income

Included in other income in the second quarter of fiscal 2021 was a planting fee of $10,000 from Ponderosa, a management fee of $13,000 from Knightswood (See "Transactions with Related Parties") and miscellaneous rental income from idle land. Other income in the second quarter of the prior year consisted solely of a planting fee of $21,000 from Ponderosa.

Reversal of impairment of right-of-use assets

In the prior year, the land leases for future plantings 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 considerations effective December 31, 2020 and forever discharge the Company from the obligations and liabilities for the remaining term of these leases. As such, the remaining lease liabilities were removed and a reversal of impairment of $329,000 was reported in the second quarter of fiscal 2021.

Income tax recovery (expense)

Income tax expense of $357,000 in the second quarter of fiscal 2021 consisted solely of deferred tax expense as a result of a positive change in the fair value of ginseng crops. Income tax recovery of $133,000 in the same quarter of fiscal 2020 consisted solely of deferred tax recovery.

Six-month periods ended December 31, 2020 and 2019

For the six months ended December 31, 2020, the Company reported a net loss of $3,231,000 or $0.44 per share. This compares to a net loss of $1,376,000 or $0.19 per share for the same period of the prior year. The primary reason for the significant loss in the current period was due to selling the immature crops, which the Company originally planned to abandon, at a deep discount. The following table highlights the operating results for the six-month period ended December 31, 2020, compared with the same period ended December 31, 2019.

For the six months ended December 31,	2020	2019	Change from 2019
Revenue	$ 3,060,000	$ 559,000	$ 2,501,000
Cost of sales	3,280,000	461,000	2,819,000
Gross profit (loss)	(220,000)	98,000	(318,000)
Administrative expenses	422,000	513,000	(91,000)
Decrease in fair value of biological assets	233,000	1,402,000	(1,169,000)
Finance income	3,000	23,000	(20,000)
Finance costs	100,000	143,000	(43,000)
Other income	71,000	33,000	38,000
Gain on disposition of assets held for sale	127,000	-	127,000
Loss on sale of biological assets	(3,977,000)	-	(3,977,000)
Reversal of impairment of right-of-use assets	329,000		329,000
Income tax recovery	1,190,000	527,000	663,000
Net loss	(3,231,000)	(1,376,000)	(1,855,000)
Loss per share, basic and diluted	$ (0.44)	$ (0.19)	$ (0.25)

Revenue from the sale of ginseng root

For the six months ended December 31, 2020, the Company generated gross revenues of $3,060,000 from the sale of 339,000 lbs of ginseng, with an average selling price of $9 per lb. This compares to revenues of $559,000 from the sale of 32,000 lbs of ginseng from its harvest in the prior year, with an average selling price of $17 per lb. in the same period of the prior year. As discussed in the MD&A for the previous reporting periods and also in the above under Operations and Overview, ginseng prices have been falling sharply since early 2020 for the reasons that were beyond the control of the Company or the industry.

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

For the six months ended December 31, 2020, total administrative expenses decreased by $91,000 to $422,000 from $513,000 in the same period in the prior year. The decrease in administrative expenses was mainly due to a saving of $63,000 as a result of the termination of an administrative service agreement with Trilogy Bancorp Ltd. effective December 31, 2019. Also contributing to the decrease was no further legal expenses related to a shareholder dispute that was settled in December 2019. Depreciation in the current quarter increased by $26,000 due to the recognition of a right-of-use asset (office lease), which is depreciated over the term of the lease. In fiscal 2020, rent 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 six months ended December 31, 2020 and 2019. The charges by Trilogy, which were previously allocated to office and salaries, are now reported separately for comparison purposes.

