



# **IMPERIAL GINSENG PRODUCTS LTD.**

AUDITED ANNUAL FINANCIAL STATEMENTS

June 30, 2019 and June 30, 2018

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## Independent auditor's report

### To the Shareholders of Imperial Ginseng Products Ltd.:

#### Opinion

We have audited the consolidated financial statements of Imperial Ginseng Products Ltd. ("the Company") which comprise the consolidated statements of financial position as at June 30, 2019, and June 30, 2018 and the consolidated statements of (loss) income and comprehensive loss (income), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019 and June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Iwanaka.

*Grant Thornton LLP*

Vancouver, Canada  
October 10, 2019

Chartered Professional Accountants

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

As at June 30	Note	2019	2018
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 5,112,635	\$ 6,005,081
Trade and other receivables	6 (b)	92,738	140,005
Income tax receivable		-	741,000
Inventories	7	1,902,326	494,105
Prepaid expenses		229,120	375,872
Pre-planting costs	8	549,103	629,276
Biological assets	9	8,631,000	11,855,000
<b>Total current assets</b>		<b>16,516,922</b>	<b>20,240,339</b>
Biological assets	9	7,621,000	11,947,000
Property and equipment	10	7,550,776	6,518,136
Deposits		-	5,110
Investment	11	310,000	100,001
Deferred tax assets	19	62,000	251,000
<b>Total Assets</b>		<b>\$ 32,060,698</b>	<b>\$ 39,061,586</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 1,961,777	\$ 2,053,835
Deposit for planting cost reimbursement	6 (c)	362,805	491,701
Current portion of long-term borrowings	13	271,224	306,402
Current portion of long-term loans	14	499,032	536,642
<b>Total current liabilities</b>		<b>3,094,838</b>	<b>3,388,580</b>
Long-term borrowings	13	1,355,887	1,041,875
Long-term loans	14	378,565	719,780
Deferred tax liabilities	19	3,187,000	5,171,000
<b>Total liabilities</b>		<b>8,016,290</b>	<b>10,321,235</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	34,792,623	35,120,605
Contributed surplus		1,344,158	1,089,722
Accumulated other comprehensive income	15	(19,871)	-
Deficit		(12,072,502)	(7,469,976)
<b>Total shareholders' equity</b>		<b>24,044,408</b>	<b>28,740,351</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 32,060,698</b>	<b>\$ 39,061,586</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 (Loss) Income and Comprehensive (Loss) Income**  
(Expressed in Canadian Dollars)

For the years ended June 30,	Note	2019	2018
Revenues	6 (b)	\$ 7,812,791	\$ 4,506,341
Cost of sales	9	7,570,341	4,036,913
Gross profit		242,450	469,428
Administrative expenses	16	(1,297,634)	(1,682,865)
Change in fair value of biological assets	9	(5,585,685)	7,910,669
<b>(Loss) income from operations before other items</b>		<b>(6,640,869)</b>	6,697,232
<b>Other items</b>			
Finance income		56,707	77,784
Finance costs	17	(274,689)	(274,198)
Other income		329,076	329,557
Gain from disposition of property and equipment		41,927	53,217
Write-down of inventories	7	(260,000)	(8,698)
Share-based payment	15	-	(328,860)
(Loss) income before income taxes		(6,747,848)	6,546,034
Income tax recovery (expense)	19	1,795,323	(1,816,323)
<b>Net (loss) income for the year</b>		<b>(4,952,525)</b>	4,729,711
<b>Other comprehensive loss</b>	11	<b>(19,871)</b>	-
<b>Total comprehensive (loss) income for the year</b>		<b>\$ (4,972,396)</b>	\$ 4,729,711
<b>(Loss) earnings per share</b>			
Basic	20	\$ (0.68)	\$ 0.66
Diluted	20	(0.68)	0.63

See accompanying notes to the consolidated financial statements.

