



IMPERIAL  
G I N S E N G

**IMPERIAL GINSENG PRODUCTS LTD.**

AUDITED ANNUAL FINANCIAL STATEMENTS

June 30, 2017 and June 30, 2016

# Independent auditor's report

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To the Shareholders of Imperial Ginseng Products Ltd.:

We have audited the accompanying consolidated financial statements of Imperial Ginseng Products Ltd., which comprise the consolidated statements of financial position as at June 30, 2017 and June 30, 2016, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended June 30, 2017 and June 30, 2016, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Imperial Ginseng Products Ltd. as at June 30, 2017 and June 30, 2016, and its financial performance and its cash flows for the years ended June 30, 2017 and June 30, 2016 in accordance with International Financial Reporting Standards.

Vancouver, Canada  
September 12, 2017

A handwritten signature in black ink that reads "Grant Thornton LLP".

Chartered Professional Accountants

**Imperial Ginseng Products Ltd.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

As at June 30	Note	2017	2016
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 10,136,221	\$ 5,999,115
Trade and other receivables		138,670	97,806
Inventories	7	464,685	2,532,528
Prepaid expenses		299,074	279,085
Pre-planting costs	8	613,593	554,876
Biological assets	9	3,831,000	5,034,000
<b>Total current assets</b>		<b>15,483,243</b>	<b>14,497,410</b>
Biological assets	9	10,008,000	6,472,000
Property and equipment	11	5,952,586	5,102,109
Deposits		5,110	17,860
Available-for-sale investment	10	100,001	100,001
Deferred tax assets	20	250,000	426,000
<b>Total Assets</b>		<b>\$ 31,798,940</b>	<b>\$ 26,615,380</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 1,428,569	\$ 1,375,568
Deposit for planting cost reimbursement	6 (c)	520,113	669,702
Current portion of long-term borrowings	13	239,923	211,091
Income tax payable		741,000	-
<b>Total current liabilities</b>		<b>2,929,605</b>	<b>2,256,361</b>
Long-term borrowings	13	1,273,726	1,625,818
Long-term loans	14	1,029,854	844,144
Deferred tax liabilities	20	2,613,000	2,051,000
<b>Total liabilities</b>		<b>7,846,185</b>	<b>6,777,323</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	35,101,085	35,101,085
Contributed surplus		771,102	771,102
Deficit		(11,919,432)	(16,034,130)
<b>Total shareholders' equity</b>		<b>23,952,755</b>	<b>19,838,057</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 31,798,940</b>	<b>\$ 26,615,380</b>

On Behalf of the Board

*(signed) "Stephen McCoach"*  
Director

*(signed) "Maurice Levesque"*  
Director

See accompanying notes to the consolidated financial statements.

**Imperial Ginseng Products Ltd.**  
**Consolidated Statements of Income and Comprehensive Income**  
(Expressed in Canadian Dollars)

For the years ended June 30,	Note	2017	2016
Revenues	6 (b)	\$ 11,989,637	\$ 7,512,408
Cost of sales	9	10,698,277	6,205,127
Gross profit		1,291,360	1,307,281
Administrative expenses	17	(1,012,127)	(1,020,590)
Change in fair value of biological assets	9	5,839,074	2,421,053
<b>Income from operations before other items</b>		<b>6,118,307</b>	<b>2,707,744</b>
<b>Other items</b>			
Finance income		68,676	41,895
Finance costs	18	(243,831)	(216,882)
Other income		223,829	377,250
Other expenses		(6,283)	(66,922)
Loss from deteriorated inventories	7	(567,000)	-
Gain from disposition of property and equipment		-	24,903
Write-off of inventories	7	-	(1,798,412)
Income before income taxes		5,593,698	1,069,576
Income tax expense (recovery)	20	1,479,000	(265,000)
<b>Income and comprehensive income</b>		<b>\$ 4,114,698</b>	<b>\$ 1,334,576</b>
<b>Earnings per share</b>			
Basic	21	\$ 0.57	\$ 0.19
Diluted		0.56	0.18

See accompanying notes to the consolidated financial statements.

**Imperial Ginseng Products Ltd.**  
**Consolidated Statements of Changes in Equity**  
(Expressed in Canadian Dollars)

	Share capital (Note 15)	Contributed surplus	Deficit	Total shareholders' equity
Opening balance, July 1, 2016	\$ 35,101,085	\$ 771,102	\$ (16,034,130)	\$ 19,838,057
Changes in the period:				
Net income	-	-	4,114,698	4,114,698
<b>Balance, June 30, 2017</b>	<b>\$ 35,101,085</b>	<b>\$ 771,102</b>	<b>\$ (11,919,432)</b>	<b>\$ 23,952,755</b>

	Share capital (Note 15)	Contributed surplus	Deficit	Total shareholders' equity
Opening balance, July 1, 2015	\$ 35,083,081	\$ 781,342	\$ (17,368,706)	\$ 18,495,717
Changes in the period:				
Proceeds from stock options exercised	9,280	-	-	9,280
Cost of stock options exercised	10,240	(10,240)	-	-
Transaction costs	(1,516)	-	-	(1,516)
Net income	-	-	1,334,576	1,334,576
<b>Balance, June 30, 2016</b>	<b>\$ 35,101,085</b>	<b>\$ 771,102</b>	<b>\$ (16,034,130)</b>	<b>\$ 19,838,057</b>

See accompanying notes to the consolidated financial statements.