Six months ended December 31,	2020	2019	Change from 2019
Depreciation	$ 31,000	$ 5,000	$ 26,000
Filing and transfer agent	3,000	6,000	(3,000)
Insurance	16,000	10,000	6,000
Investor relations	5,000	5,000	-
Office	4,000	5,000	(1,000)
Professional fees	37,000	81,000	(44,000)
Salaries	326,000	311,000	15,000
Short-term leases	-	20,000	(20,000)
Travel	-	7,000	(7,000)
	422,000	450,000	(28,000)
Charges by Trilogy	-	63,000	(63,000)
	$ 422,000	$ 513,000	$ (91,000)

Change in fair value of biological assets

For the six-month period ended December 31, 2020, the Company, based on the realized yield, adjusted its forecast and reported a slight decrease of $233,000 in the fair value of ginseng crops. For the same period in the prior year, the Company reported a decrease of $1,402,000 in the fair value of ginseng crops due to the continuing decline in ginseng prices, resulting from a slowdown in the Chinese economy and the trade, tariff and political issues described previously. In addition, the Company decreased its expectation of the yields on the harvests in the next two years due to an unusual rainy growing season this past year, which had caused a certain degree of damage to some of the crops.

Finance costs

For the six-month period ended December 31, 2020, finance costs decreased to $100,000 from $143,000 for the same period in the prior year due to a decrease in interest accretion on long-term loans, on which the final payments were due and had been made in January 2021. The composition of finance costs for the periods ended December 31, 2020 and 2019 is as follows:

For the six months ended December 31,	2020	2019	Change from 2019
Interest accretion on long-term loans	$ 48,000	$ 92,000	$ (44,000)
Interest accretion on lease liabilities	18,000	24,000	(6,000)
Mortgage and equipment loan interest	34,000	27,000	7,000
	$ 100,000	$ 143,000	$ (43,000)

Other income

Included in other income in the six-month period ended December 31, 2020 was a planting fee of $14,000 from Ponderosa, a management fee of $25,000 from Knightswood (See "Transactions with Related Parties") and rental income of $32,000. Other income in same period in the prior year consisted solely of planting fee of $33,000 from Ponderosa.

Gain on disposition of assets held for sale

In September 2020, the Company completed the sale of its farm property in Walsingham, Ontario and recorded a gain of $127,000. The sales agreement was entered in June 2020 upon which the property was re-classified as held for sale and measured at the carrying amount, which was the lower of its fair value less costs to sell.

Loss on sale of biological assets

In December 2020, the Company recorded a loss of $3,976,000 upon the completion of selling all of its immature crops to an unrelated party for $500,000.

Income tax recovery

Income tax recovery in the six-month periods ended December 31, 2020 and 2019 consisted solely of deferred tax recovery of $1,190,000 and $527,000, 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.

		Total revenues	Net income (loss)	Earnings (loss) per share, basic and diluted
December 31, 2020	Q2 FY2021	$ 2,036,000	$ 968,000)	$ 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)
June 30, 2019	Q4 FY2019	1,307,000	(932,000)	(0.13)
March 31, 2019	Q3 FY2019	2,269,000	(2,624,000)	(0.36)

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 now are the trade disputes between China and the United States, a continued poor political relationship between Canada and China, and the economic impact and uncertainty from the ongoing COVID-19 pandemic.

Fluctuations in net income among the quarters in a fiscal year, or between the same quarters in consecutive fiscal years, are primarily due to a change in the fair value of ginseng crops which result from changes in the estimate of prices and yields, the age of the crops and the number of acres under cultivation.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance, liquidity or capital resources of the Company.

Liquidity and Capital Resources

The Company's approach to managing its liquidity is to ensure that it has sufficient resources to meet its liabilities when they come due and to have sufficient working capital to fund operations for the ensuing fiscal year. The Company has established a credit facility with a Canadian chartered bank, which include a revolving line of credit for day-to-day operations. At December 31, 2020, the Company did not draw on this facility.

The Company had a working capital surplus of $5.89 million at December 31, 2020. Now with the Board's decisions to cease all new plantings and continue only with the mature and near-maturity crops, along with the sale of all the immature crops at a substantial loss, the Company believes that it should have sufficient cash flows to cover its operations and debt obligations when they come due without having to seek additional capital resources or financing alternatives.

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 six months ended December 31, 2020, the Company reported $25,000 in other income. No amount was outstanding from Knightswood at December 31, 2020.