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

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Opening balance, July 1, 2017	\$ 35,101,085	\$ 771,102	\$ -	\$ (11,919,432)	\$ 23,952,755
Changes in the year:					
Net income	-	-	-	4,729,711	4,729,711
Stock options exercised	19,520	(10,240)	-	-	9,280
Changes to shareholders' equity	-	-	-	(63,000)	(63,000)
Share-based payment	-	328,860	-	-	328,860
Dividends	-	-	-	(217,255)	(217,255)
<b>Balance, June 30, 2018</b>	<b>35,120,605</b>	<b>1,089,722</b>	<b>-</b>	<b>(7,469,976)</b>	<b>28,740,351</b>
Changes in the year:					
IFRS 9 transition adjustment (Note 11)	-	-	-	349,999	349,999
Net loss	-	-	-	(4,952,525)	(4,952,525)
Change in fair value of investment	-	-	(19,871)	-	(19,871)
Stock options exercised Common Shares	127,200	(63,800)	-	-	63,400
repurchased	(455,182)	318,236	-	-	(136,946)
<b>Balance, June 30, 2019</b>	<b>\$ 34,792,623</b>	<b>\$ 1,344,158</b>	<b>\$ (19,871)</b>	<b>\$ (12,072,502)</b>	<b>\$ 24,044,408</b>

See accompanying notes to the consolidated financial statements.

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

For the years ended June 30,	2019	2018
<b>Cash provided by (used in) operating activities:</b>		
Net (loss) income	\$ (4,952,525)	\$ 4,729,711
Adjustments for items not involving cash:		
Depreciation	62,371	30,584
Finance income	(56,707)	(77,784)
Finance costs	274,689	274,198
Gain from disposition of property and equipment	(41,927)	(53,217)
Share-based payment	-	328,860
Change in fair value of biological assets	5,585,685	(7,910,669)
Write down of inventories	260,000	-
Income tax expense	(1,795,323)	1,816,323
Income tax refunded (paid)	741,323	(741,323)
Changes in non-cash working capital items:		
Cost of crops harvested	8,513,000	3,828,000
Crop costs, net of deferred depreciation of \$568,267 (2018 - \$479,257)	(5,980,418)	(5,401,074)
Trade and other receivables	43,354	(16,129)
Inventories	(1,668,221)	(29,420)
Prepaid expenses	146,752	(76,797)
Pre-planting costs	80,173	(15,683)
Accounts payable and accrued liabilities	(92,803)	559,252
Deposit for planting cost reimbursement	(120,332)	(22,323)
<b>Net cash provided by (used in) operating activities</b>	<b>999,091</b>	<b>(2,777,491)</b>
<b>Cash provided by (used in) investing activities:</b>		
Acquisition of property and equipment	(1,700,175)	(1,137,841)
Proceeds from disposition of property and equipment	70,260	109,579
Return of capital on investment	120,129	-
Dividends paid	-	(217,255)
<b>Net cash used in investing activities</b>	<b>(1,509,786)</b>	<b>(1,245,517)</b>
<b>Cash provided by (used in) financing activities:</b>		
Finance income received	65,730	92,577
Finance costs paid	(59,544)	(44,617)
Proceeds from long-term borrowings	661,441	167,526
Repayment of long-term borrowings	(382,607)	(332,898)
Repayment of long-term loans	(593,225)	-
Proceeds from stock options exercised	63,400	9,280
Shares repurchased for cancellation	(136,946)	-
<b>Net cash used in financing activities</b>	<b>(381,751)</b>	<b>(108,132)</b>
Decrease in cash and cash equivalents	(892,446)	(4,131,140)
Cash and cash equivalents, beginning of the year	6,005,081	10,136,221
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 5,112,635</b>	<b>\$ 6,005,081</b>

See accompanying notes to the consolidated financial statements.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

June 30, 2019 and June 30, 2018

(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 a distributor. 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 October 10, 2019.

#### (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 and investment, 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. Significant accounting policies

#### (a) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks and highly liquid short-term investments that are readily convertible into known amounts of cash.

#### (b) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently carried at amortized cost less any provision for expected credit loss ("ECL"). ECL is recognized when there is no reasonable expectation of recovery of trade receivables. ECL is measured by applying the simplified approach as described under IFRS 9 and the amount of loss is written off in the consolidated statements of income.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2019 and June 30, 2018  
(Expressed in Canadian Dollars)

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

(c) Inventories

Inventories consist of ginseng root, seed and chemicals. 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 necessary to make the sale.