**Imperial Ginseng Products Ltd.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian Dollars)

<b>For the years ended June 30,</b>	<b>2017</b>	<b>2016</b>
<b>Cash provided by (used in) operating activities:</b>		
Net income	\$ 4,114,698	\$ 1,334,576
Adjustments for items not involving cash:		
Depreciation	54,488	24,517
Finance income	(68,676)	(41,895)
Finance costs	243,831	216,882
Gain from disposition of property and equipment	-	(24,903)
Change in fair value of biological assets	(5,839,074)	(2,421,053)
Write-off of inventories	-	1,798,412
Income tax expense (recovery)	1,479,000	(265,000)
Changes in non-cash working capital items:		
Cost of crops harvested	8,586,000	9,283,000
Crop costs, net of deferred depreciation of \$400,276 (2016 - \$293,179)	(4,679,650)	(5,383,767)
Accounts receivables and deposits	1,607	(31,077)
Inventories	2,057,843	(3,554,099)
Prepaid expenses	(19,989)	(117,743)
Pre-planting costs	(58,717)	77,147
Accounts payable and accrued liabilities	47,881	65,964
Deposit for planting cost reimbursement	(149,589)	163,044
<b>Net cash provided by operating activities</b>	<b>5,769,653</b>	<b>1,124,005</b>
<b>Cash provided by (used in) investing activities:</b>		
Acquisition of available-for-sale investment	-	(100,000)
Acquisition of property, plant and equipment	(1,295,242)	(1,828,017)
Proceeds from disposition of property and equipment	-	42,010
<b>Net cash used in investing activities</b>	<b>(1,295,242)</b>	<b>(1,886,007)</b>
<b>Cash provided by (used in) financing activities:</b>		
Finance costs paid	(53,001)	(67,640)
Finance income received	38,956	52,003
Proceeds from long-term borrowings	106,000	763,400
Repayment of long-term borrowings	(429,260)	(493,298)
Proceeds from exercised stock options	-	9,280
Transaction costs paid	-	(1,516)
<b>Net cash provided by (used in) financing activities</b>	<b>(337,305)</b>	<b>262,229</b>
Increase in cash and cash equivalents	4,137,106	(499,773)
Cash and cash equivalents, beginning of the year	5,999,115	6,498,888
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 10,136,221</b>	<b>\$ 5,999,115</b>

See accompanying notes to the consolidated financial statements.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

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### 1. General

Imperial Ginseng Products Ltd. (the "Company") was incorporated under the laws of the province of British Columbia in 1989. The Company's core business is cultivating and processing ginseng in the province of Ontario and selling the dried ginseng to wholesalers in Asia and North America through distributors. The Company's common shares ("Common Shares") are listed on the TSX Venture Exchange ("TSXV") under the stock symbol "IGP".

The Company's registered address and records office are located at 1200 - 200 Burrard Street, Vancouver, British Columbia V7X 1T2. The head office and principal address of the Company is Suite 3030, 650 West Georgia Street, Vancouver, British Columbia, Canada, V6B 4N7.

### 2. Basis of preparation

#### (a) Statement of compliance

These consolidated financial statements, including comparatives, are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on September 12, 2017.

#### (b) Basis of presentation and measurement

These consolidated financial statements include the accounts of Imperial Ginseng Products Ltd., the parent company, and its wholly owned subsidiary, Canadian Imperial Ginseng Ontario Ltd. ("CIGO").

These consolidated financial statements have been prepared on a historical cost basis except for biological assets which are measured at fair value.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the functional currency of the parent company and its wholly owned subsidiary.

### 3. Summary of significant accounting policies

#### (a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances with banks and short-term deposits that are readily convertible into known amounts of cash.

#### (b) Trade and other receivables

Upon initial recognition, trade and other receivables are measured at fair value and subsequently carried at amortized cost less an allowance for uncollectible amounts. An allowance for uncollectible amount is provided when there is evidence that the account is impaired. The carrying amount of the account is reduced by an allowance and the loss is recognized in the statement of comprehensive income within administrative expenses.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**3. Significant accounting policies (continued)**

(c) Inventories

Inventories include ginseng root, ginseng seed and supplies. Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Ginseng root

The cost of ginseng root inventory includes the fair value of the crops transferred from biological assets at the date of harvest, the drying cost incurred in bringing the root to its existing condition and depreciation charge on the drying equipment used in processing the root. Ginseng root inventory is accounted for using the first-in, first-out method.

Ginseng seed

The cost of seed inventory includes labor and other costs directly incurred in harvesting the seed and the cost of purchased seed. Seed harvested in excess of the planting need in the current year is kept for either self-use or sale in the future years. Seed inventory is accounted for using the weighted average cost method.

(d) Property and equipment

Property and equipment ("PP&E") are initially recognized at cost which includes all expenses directly attributable to bringing the asset to the location and working condition for its intended use. PP&E is depreciated on a straight-line basis over the following estimated useful lives:

Buildings	20 years
Leasehold improvements	4 years
Farming equipment	7 years
Office and laboratory equipment	5 years
Processing equipment	10 - 15 years
Shadehousing and irrigation	10 - 15 years

Depreciation is charged to crop costs with the exception of processing equipment which is charged to inventory when the crops are harvested. PP&E are subsequently measured using the cost model, cost less accumulated depreciation and impairment losses.

(e) Impairment of long-lived assets

The Company monitors the recoverability of long-lived assets, including property and equipment, based upon estimates using factors such as future asset utilization and business climate. An impairment loss is recognized if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs of disposal and value in use, which is the discounted future cash flows. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An annual impairment test at the cash-generating unit level will be performed when assessment on an individual asset basis is not applicable. If the carrying amount of an asset exceeds its recoverable amount, the carrying amount will be reduced to its recoverable amount and an impairment loss will be recognized in profit or loss. If it is determined that the impairment loss recognized in the prior years has reduced, it is reversed to the extent of the amount initially recognized as a loss.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**3. Significant accounting policies (continued)**

(f) Biological assets

The Company uses a three-tier approach to measure the fair value, less costs to sell, of the ginseng crops:

(i) Historical cost

Immature crops that are under the age of two and a half are still in the development stage and are valued at historical cost. There are no markets for immature crops and market-determined prices do not exist for these crops. The Company believes that the expenses incurred on the immature crops approximately their fair value.

(ii) Discounted expected future cash flow method

The fair value of near maturity crops is measured using the discounted expected future cash flow method. Under this method, expected future revenue less costs to complete and harvest is discounted to present value. The Company uses its weighted average cost of capital as the discount rate. Under this method, the Company assumes that reliable market prices are not available for near maturity crops at their present condition. However, the cost to complete and harvest the crops, the yields and the future selling prices of the near maturity crops can be reasonably estimated based on historical information.

(iii) Market price

At the point of harvest, the fair value of the ginseng crops can be reliably measured and these crops are measured at fair value less costs to dry. The fair value of harvested crops is based on the market value of ginseng at the point of harvest. Costs to sell are not taken into consideration when determining the fair value of the ginseng crops as the Company sells the ginseng directly to the distributors and does not incur selling expenses (Note 6 (b)).

Crops that are expected to be harvested within twelve months from the financial statement reporting date are classified as current assets in the consolidated statements of financial position.