Ponderosa Ginseng Farms Corp. ("Ponderosa")

The Company and Ponderosa, a private company having a director in common with the Company, have a ginseng farming agreement (the "Farming Agreement") under which the Company plants and maintains certain number of acres of ginseng in Ontario for the benefit of Ponderosa each year (the "Ponderosa Acres"). Pursuant to the Farming Agreement, Ponderosa reimburses the Company the actual farming and root processing expenses (the "Actual Costs"), which are estimated and prepaid annually (the "Prepayment") prior to the beginning of the Company's fiscal year. In return, the Company earns a planting fee equal to 15% of the Actual Costs from Ponderosa. Subsequent to the completion of a farming year, the Company will calculate the Actual Costs and settle the account with Ponderosa accordingly.

In 2017, Ponderosa notified the Company to terminate planting new acres but continue with farming the existing Ponderosa Acres until they are gradually harvested out. At December 31, 2020, the Company had completed harvesting all the Ponderosa Acres. For the period ended December 31, 2020, the Company incurred Actual Costs of $94,000. Total planting fee income realized in the period was $14,000. At December 31, 2020, $26,000 was outstanding from Ponderosa.

Pursuant to the Farming Agreement, the Company will undertake the selling of ginseng root harvested from the Ponderosa Acres and pay to Ponderosa the full amount of proceeds from each completed sale within 30 days of receipt by the Company. For the period ended December 31, 2020, the Company made sales totaling $302,000 for Ponderosa. No amounts were outstanding to Ponderosa at December 31, 2020.

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. The Company does not provide any post-employment benefits or other long-term employee benefits. No stock options were granted to key management personnel during the periods ended December 31, 2020 and 2019. For the six-month periods ended December 31, 2020 and 2019, compensation to key management personnel was as follows:

For the six months ended December 31,	2020	2019
Short-term benefits:		
Executive officers	$ 359,000	$ 342,000
Directors	4,000	13,000
	$ 363,000	$ 355,000

Proposed Transactions

There are no proposed transactions at the date of this report.

Subsequent Events

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 a price of $0.26 per share. The options vested on the date of grant and are expiring on June 30, 2023.

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

Critical Accounting Estimates

Management of the Company is required to make critical accounting estimates and judgments in determining the carrying amount of the following and/or the nature of transaction when preparing the consolidated financial statements in accordance with IFRS. Actual amounts could differ materially from those estimates.

Fair value of biological assets

When determining the fair value of crops, management is required to make a number of estimates including market prices, yields, costs to complete and harvest, and a discount rate to calculate the present value of future cash flows. These estimates are subject to volatility in market prices and a number of uncontrollable factors. These factors could significantly affect the fair value of the crops resulting in fair value re-measurement in the future accounting periods.

Fair value of 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 the current market condition 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.

Long-term borrowings and loans

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

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.

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.

Fair value measurement of share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and volatility and making assumptions about them.

Contingencies

Provisions are accrued for liabilities with uncertain timing or amounts if it is likely that both a liability has been incurred and the amount can be reasonably estimated. The adequacy of provisions is regularly assessed as new information becomes available. No accrual will be made if it is not possible to determine whether such a liability has occurred or to reasonably estimate the amount of loss.

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.

Financial Instrument and Risk Management

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

Cash and cash equivalents are exposed to credit risk and the Company reduces the credit risk by placing all its cash with Canadian chartered banks in accounts that are drawn on demand.

Trade receivables primarily relate to the timing of sales receivables. 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 term facilities and collateral loans are not subject to interest rate risk as they are fixed interest rate loans. However, the revolving line of credit is subject to interest rate risk as the interest rate is based on the prime rate. The Company does not use derivative instruments to mitigate this risk.

Outstanding Share Data

At December 31, 2020, there were 7,326,547 common shares issued and outstanding and stock options with a weighted average exercise price of $0.85 per share for the purchase of 182,000 common shares.

At the date of this report, there were 7,326,547 common shares issued and outstanding and stock options with a weighted average exercise price of $0.26 per share for the purchase of 326,000 common shares (see "Subsequent Events").

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 the following:

- *management's forecast for the yields and prices of ginseng.*

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.*

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.