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

Cost of seed inventory includes labor and other costs directly incurred in harvesting the seed. Seed harvested in excess of planting requirement may be offered for sale. 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, 2019 and June 30, 2018  
(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 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 approximate 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 a distributor 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) Investments

Upon initial recognition, the Company can elect to classify irrevocably its investments as equity instruments designated at fair value through other comprehensive income (FVTOCI). The classification is determined on an instrument-by-instrument basis. The Company elected to classify its investment in Ponderosa Ginseng Farms Corp. ("Ponderosa") as FVTOCI. Since Ponderosa is a privately-owned ginseng farm, the Company estimates the fair value of its investment in Ponderosa primarily based on industry knowledge as reliable market information is not available, and uses its own judgment and assumptions to determine the probability of possible outcomes of which the expected future cash flows are discounted at a rate estimated by the Company after considering various risk factors (see also Note 11).

(h) Revenue recognition

The Company evaluates the contractual arrangements it enters into in determining its performance obligations. When such performance obligations are concluded to be distinct from each other, the Company allocates the revenue to each performance obligation based on its relative estimated stand-alone selling prices. Performance obligations that are concluded not to be distinct are combined together into a single unit of account and revenue is recognized at an amount equal to the transaction price allocated to the specific obligation when it is satisfied.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2019 and June 30, 2018  
(Expressed in Canadian Dollars)

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

(h) Revenue recognition (continued)

The Company has an agreement with a distributor for the sale of all its ginseng (Note 6 (b)). Revenue is recognized when the control over ginseng is transferred to the distributor as specified by the delivery terms of each sale, which generally occurs when the distributor picks up the ginseng at the Company's facility. Whereas sales terms are payment prior to release of shipment, the Company recognizes revenue when payment is received since the ginseng is separately identified as belonging to the distributor and ready for physical transfer. Revenue is measured at the transaction price agreed under each sale.

The Company has an agreement with Ponderosa (Note 6 (c)) to cultivate crops for a planting fee, which is recognized when the services related to cultivation are provided. Yield bonus is recognized when the Company has the right to invoice.

(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 crops transferred from biological assets at the point of harvest. Drying costs are the cost to process the crops into dried ginseng 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 on the consolidated statements 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 a distributor. Included in other income are planting fee and yield bonus from Ponderosa, 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 resources 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 resources or the amount of the obligation can be measured reliably, the obligation is disclosed as a contingent liability.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2019 and June 30, 2018  
(Expressed in Canadian Dollars)

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

(n) Share-based payments

The Company has a stock option plan which is disclosed in Note 15 (c). 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.

(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 (loss) per share

Earnings (loss) 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.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
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(Expressed in Canadian Dollars)

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

(q) Financial instruments

Financial assets

Financial assets are initially recorded at fair value and are measured subsequently into one of the following classifications:

(i) Amortized cost

Financial assets are measured subsequently at amortized cost using the effective interest rate method if they are acquired principally to collect contractual cash flows of principal and interest on specified dates. Interest income is recognized in profit or loss.

(ii) Fair value through other comprehensive income ("FVTOCI")

Financial assets are measured subsequently at FVTOCI if they are acquired to collect contractual cash flows of principal and interest on specified dates and to sell. FVTOCI classification is mandatory for certain debt instrument assets unless the option for FVTPL is chosen. Interest income from debt instruments, calculated using the effective interest rate method, and impairment gains or losses are recognized directly in profit or loss. Fair value gains or losses are recognized in other comprehensive income and classified to profit or loss on derecognition.

FVTOCI classification for equity investments is an irrevocable election at initial recognition. Dividends are recognized in profit or loss unless the dividends clearly represent a recovery of part of the cost of investment. All other gains and losses are recognized in other comprehensive income and there is no reclassification on derecognition.

(iii) Fair value through profit or loss ("FVTPL")

Financial assets are measured subsequently at FVTPL if they do not meet the criteria for being measured at amortized cost or FVTOCI. Changes in fair value are recognized in profit or loss.

Financial liabilities

All financial liabilities are initially recorded at fair value and classified upon inception as either at amortized cost or fair value through profit or loss. After initial recognition, changes in fair value are recognized in profit or loss.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. The loss allowance, measured at an amount equal to the twelve month expected credit losses, is recognized as an impairment gain or loss in profit or loss.