(g) Available-for-sale investment

Investment in equity instruments, other than investments in subsidiary, is classified as available-for-sale and initially recorded at cost when acquired and subsequently measured at fair value based on the best available information. Investment in shares of private companies generally does not have a quoted market price in an active market. Any changes in the value of investment will be recognized through the statement of comprehensive income and accumulated in revaluation reserve in equity. Reserve will be reversed upon disposition of the investment.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when the significant risks and rewards of ownership have been transferred to Distributors (Note 6 (b)) which usually occurs when the title of the ginseng is transferred and the collection of sales proceeds is reasonable assured.

The Company also cultivates crops for other entities for a planting fee. Revenue is recognized when the services related to planting, cultivation or sale of the crops are provided (Note 6 (c)). Revenue from the yield bonus is recognized when the crops are sold.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**3. Significant accounting policies (continued)**

(i) Cost of sales

Cost of sales includes crop costs, drying costs and depreciation charge on processing equipment. Crop costs are the fair value of the ginseng crops transferred from biological assets at the point of harvest. Drying costs are the cost to process the ginseng into dried root. Processing equipment is depreciated over ten to fifteen years.

(j) Finance costs

Finance costs include interest expense on the revolving credit facility and long-term borrowings. Amortization of the discount on long-term loans, which is accounted for at amortized cost using the effective interest rate method, is also included in finance costs.

(k) Government program payments

Government program payments are recognized at their fair value when received. The Company does not make an accrual for government program payments as entitlement to these payments depends on a number of factors that are not controllable by the Company. Government program payments are included in other income in the statement of income and comprehensive income in the period in which they are received.

(l) Other income

Revenues generated from activities that are not the Company's core business are treated as other income. The Company's core business is cultivating, processing and distributing ginseng root through ginseng distributors. Included in other income are planting fee charged to Ponderosa Ginseng Farms Corp., occasional sale of ginseng seed and government program payments.

(m) Provisions and contingent liabilities

Provisions are recognized when the Company has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When it is not probable that there will be an outflow of economic benefits or the amount can be reliably estimated, the obligation is disclosed as a contingent liability.

(n) Share-based payments

The Company has a stock option plan which is disclosed in note 16. The Company uses the Black-Scholes option pricing model for valuing the options granted. The fair value of the options is estimated in accordance with the terms of the option which are determined by the Board of Directors when the options are granted. If the options do not have a vesting period, the option value is entirely recognized at the date of grant. If the options have a vesting period, each tranche of options vested is considered a separate grant for the calculation of fair value and recognized over the vesting period. The cost of the options is charged to profit or loss and the corresponding amount is accumulated in contributed surplus. When the options are exercised, their respective fair value accumulated in contributed surplus is transferred to share capital together with the proceeds received.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

(o) Income taxes

Current taxes are recognized for the estimated income taxes payable for the current period. The tax rates used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period. Current tax assets and liabilities are offset only when there is a legally enforceable right of offset, and the Company intends either to settle on a net basis or to realize asset and settle liability simultaneously.

Deferred taxes are recognized for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Deferred tax assets and liabilities are offset only if they relate to income taxes levied by the same taxation authority and the Company has a legally enforceable right to set off current tax assets against current tax liabilities.

(p) Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during each period. Diluted earnings per share is calculated using the treasury stock method under which all options whose average price is less than or equal to the average share price for the period are assumed to be exercised and all convertible securities are converted at the average share price during the period, and that the Company will use the proceeds to purchase its common shares at the average market price during the period. The purchased shares reduce the number of shares issued upon exercise of the options and this net number of shares is included in the denominator when calculating diluted earnings per share. Diluted amounts are not presented when the effect of the computations is anti-dilutive due to the loss incurred. Accordingly, there would be no difference in the amounts presented for basic and diluted loss per share.

(q) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and classified upon inception into one of the following four classifications:

(i) Financial assets at fair value through profit or loss

These are financial assets held for trading in the short term. Assets in this category are classified as current assets and measured at fair value with unrealized gains and losses recognized in profit or loss.

(ii) Loans and receivables

These are financial assets having fixed or determinable payments that are not quoted in an active market. They are classified as current assets except for those maturing after twelve months of the financial statement reporting date. They are measured at amortized cost using the effective interest method less any allowance for impairment.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**3. Significant accounting policies (continued)**

(q) Financial instruments (continued)

Financial assets (continued)

(iii) Held-to-maturity

These are financial assets, generally investments in debt instruments, that will not be sold before their maturity date. The assets in this category are generally classified as non-current assets and measured at amortized cost using the effective interest method less any allowance for impairment.

(iv) Available-for-sale

Assets in this category are either designated or not classified in any of the other categories. Financial assets in this category are generally classified as non-current assets unless they are intended to be disposed of within twelve months from the financial statement reporting date. These assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Financial liabilities

All financial liabilities are initially recorded at fair value and classified upon inception as either at fair value through profit or loss or other financial liabilities. After initial recognition, fair value changes on financial liabilities classified as fair value through profit or loss are recognized through the consolidated statement of income and comprehensive income. Financial liabilities classified as other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Classification of financial instruments

The Company classifies its cash and cash equivalents, trade and other receivables and deposits as loans and receivables which are accounted for at amortized cost. Available-for-sale investment is classified as available-for-sale and measured at fair value. Accounts payable and accrued liabilities, long-term loans and long-term borrowings are classified as other financial liabilities and measured at amortized cost.

**4. Critical accounting estimates and judgments**

In applying the accounting policies, the Company's management is required to make critical accounting estimates and judgments in determining the carrying amount of the items and/or the nature of transaction as described below.

**Accounting estimates**

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 fair value re-measurement in the future accounting periods.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**4. Critical accounting estimates and judgments (continued)**

**Accounting estimates (continued)**

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.

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.

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.

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.

**Management judgment**

Allowance for uncollectible accounts

The Company sells its entire root harvest to the Distributors (Note 6 (b)) and generally collects all the sales proceeds prior to releasing the shipment. Trade receivables of the Company are generally related to miscellaneous revenues which are mostly on cash terms. The Company evaluates the collectability of these accounts based on the business relationship with and the financial strength of the customers. The actual collectability of these accounts could differ from the judgments made by the Company.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

### June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

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#### 5. Future changes in accounting standards

IFRS 9 *Financial Instruments* is the first of a multi-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognized when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9.

IFRS 9 is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 does not require the restatement of comparative period financial statements for the initial application of the classification and measurement requirements, but instead requires modified disclosures on transition.

IFRS 15 *Revenue from Contracts with Customers* will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding whether revenue is to be recognized over time or at a point in time, and improves disclosures about revenue.

IFRS 15 provides more detailed guidance on contracts involving the delivery of two or more goods and services as to when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price and when to combine contracts. IFRS 15 also provides guidance on how to treat arrangements with variable pricing, such as performance-based pricing and how revenue can be constrained. In addition, IFRS 15 provides guidance on time value of money as to when to adjust a contract price for a financing component. IFRS 15 is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 *Leases* will replace IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. The IASB has set the effective date to annual period beginning on or after January 1, 2019. Early adoption of the standard is permitted. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the Company's financial statements.

The Company intends to adopt IFRS 9 and IFRS 15 in its financial year beginning on July 1, 2018, and IFRS 16 in its financial year beginning on July 1, 2019. At this time, the Company cannot reasonably determine the impact of adopting these future accounting standards to its financial reporting.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**6. Related party balances and transactions**

Transactions with related parties are recorded at the amount agreed to by the related parties.

(a) Management company transactions

The Company has an administrative agreement with Trilogy Bancorp Ltd. ("Trilogy"), a company owned and controlled by certain directors of the Company. Under the administrative agreement, the Management Company provides accounting, office and administrative services to the Company for a monthly fee of \$10,500. For the year ended June 30, 2017, the Company was charged \$126,000 (2016 - \$126,000) in administrative fee. At June 30, 2017 and 2016, no administrative fee was outstanding to Trilogy.

(b) Distributor services

The distribution agreements between the Company and companies controlled by a director of the Company (the "Distributors") provide that the Distributors will buy all the Company's ginseng harvested in a given year at agreed market prices in return for an exclusive right to distribute the Company's ginseng in Asia and North America. As the ginseng is sold directly to the Distributors at agreed prices, the Company does not pay any selling expenses to the Distributors for the distribution of ginseng. During the year ended June 30, 2017, the Company had sales transactions totaling \$11,989,637 with the Distributors (2016 - \$7,512,408).

(c) Ginseng farming agreement

The Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a private company having some directors 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. Pursuant to the Farming Agreement, Ponderosa will reimburse the Company the actual farming 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 August 2016, Ponderosa notified the Company that it wished to terminate the Farming Agreement and the new planting scheduled for fiscal 2017, effective the date the notice was given. The Company agreed to waive the eighteen-month notice period clause in the Farming Agreement and was compensated with the seed Ponderosa had in inventory at that time as well as \$29,400 of planting fee for the fiscal 2017 planting that was cancelled. The Company was also reimbursed in full for the land preparation expenses that had already been incurred. The Company will continue with the farming of the 60 acres that are currently under cultivation for Ponderosa until they are gradually harvested out by the fall of 2019.

For the year ended June 30, 2017, the Company incurred Actual Costs of \$471,428 (2016 - \$533,650). Total planting fee income realized in the year was \$101,159 (2016 - \$80,048). At June 30, 2017, the balance of Prepayment was \$520,113 (June 30, 2016 - \$669,702).

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

#### 6. Related party balances and transactions (continued)

##### (d) Key management personnel compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors, executive officers and the President of CIGO.

Short-term benefits for key management personnel compensation consist of salaries, bonuses and medical benefits. The Company does not provide any post-employment benefits or other long-term employee benefits. Short-term benefits for the President of CIGO are included in crop expenses. During the year ended June 30, 2017, the Company granted 522,000 stock options to key management personnel, which will be issued subject to obtaining shareholder approval of an amended and restated stock option plan (Note 16). For the year ended June 30, 2017, key management personnel compensation consisted solely of short-term benefits of \$921,921 (2016 - \$940,743).

#### 7. Inventories

As at June 30,	2017	2016
Ginseng root	\$ -	\$ 1,681,000
Ginseng seed	303,171	680,000
Supplies	161,514	171,528
	\$ 464,685	\$ 2,532,528

In August 2016, it was determined that a majority of the stratified seed inventory that was intended for the fiscal 2017 planting had rotted. Included in the consolidated statements of operations for the year ended June 30, 2017 was loss of ginseng seed of \$567,000 due to the deterioration (2016 - \$nil).

At June 30, 2016, the inventory value of the ginseng root and ginseng seed was written down by \$1,768,000 and \$30,412 to its net realizable value, respectively.

#### 8. Pre-planting costs

Pre-planting costs are expenses associated with preparing the land for planting in the next fiscal year. These costs will be transferred to crop expenses when the land is seeded. During the year ended June 30, 2017, \$507,907 of the pre-planting costs was transferred to crop expenses (2016 - \$613,928). The table below summarizes the composition of pre-planting costs:

As at June 30,	2017	2016
Land rental	\$ 173,776	\$ 157,387
Fertilizers and pesticides	439,817	397,489
	\$ 613,593	\$ 554,876

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**9. Biological assets**

The Company's biological assets consist solely of live ginseng crops. Changes to the fair value of biological assets are summarized as follows:

As at June 30,	2017	2016
Balance, beginning of the period	\$ 11,506,000	\$ 12,691,000
Crop expenses for the period (Note 19)	5,079,926	5,676,947
Change in fair value resulting from growth and pricing	5,839,074	2,421,053
Change due to harvested crops transferred to inventories	(8,586,000)	(9,283,000)
Balance, end of the period	\$ 13,839,000	\$ 11,506,000
Consist of:		
Current portion	\$ 3,831,000	\$ 5,034,000
Non-current portion	10,008,000	6,472,000

The inventory cost of ginseng root includes the fair value of the ginseng crops harvested during the year, drying expenses and depreciation on processing equipment. During the year ended June 30, 2017, \$8,586,000 (2016 - \$9,283,000) was transferred from biological assets to root inventory. For the year ended June 30, 2017, \$10,698,277 of the total inventory cost (2016 - \$6,205,127) was recognized as cost of sales.