Classification of financial instruments

The Company accounts for its cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, long-term borrowings and long-term loans at amortized cost. Investment is accounted for at FVTOCI.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
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(Expressed in Canadian Dollars)

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

Financial instruments prior to the adoption of IFRS 9

Prior to the adoption of IFRS 9 on July 1, 2018, financial instruments were accounted for under IAS 39, as follows:

*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.

(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.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

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#### 4. Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on past experience and factors considered reasonable under the circumstances. Though these estimates and assumptions are reviewed on an ongoing basis, due to their uncertainty, material adjustments could be required in future periods. Described below are the assets or liabilities that have a significant risk of a material adjustment to their carrying amounts.

##### Fair value of biological assets

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

##### Fair value of investment

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 conditions which could change significantly.

##### Long-term borrowings and loans

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

##### Assessment of property and equipment

Property and equipment are depreciated over their useful lives, taking into account the residual value at the end of their useful life, and are written down if they are impaired. Management estimates the residual values, useful lives and impairment based on past experience with assets of similar nature and functions. Actual results could differ from these estimates.

##### 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.

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

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.

**5. Changes in accounting policies and future changes in accounting standards**

(a) Accounting standards adopted effective July 1, 2018

IFRS 9 *Financial Instruments*

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available-for-sale. Rather, it divides all financial assets into three measurement categories on initial recognition: (i) those measured at amortized cost; (ii) those measured at fair value through profit or loss and (iii) those measured at fair value through other comprehensive income. Measurement and classification of financial assets depends on the entity's business model for managing the financial assets and their contractual cash flow characteristics. For financial liabilities, IFRS 9 largely retains the existing requirements in IAS 39. Financial liabilities are either measured at amortized cost or at fair value through profit or loss. In cases where the fair value option is chosen, the part of a fair value change relating to the entity's own credit risk is recorded in other comprehensive income unless it creates an accounting mismatch.

IFRS 9 uses an expected credit loss impairment model for financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. As the Company's sales terms are predominately payment before release of shipment, the adoption of the expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets at amortized cost, and did not result in a transitional adjustment.

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.

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**5. Changes in accounting policies and future changes in accounting standards (continued)**

- (a) Accounting standards adopted effective July 1, 2018 (continued)

IFRS 9 Financial Instruments (continued)

The adoption of IFRS 9 did not have a material impact to the Company's classification and measurement of financial assets and liabilities. With the exception of investment in Ponderosa, there are no changes in the carrying amounts under IAS 39 and IFRS 9. Prior to the adoption of IFRS 9, investment in Ponderosa was accounted at cost in accordance with IAS 39 as there was no quoted price in an active market for an identical instrument. At the date of initial adoption of IFRS 9, investment is required to be measured at fair value. Since the Company has elected not to restate the comparative period financial statements for the difference between the carrying amount and the fair value of investment at the date of initial adoption, the transition adjustment has been included in the opening balance of deficit on the transition date (Note 11).

The following table presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for all financial instruments held by the Company at July 1, 2018.

<b>Financial instruments</b>	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables <sup>(1)</sup>	Amortized cost
Trade and other receivables	Loans and receivables <sup>(1)</sup>	Amortized cost
Other assets	Loans and receivables <sup>(1)</sup>	Amortized cost
Investment	Available-for-sale	FVTOCI
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities <sup>(1)</sup>	Amortized cost
Other payables	Other financial liabilities <sup>(1)</sup>	Amortized cost
Loans and borrowings	Other financial liabilities <sup>(1)</sup>	Amortized cost

<sup>(1)</sup> measured at amortized cost.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 introduces a new and more comprehensive revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. It also introduces detailed guidance on identifying performance obligations, which requires entities to determine whether promised goods or services are distinct, and determining transaction price, which will be allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time or at a point in time when control of the goods or services is transferred to the customer.

The Company adopted IFRS 15 using the modified retrospective method whereby the cumulative effect of the change determined by applying IFRS 15 for contracts that are incomplete on the date of adoption, if any, are recognized in opening deficit. The adoption of this new standard did not result in any adjustment in the amounts previously recognized and as such, no cumulative effect adjustment was made to opening deficit at the transition date.