Ginseng crops consist of immature, near maturity and mature crops. Immature crops are measured at historical costs as there are no markets for these crops. Near maturity crops are measured using the discounted expected future cash flow method when the costs to complete the crops and the future selling prices of ginseng can be reasonably estimated. Mature crops are measured at estimated fair value less expected costs to harvest and sell. The following table presents the fair value of each category of the crops:

As at June 30,	2017	2016
Immature ginseng crops	\$ 5,413,000	\$ 5,701,000
Near maturity ginseng crops	4,595,000	771,000
Mature ginseng crops	3,831,000	5,034,000
	\$ 13,839,000	\$ 11,506,000

In estimating the fair value of the ginseng crops, the following key assumptions are applied:

- (a) When estimating the fair value of the mature crops, the Company has assumed that the prevailing average market prices as of the end of the reporting period will not deviate materially from the actual prices when these crops are harvested in the next twelve months. When determining the prices used in estimating the fair value of the near maturity crops, the Company uses the current market prices as a basis and factors in the anticipated inflation, ginseng supply, expected quality of the Company's ginseng and other factors that may impact the anticipated prices.
- (b) An estimated size premium is included in the Capital Asset Pricing Model when determining the weighted average cost of capital used in discounting the expected future cash flows of the near maturity crops to present value.

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

#### 9. Biological assets (continued)

- (c) The yield per acre is the Company's estimate of anticipated yields at the time of harvest based on the condition of the crops as of the end of the reporting period. The Company does not take into account any unforeseeable factors such as adverse weather patterns, potential diseases or other factors that may impact the actual yields when the crops are harvested in future years.
- (d) When determining the costs to complete and the costs to harvest, the Company assumes that these costs are similar to the actual costs incurred in the past years. The Company also factors in any additional expenses such as labour requirements or fertilizers or other treatments that are known to be specifically required to complete certain gardens.
- (e) The Company has assumed that it will harvest all the four-year-old gardens and certain three-year-old gardens as planned. The gardens that actually get harvested each fall are dependent upon their condition during harvest and external factors such as anticipated prices. Ginseng crops are generally harvested at age four though they can be harvested at age three or even carried until they are five years old.

#### Sensitivity analysis

The Company's biological assets, which are measured at fair value, are categorized as level 3 of the fair value hierarchy. Significant inputs that are not based on available observable market data are the projected ginseng market prices, the anticipated yields and the weighted average cost of capital. With all other inputs held constant, a change in the significant input would affect the fair value of the biological assets, as follows:

Significant unobservable inputs	Sensitivity of fair value to unobservable inputs
Ginseng market prices	A 10% increase in prices would result in an increase in fair value of approximately \$1,081,000.
Yields	A 10% increase in yields would result in an increase in fair value of approximately \$1,036,000.
Weighted average cost of capital	A decrease of 5% to the weighted average cost of capital would result in an increase in fair value of approximately \$80,000.

#### 10. Available-for-sale investment

In 1994, the Company invested \$395,000 in the preferred shares of Ponderosa. In 2002, the Company wrote down the investment to a nominal \$1 due to a prolonged economic downturn in the ginseng industry, which the Company concluded that the decline in the value of its investment in Ponderosa was other than temporary. In 2005, Ponderosa underwent an equity restructuring and converted its preferred shares into common shares, upon which the Company owned a 1% voting right in Ponderosa as a result.

During the year ended June 30, 2016, the Company acquired all the common shares of Ponderosa held by Knightswood Financial Corp., a corporation with certain directors in common with the Company, for \$100,000. The Company now holds approximately 9.8% voting right in Ponderosa. Approximately 57% of all the voting shares of Ponderosa are owned by one corporate shareholder, who is related to certain directors of the Company.

Investment in Ponderosa is measured at fair value, which is deemed to be cost, less any impairment charges. Impairment charges are recognized in net earnings.

## Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

### 11. Property and equipment

	Land	Buildings	Leasehold improvements	Farming equipment	Office and laboratory equipment	Processing equipment	Shadehousing and irrigation	Total
<b>Cost</b>								
Balance, June 30, 2015	\$ 1,262,177	\$ 1,057,844	\$ -	\$ 1,690,289	\$ 29,278	\$ 599,439	\$ 1,870,710	\$ 6,509,737
Acquired	705,498	159,336	30,128	527,888	33,939	4,654	366,574	1,828,017
Disposals	-	-	-	(30,000)	(2,998)	(600)	-	(33,598)
Balance, June 30, 2016	1,967,675	1,217,180	30,128	2,188,177	60,219	603,493	2,237,284	8,304,156
Acquired	-	-	-	203,848	7,339	279,407	804,648	1,295,242
Disposal	-	-	-	-	(1,282)	-	-	(1,282)
Balance, June 30, 2017	\$ 1,967,675	\$ 1,217,180	\$ 30,128	\$ 2,392,025	\$ 66,276	\$ 882,900	\$ 3,041,932	\$ 9,598,116
<b>Accumulated depreciation</b>								
Balance, June 30, 2015	\$ -	\$ 162,726	\$ -	\$ 1,077,846	\$ 17,023	\$ 250,093	\$ 1,383,157	\$ 2,890,845
Depreciation	-	57,936	1,883	156,543	6,025	29,117	76,189	327,693
Disposals	-	-	-	(15,000)	(1,424)	(65)	-	(16,489)
Balance, June 30, 2016	-	220,662	1,883	1,219,389	21,624	279,145	1,459,346	3,202,049
Depreciation	-	60,858	7,532	215,105	10,015	31,621	119,632	444,763
Disposal	-	-	-	-	(1,282)	-	-	(1,282)
Balance, June 30, 2017	\$ -	\$ 281,520	\$ 9,415	\$ 1,434,494	\$ 30,357	\$ 310,766	\$ 1,578,978	\$ 3,645,530
<b>Carrying amounts</b>								
At June 30, 2016	\$ 1,967,675	\$ 996,518	\$ 28,245	\$ 968,788	\$ 38,595	\$ 324,348	\$ 777,938	\$ 5,102,109
At June 30, 2017	1,967,675	935,660	20,713	957,531	35,919	572,134	1,462,954	5,952,586

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

#### 12. Credit facilities

The credit facilities made available to CIGO by a Canadian chartered bank (the "Bank") include a non-revolving term facility (Note 13 (b)) and a revolving demand facility of \$1,000,000 at annual interest rate of Bank's prime rate plus 1% (the "Credit Facility"). The Credit Facility is renewed annually and collateralized by general security agreements and a charge over all ginseng inventories and crops. The Credit Facility requires the Company to maintain a current ratio of not less than 1.20 at the end of the fiscal year. In the event that the Company does not satisfy the financial covenants, the Bank has the right to terminate or demand payment of, or cancel or restrict availability of any unused portion of the revolving demand facility. At June 30, 2017 and 2016, the Company was in compliance with the financial covenants contained within the Credit Facility. At June 30, 2017, \$Nil was drawn on the revolving demand facility (June 30, 2016 - \$Nil).

#### 13. Long-term borrowings

As at June 30,	2017	2016
Current portion of principal:		
Mortgages (a)	\$ 119,082	\$ 106,710
Revolving term facility (b)	98,631	71,415
Other collateral loans (c)	22,210	32,966
	239,923	211,091
Non-current portion of principal:		
Mortgages (a)	1,060,660	1,395,821
Revolving term facility (b)	189,143	183,864
Other collateral loans (c)	23,923	46,133
	1,273,726	1,625,818
	\$ 1,513,649	\$ 1,836,909

##### (a) Mortgages

- (i) In 2016, the Company acquired a mortgage of \$500,000 for a farm property in Tillsonburg, Ontario purchased in November 2015. The mortgage is amortized over 20 years, has a term of five years and bears an annual interest rate of 2.71%, compounded semi-annually with monthly blended principal and interest payment of \$2,698 during the term. During the year ended June 30, 2017, the Company made an additional payment of \$50,000 towards the principal. At June 30, 2017, the principal balance was \$422,189 (June 30, 2016 - \$492,089).
- (ii) In 2014, the Company acquired a mortgage of \$825,000 for the purchase of a farm property near Walsingham, Ontario. The mortgage is amortized over 25 years, has a term of five years and bears an annual interest rate of 3.86%, compounded semi-annually with monthly blended principal and interest payment of \$4,277 during the term. During the year ended June 30, 2017, the Company made an additional payment of \$82,000 towards the principal. At June 30, 2017, the principal balance was \$501,005 (June 30, 2016 - \$612,407).
- (iii) In 2012, the Company acquired a mortgage of \$825,000 for the purchase of an operation and farm property in Milldale, Ontario. The mortgage is amortized over 15 years, has a term of seven years and bears an annual interest rate of 4.50%, compounded semi-annually with annual blended principal and interest payment of \$77,100 during the term. During the year ended June 30, 2017, the Company made an additional payment of \$82,500 towards the principal. At June 30, 2017, the principal balance was \$256,548 (June 30, 2016 - \$398,035).

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**13. Long-term borrowings (continued)**

(a) Mortgages (continued)

The mortgages are secured by a charge against the Company's real properties in Ontario. No financial covenants are imposed on the Company with respect to the mortgages. Minimum mortgage payments, including interest, during the amortized periods are as follows:

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Within 1 year	\$ 160,803	\$ 160,803
After 1 year but within 5 years	1,114,091	1,510,325
<b>Total principal and interest payment</b>	<b>\$ 1,274,894</b>	<b>\$ 1,671,128</b>

(b) Revolving term facility

The Bank has made available to the Company a \$1,000,000 revolving term facility for the purchase of equipment by way of a series of variable interest rate term loans at the Bank's prime rate plus 0.25% and fixed rate term loans which interest rate is to be determined at the time of borrowing. The loans are repayable in monthly blended payments of principal and interest for a maximum term of one year for variable interest rate loans and a maximum term of seven years for fixed rate term loans.

At June 30, 2017, the Company had several fixed rate term loans at annual interest rates between 2.28% and 2.82% maturing from 2019 to 2021. Minimum principal and interest payments over the term of the loans are as follows:

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Within 1 year	\$ 104,928	\$ 76,860
After 1 year but within 5 years	194,863	189,918
<b>Total principal and interest payment</b>	<b>\$ 299,791</b>	<b>\$ 266,778</b>

(c) Other collateral loans

The Company financed certain equipment and vehicle purchases via collateral loans at interest rates ranging from 0% to 4.75% for terms of two to five years. Each loan is secured by the equipment against which it is borrowed. No financial covenants are imposed on the Company with respect to these loans. The carrying values of borrowings approximate their fair values at the reporting date. Minimum principal and interest payments over the term of the loans are as follows:

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Within 1 year	\$ 23,441	\$ 35,223
After 1 year but within 5 years	24,803	48,244
<b>Total principal and interest payment</b>	<b>\$ 48,244</b>	<b>\$ 83,467</b>

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**14. Long-term loans**

In 2014, the Company settled a debt with Trilogy, a portion of which was settled by entering into long-term loan agreements (the "Indebtedness"). Trilogy assigned the Indebtedness to certain parties, who are directors and officers of the Company (together the "Debt Holders"). The Indebtedness of \$1,870,000 is to be repaid under the terms of loan agreements having a final maturity date of January 1, 2021 (the "Loans"). The Loans are secured by all of the assets of the Company and subordinate to the Company's indebtedness to the Bank. The Loans bear no interest until January 1, 2018 with interest at 9% per annum thereafter, calculated and compounded annually, in arrears. Interest is due annually and payable commencing on January 1, 2019. No payment of the principal is required until January 1, 2018. Beginning on January 1, 2018, the Company is required to repay 25% of the principal of the Loans on January 1 of each year until the Loans are fully repaid on January 1, 2021. Any amount due and not paid will bear an interest rate of 12% per annum. The Company has the right to pre-pay any amount of the Loans at any time with a 5% prepayment fee.

In 2015, the Company made an advanced payment of \$468,000 of the principal of the Loans to Debt Holders, thereby reducing the first instalment that was originally due on January 1, 2018 to \$nil. The next instalment of the Loans is due on January 1, 2019.

Minimum principal and interest payments over the term of the Loans are as follows:

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Within 1 year	\$ -	\$ -
After 1 year but within 5 years	1,654,450	1,654,450
<b>Total principal and interest payment</b>	<b>\$ 1,654,450</b>	<b>\$ 1,654,450</b>

The Loans are measured at amortized cost and accreted to their face value over the term at effective interest rate of 22%. At June 30, 2017 and 2016, the carrying amount of the Loans was as follows:

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Balance, beginning of the year	\$ 844,144	\$ 691,921
Accretion	185,710	152,223
<b>Balance, end of the year</b>	<b>\$ 1,029,854</b>	<b>\$ 844,144</b>
Consist of:		
Current portion	\$ -	\$ -
Non-current portion	1,029,854	844,144

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**15. Share capital**

- (a) Authorized
- Unlimited number of common shares without par value
  - Unlimited number of convertible preference shares without par value
- (b) Issued and outstanding

	Number of common shares	Amount
Balance, July 1, 2015	7,177,847	\$ 35,083,081
Shares issued upon exercise of stock options (Note 16)	32,000	19,520
Transaction costs	-	(1,516)
<b>Balance, June 30, 2016 and 2017</b>	<b>7,209,847</b>	<b>\$ 35,101,085</b>

**16. Share-based payments**

In May 2017, the Board of Directors of the Company approved the adoption of an amended and restated stock option plan (the "Amended Plan") to increase the maximum number of common shares that may be reserved for issuance from 248,216 to 720,000, representing approximately 10% of the total issued and outstanding common shares of the Company. The Company intends to grant an additional 522,000 stock options to officers and directors of the Company. The filing of the Amended Plan has been accepted by the TSX Venture Exchange and the Company will be seeking shareholder approval for the Amended Plan at its annual shareholder meeting scheduled to be held in December 2017.