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**5. Changes in accounting policies and future changes in accounting standards (continued)**

- (b) Accounting standards issued but not yet effective

IFRS 16 Leases

IFRS 16 will replace IAS 17 *Leases* for entities with annual period beginning on or after January 1, 2019. There are no changes to lessor accounting under IFRS 16. For a lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases. Instead, it provides a single lessee accounting model requiring lessee to recognize right-of-use assets and lease liabilities for all leases previously classified as operating leases, including but not limited to, land leases and office space leases. Exemption is available if the lease is either short-term or the underlying asset is of low value. At the commencement date, the right-of-use assets are measured at cost whereas the lease liabilities are unpaid lease payments measured at present value using the lessee's incremental borrowing rate. IFRS 16 also changes the nature of expense relating to operating lease from lease expense to depreciation for right-of-use assets and finance cost for lease liabilities. IFRS 16 shall be applied retrospectively either to each prior reporting period (full retrospective approach) or with the cumulative effect of initially applying the standard recognized at the date of initial application (modified retrospective approach).

The Company will adopt IFRS 16 under the modified retrospective approach effective July 1, 2019, where the comparative information will not be restated and the cumulative effect of initial application of the standard will be recognized in the opening balance of deficit on the transition date.

The Company is in the process of finalizing its transition to IFRS 16. At June 30, 2019, all the lease commitments of the Company are operating leases. On the date of initial application of IFRS 16, the Company will recognize these operating leases, excluding those with a term of 12 months or less or having a low value underlying asset, as right-of-use assets and their unpaid lease payments as lease liabilities. The Company expects a significant impact related to its land leases which will require right-of-use assets and lease liabilities to be recognized on the consolidated statements of financial position.

**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, Trilogy provides accounting, office and administrative services to the Company for a monthly fee of \$10,500. For the year ended June 30, 2019, the Company was charged \$126,000 (2018 - \$126,000) in administrative fees. At June 30, 2019 and 2018, no administrative fee was outstanding to Trilogy.

- (b) Distributor services

The Company has a distribution agreement with an entity controlled by a director of the Company (the "Distributor") under which the Distributor 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 Distributor at agreed prices, the Company does not pay any selling expenses to the Distributor for the distribution of ginseng. During the year ended June 30, 2019, the Company had sales transactions totaling \$7,812,791 with the Distributor (2018 - \$4,506,341). No amount was outstanding from the Distributor at June 30, 2019 (2018 - \$24,444).

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

(c) Ginseng farming agreement

The Company and Ponderosa Ginseng Farms Corp. ("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 that it wished to terminate the planting of new acres. The Company will continue with the farming of the Ponderosa Acres until they are gradually harvested out by the fall of 2020. During the year ended June 30, 2019, the Company harvested 20 Ponderosa Acres (2018 – 11 Ponderosa Acres). At June 30, 2019, there remained 30 Ponderosa Acres under cultivation.

Also pursuant to the Farming Agreement, the Company is entitled to a yield bonus if the actual yield of the root harvested in a year exceeds a pre-determined base yield (the "Bonus Root"), calculated as 15% of the revenue from the sale of the Bonus Root. The yield bonus is payable on or before the earlier of 30 days after all the ginseng root is sold and June 30 of the year following the harvest. Included in planting fee income was a yield bonus of \$71,850 (2018 - \$87,835).

For the year ended June 30, 2019, the Company incurred Actual Costs of \$453,517 (2018 - \$517,434). Total planting fee income realized in the year was \$139,878 (2018 - \$165,450). At June 30, 2019, the balance of prepayment was \$362,805 (2018 - \$491,701).

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. During the year ended June 30, 2019, the Company made sales of \$1,383,292 for Ponderosa (2018 - \$1,595,914). No amounts were outstanding to Ponderosa at June 30, 2019 (2018 - \$nil).

(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. Termination benefits include retiring allowance and/or severance as a result of the Company terminating an employment contract. 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.

No stock options were granted during the years ended June 30, 2019 and 2018. In fiscal 2018, the Company issued stock options to key management personnel entitling the holders to purchase 522,000 common shares. These stock options were granted in fiscal 2017 but not issued until shareholder approval was received in fiscal 2018.

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

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

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

For the years ended June 30, 2019 and 2018, key management personnel compensation is as follows:

For the year ended June 30,	2019	2018
Short-term benefits	\$ 1,217,413	\$ 1,726,896
Termination benefits	198,888	-
Share-based payment benefits	-	328,860
	\$ 1,416,301	\$ 2,055,756

#### 7. Inventories

As at June 30,	2019	2018
Ginseng root	\$ 1,341,158	\$ -
Ginseng seed	339,778	355,839
Chemicals	221,390	138,266
	\$ 1,902,326	\$ 494,105

At June 30, 2019, ginseng root inventory was written down by \$260,000 to its estimated net realizable value (2018 - \$nil).