During the year ended June 30, 2017, no stock options were exercised, cancelled or forfeited (2016 - 32,000 stock options were exercised at \$0.29 per share for proceeds of \$9,280). At June 30, 2017, 192,000 stock options were outstanding with weighted average exercise price of \$0.29 per common share. At June 30, 2017, the weighted average remaining contractual life of the outstanding stock options was 1.68 years (June 30, 2016 – 2.68 years). During the year ended June 30, 2017, the Company granted 522,000 stock options with an exercise price of \$0.85 per common shares to officers and directors of the Company, which will be issued upon obtaining shareholder approval for the Amended Plan (2016 – no options granted).

Changes in the number of options outstanding are as follows:

	Number of options	Weighted average exercise price
Outstanding and exercisable, July 1, 2015	224,000	\$ 0.29
Exercised	(32,000)	0.29
<b>Outstanding and exercisable, June 30, 2016 and 2017</b>	<b>192,000</b>	<b>\$ 0.29</b>

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

#### 17. Administrative expenses

For the years ended June 30,	2017	2016
Filing and transfer agent	\$ 11,991	\$ 11,909
Insurance	9,450	9,227
Investor relations	5,606	7,547
Legal and audit	70,396	89,385
Office	53,046	48,753
Rent	45,350	26,160
Salaries	806,778	818,496
Travel	9,510	9,113
	\$ 1,012,127	\$ 1,020,590

#### 18. Finance costs

For the years ended June 30,	2017	2016
Interest accretion on long-term payable	\$ 185,710	\$ 152,223
Interest on long-term borrowings	58,121	62,901
Interest on revolving credit facility	-	1,758
	\$ 243,831	\$ 216,882

#### 19. Crop expenses

Crop expenses include all costs associated with planting, maintaining and harvesting the ginseng crops. Crop expenses are deferred in biological assets until the crops are harvested. The components of crop expenses for the years ended June 30, 2017 and 2016 are detailed as follows:

For the years ended June 30,	2017	2016
Depreciation	\$ 400,276	\$ 293,179
Direct labour	1,828,584	1,898,310
Fertilizers	400,618	617,256
Fuel and utilities	125,378	121,688
Land rental	372,334	322,735
Mulch	374,079	479,596
Office	69,852	66,406
Operating and maintenance	137,012	147,103
Pesticides	960,803	962,597
Seed	410,990	768,077
	\$ 5,079,926	\$ 5,676,947

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**20. Income taxes**

(a) Income tax expense (recovery)

Income tax expense (recovery) for the years ended June 30, 2017 and 2016 consists of the following:

For the years ended June 30,	2017	2016
Current tax expense	\$ 741,000	\$ -
Deferred tax expense (recovery)	738,000	(265,000)
	\$ 1,479,000	\$ (265,000)

The following table reconciles income taxes calculated at statutory tax rate to the actual tax provision for the years ended June 30, 2017 and 2016:

	2017	2016
Income before taxes	\$ 5,593,698	\$ 1,069,576
Statutory tax rate	26.4%	26.3%
Income tax expense at statutory tax rate	1,479,000	281,000
Decrease in income taxes resulting from:		
Utilization of unused tax losses	-	(282,000)
Origination and reversal of temporary differences	-	(262,000)
Permanent and other differences	-	(2,000)
	\$ 1,479,000	\$ (265,000)

(b) Deferred tax assets and liabilities

The Company operates in multiple provinces and is subject to taxes under the jurisdiction of the province in which it operates. The Company recognizes deferred tax assets and liabilities to the extent that the realization of the related tax benefit through future taxable profits under the same taxation authority is probable.

The following table sets out the significant components of the recognized deferred tax assets and liabilities under the same tax jurisdiction at June 30, 2017 and 2016:

As at June 30,	2017	2016
Deferred tax assets:		
Non-capital loss carry-forwards	\$ 310,000	\$ 525,000
Property and equipment	14,000	10,000
Share issue cost	23,000	36,000
Other	(97,000)	(145,000)
Total recognized deferred tax assets	\$ 250,000	\$ 426,000

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**20. Income taxes (continued)**

(b) Deferred tax assets and liabilities (continued)

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Deferred tax liabilities:		
Biological assets	\$ (3,667,000)	\$ (3,049,000)
Non-capital loss carry-forwards	-	59,000
Property and equipment	770,000	1,029,000
Cumulative eligible capital	241,000	259,000
Other	43,000	(349,000)
<b>Total recognized deferred tax liabilities</b>	<b>\$ (2,613,000)</b>	<b>\$ (2,051,000)</b>

(c) The following table summarizes the movements of deferred income tax account during the years ended June 30, 2017 and 2016:

<b>For the years ended June 30,</b>	<b>2017</b>	<b>2016</b>
Deferred tax assets:		
Balance, beginning of the year	\$ 426,000	\$ -
Recognized in net income	(176,000)	426,000
<b>Balance, end of the year</b>	<b>\$ 250,000</b>	<b>\$ 426,000</b>
Deferred tax liabilities:		
Balance, beginning of the year	\$ (2,051,000)	\$ (1,890,000)
Recognized in net income	(562,000)	(161,000)
<b>Balance, end of the year</b>	<b>\$ (2,613,000)</b>	<b>\$ (2,051,000)</b>

(d) At June 30, 2017, the Company has non-capital loss carry-forwards for income tax purposes of \$1,193,000 that expire in varying annual amounts between 2030 and 2035.

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

June 30, 2017 and June 30, 2016

(Expressed in Canadian Dollars)

#### 21. Basic and diluted earnings per share

For the years ended June 30,	2017	2016
Net income	\$ 4,114,698	\$ 1,334,576
Weighted average number of shares outstanding	7,209,847	7,203,639
Basic earnings per share	\$ 0.57	\$ 0.19
Weighted average number of shares outstanding	7,209,847	7,203,639
Effect of common share equivalents	115,083	117,944
	7,324,930	7,321,583
Diluted earnings per share	\$ 0.56	\$ 0.18

Included in the calculation of diluted earnings per share for the year ended June 30, 2017 and 2016 were 192,000 outstanding stock options for which their exercise price of \$0.29 was lower than the average share price in the respective reporting period.