#### 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, 2019, \$542,494 of the pre-planting costs was transferred to crop expenses (2018 - \$591,225). The table below summarizes the composition of pre-planting costs:

As at June 30,	2019	2018
Land rental	\$ 160,218	\$ 161,907
Fertilizers and pesticides	388,885	467,369
	\$ 549,103	\$ 629,276

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**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,	2019	2018
Balance, beginning of the year	\$ 23,802,000	\$ 13,839,000
Crop expenses for the year (Note 18)	6,548,685	5,880,331
Change in fair value resulting from growth and pricing	(5,585,685)	7,910,669
Change due to harvested crops transferred to inventories	(8,513,000)	(3,828,000)
<b>Balance, end of the year</b>	<b>\$ 16,252,000</b>	<b>\$ 23,802,000</b>
Consist of:		
Current portion	\$ 8,631,000	\$ 11,855,000
Non-current portion	7,621,000	11,947,000

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, 2019, \$8,513,000 (2018 - \$3,828,000) was transferred from biological assets to root inventory. For the year ended June 30, 2019, \$7,570,341 of the total inventory cost (2018 - \$4,036,913) 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,	2019	2018
Immature ginseng crops	\$ 4,946,000	\$ 4,424,000
Near maturity ginseng crops	2,675,000	7,523,000
Mature ginseng crops	8,631,000	11,855,000
	<b>\$ 16,252,000</b>	<b>\$ 23,802,000</b>

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.

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#### 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 \$1,579,000.
Yields	A 10% increase in yields would result in an increase in fair value of approximately \$1,441,000.
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 \$113,000.

## Imperial Ginseng Products Ltd.

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### 10. 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, 2017	\$ 1,967,675	\$ 1,217,180	\$ 30,128	\$ 2,392,025	\$ 66,276	\$ 882,900	\$ 3,041,932	\$ 9,598,116
Acquired	-	145,545	-	350,651	-	-	641,645	1,137,841
Disposals	-	-	-	(89,225)	(2,342)	-	-	(91,567)
Balance, June 30, 2018	1,967,675	1,362,725	30,128	2,653,451	63,934	882,900	3,683,577	10,644,390
Acquired	-	405,064	-	178,932	3,864	5,721	1,106,594	1,700,175
Disposal	-	-	-	(131,679)	(9,667)	(28,175)	(456,184)	(625,705)
Balance, June 30, 2019	\$ 1,967,675	\$ 1,767,789	\$ 30,128	\$ 2,700,704	\$ 58,131	\$ 860,446	\$ 4,333,987	\$ 11,718,860
<b>Accumulated depreciation</b>								
Balance, June 30, 2017	\$ -	\$ 281,520	\$ 9,415	\$ 1,434,494	\$ 30,357	\$ 310,766	\$ 1,578,978	\$ 3,645,530
Depreciation	-	66,866	7,532	249,257	10,776	23,054	158,445	515,930
Disposals	-	-	-	(32,863)	(2,343)	-	-	(35,206)
Balance, June 30, 2018	-	348,386	16,947	1,650,888	38,790	333,820	1,737,423	4,126,254
Depreciation	-	72,845	7,532	256,120	11,036	56,931	234,737	639,201
Disposal	-	-	-	(130,187)	(9,667)	(28,175)	(429,342)	(597,371)
Balance, June 30, 2019	\$ -	\$ 421,231	\$ 24,479	\$ 1,776,821	\$ 40,159	\$ 362,576	\$ 1,542,818	\$ 4,168,084
<b>Carrying amounts</b>								
At June 30, 2018	\$ 1,967,675	\$ 1,014,339	\$ 13,181	\$ 1,002,563	\$ 25,144	\$ 549,080	\$ 1,946,154	\$ 6,518,136
At June 30, 2019	1,967,675	1,346,558	5,649	923,883	17,972	497,870	2,791,169	7,550,776

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**11. Investment**

In 1994, the Company invested \$395,000 in the preferred shares of Ponderosa and wrote down the investment to a nominal \$1 in 2002 due to a prolonged economic downturn in the ginseng industry at that time. In 2005, Ponderosa underwent an equity restructuring and converted its preferred shares into common shares resulting in the Company owning a 1% of the voting rights in Ponderosa. In 2016, the Company acquired additional common shares of Ponderosa for \$100,000, resulting in the Company holding a total of approximately 9.8% of the voting rights in Ponderosa.