#### 22. Financial instruments

##### (a) Fair value hierarchy of financial assets and liabilities

In accordance with IFRS, the Company measures its financial assets and liabilities using the following fair value hierarchies, which have been defined as follows:

- Level 1 - Inputs available in published price quotations in an active market.
- Level 2 - Inputs other than prices from observable current market transactions.
- Level 3 - Inputs that are not based on available observable market data.

Long-term borrowings (Note 13) and long-term loans (Note 14) are categorized as level 2 using the following valuation methods:

The fair value of the above instruments was estimated using a discounted cash flow approach, which discounts the cash flow using discount rates derived from observable market interest rates of similar loans with similar risks. The most significant inputs, being the interest rates used for the discounting the cash flows, remain unchanged from the rates used at initial measurement in Notes 13 and 14. As a result, their amortized costs determined at June 30, 2017 and 2016 approximate their fair value.

##### (b) Fair value disclosure and measurement

The following table lists the carrying value which approximates its fair value of each class of financial instruments as at June 30, 2017 and 2016:

As at June 30,	2017	2016
Loans and receivables	\$ 10,280,000	\$ 6,114,782
Available-for-sale	100,001	100,001
Other financial liabilities	3,972,072	4,056,621

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

**23. Financial risk management**

Credit risk

The Company's primary credit risk is its trade receivables. The carrying amounts of trade receivables represent the Company's maximum exposure to credit risk. The Company considers all its trade receivables collectible. Within trade and other receivables, the Company did not have any trade receivables at June 30, 2017 and 2016. Other receivables consist of input tax credit and security deposits, which credit risks are considered to be minimal.

The Company may also have credit risk relating to cash and cash equivalents, which it manages by dealing with Canadian chartered banks. To minimize its exposure to credit risk, the Company places all its cash and cash equivalents in accounts which can be drawn on demand. The Company's cash and cash equivalents carrying value as at June 30, 2017 totaled \$10,136,221 (June 30, 2016 - \$5,999,115), representing the maximum exposure to credit risk of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations when they come due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. The Company ensures that there is sufficient working capital for its ongoing operating expenditures through an arrangement with credit facilities. At June 30, 2017, the Company had a working capital surplus of approximately \$12,554,000 (2016 - \$12,241,000).

The table below provides a summary of contractual obligations and payments related to financial liabilities due as at June 30, 2017 and 2016. The amounts disclosed are the contractual undiscounted cash flows.

<b><u>Contractual obligations due in</u></b>				
<b>As at June 30, 2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 and thereafter</b>	<b>Total</b>
Trade payable and accrued liabilities	\$ 1,310,619	\$ 62,200	\$ 55,750	\$ 1,428,569
Long-term borrowings	289,172	398,533	935,224	1,622,929
Long-term loans	-	593,225	1,061,225	1,654,450
	\$ 1,599,791	\$ 1,053,958	\$ 2,052,199	\$ 4,705,948

<b><u>Contractual obligations due in</u></b>				
<b>As at June 30, 2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 and thereafter</b>	<b>Total</b>
Trade payable and accrued liabilities	\$ 1,269,168	\$ 48,600	\$ 57,800	\$ 1,375,568
Long-term borrowings	272,886	261,107	1,487,382	2,021,375
Long-term loans	-	-	1,654,450	1,654,450
	\$ 1,542,054	\$ 309,707	\$ 3,199,632	\$ 5,051,393

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**23. Financial risk management (continued)**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through the floating interest rate of its revolving demand facility, which may have an effect on its earnings and cash flows in future periods. The Company does not use derivative instruments to mitigate this risk. Under the credit facility agreement, the revolving demand facility is subject to a mutually agreed premium added to the prime rate (Note 12). As the Company did not have an amount outstanding on the revolving demand facility on June 30, 2017 and June 30, 2016, a change in the interest rate would not have any impact on the Company.

The Company's non-revolving term facility, long-term borrowings and long-term payable are not subject to interest rate risk as they are fixed interest rate loans.

Currency risk

The Company's exposure to currency risk is minimal as the agreements with the Distributors provide that the Distributors will buy all the Company's harvest in a given year in Canadian dollars.

**24. Capital management**

The Company's main objective in managing its capital is to safeguard its ability to continue operations. The Company considers its capital structure to include the revolving demand facility, long-term loans, long-term borrowings and shareholders' equity. In respect of the Credit Facility, the Company is required to maintain a current ratio of not less than 1.2 at the end of each fiscal year. With respect to the mortgages, other collateral loans and long-term loans (Notes 13 and 14), the Company is not subject to any financial covenant. There were no changes in the Company's approach to capital management during the year ended June 30, 2017. The Company's capital includes the following:

<b>As at June 30,</b>	<b>2017</b>	<b>2016</b>
Long-term loans	\$ 1,029,854	\$ 844,144
Long-term borrowings	1,513,649	1,836,909
Shareholders' equity	23,952,754	19,838,057
	<b>\$ 26,496,257</b>	<b>\$ 22,519,110</b>

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2017 and June 30, 2016  
(Expressed in Canadian Dollars)

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**25. Commitments**

The Company is committed under various operating land leases for rental periods ranging from five to seven years. Future minimum land lease payments as at June 30, 2017 and 2016 are as follows:

For the years ended June 30,	2017	2016
2017	\$ -	\$ 444,000
2018	457,000	436,000
2019	389,000	367,000
2020	289,000	267,000
2021	195,000	173,000
2022	91,000	69,000
Thereafter	19,000	-
	<b>\$ 1,440,000</b>	<b>\$ 1,756,000</b>

**26. Segmented reporting**

The Company operates principally in one single industry segment, being cultivating and selling ginseng. All the assets of the Company are located in Canada. All sales transactions are made with Distributors located in Canada (Note 6 (b)). During the year ended June 30, 2017, sales transactions with the Distributors amounted to \$11,989,637 (2016 - \$7,512,408).

As all ginseng of the Company is sold to the Distributors who have an exclusive right to distribute the Company's ginseng in Asia and North America (Note 6 (b)), the end-buyers of the ginseng are not made known to the Company.