Upon the adoption of IFRS 9 on July 1, 2018, investment in Ponderosa is categorized as fair value through other comprehensive income. When estimating the fair value of the investment, the Company applies the same key assumptions and unobservable inputs, that is, expected prices and yields, market volatility and discount rate, used in determining the fair value of its own ginseng crops (Note 9) as Ponderosa is in the same ginseng industry as the Company. In addition, since Ponderosa is expected to be wound up in fiscal 2021, the Company considers the probability of possible outcomes when discounting the value of the projected cash flows upon Ponderosa's liquidation.

The Company considered the significance of the change in fair value for changing one or more of the unobservable inputs and concluded that the effect on shareholders' equity of the Company would be trivial.

The following table presents the changes in the carrying amount of the investment in Ponderosa during the year ended June 30, 2019. The adjustment for IFRS 9 transition is included in opening deficit whereas the change in fair value estimate is included in other comprehensive income (Note 15 (d)).

	<b>Amount</b>
As at June 30, 2018 measured under IAS 39	\$ 100,001
IFRS 9 transition adjustment	349,999
Fair value measured under IFRS 9 at July 1, 2018	450,000
Deduct distributions received in the year	(120,129)
Change in fair value estimate	(19,871)
As at June 30, 2019	\$ 310,000

**12. Credit facilities**

The credit facilities made available to CIGO by a Canadian chartered bank (the "Bank") include a 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 0.5% (the "Credit Facility"). The Credit Facility is renewed annually and collateralized by general security agreements and a charge over all ginseng inventories and crops. No financial covenants are imposed on the Company with respect to the Credit Facility. At June 30, 2019, \$Nil was drawn on the revolving demand facility (2018 - \$Nil).

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**13. Long-term borrowings**

As at June 30,	2019	2018
Current portion of principal:		
Mortgages (a)	\$ 57,813	\$ 164,451
Revolving term facility (b)	169,626	109,433
Other collateral loans (c)	43,785	32,518
	271,224	306,402
Non-current portion of principal:		
Mortgages (a)	755,580	813,393
Revolving term facility (b)	494,585	138,710
Other collateral loans (c)	105,722	89,772
	1,355,887	1,041,875
	\$ 1,627,111	\$ 1,348,277

(a) Mortgages

- (i) In 2016, the Company acquired a mortgage of \$500,000 for the purchase of a farm property in Tillsonburg, Ontario. 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. At June 30, 2019, the principal balance was \$379,089 (2018 - \$400,929).
- (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 maturing on July 1, 2019 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. At June 30, 2019, the principal balance was \$434,304 (2018 - \$468,292). Subsequent to the year end, the mortgage was renewed for a term of five years at an annual interest rate of 3.80%.
- (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 was amortized over 15 years, had a term of seven years maturing on February 1, 2019, at an annual interest rate of 4.50% compounded semi-annually with annual blended principal and interest payment of \$77,100 during the term. Upon maturity of the term on February 1, 2019, the Company paid off the remaining principal balance of \$36,466 (2018 - \$108,623).

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:

As at June 30,	2019	2018
Within 1 year	\$ 83,542	\$ 197,270
After 1 year but within 5 years	566,773	830,236
More than 5 years	244,053	-
Total principal and interest payment	\$ 894,368	\$ 1,027,506

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

(b) Revolving term facility

The Bank has made available to the Company a \$1,200,000 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 for which the 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 seven years for fixed rate term loans.

At June 30, 2019, the Company had several fixed rate term loans at annual interest rates between 2.28% and 4.25% maturing from 2020 to 2024. Minimum principal and interest payments over the term of the loans are as follows:

As at June 30,	2019	2018
Within 1 year	\$ 193,373	\$ 115,249
After 1 year but within 5 years	518,503	144,456
More than 5 years	18,800	-
<b>Total principal and interest payment</b>	<b>\$ 730,676</b>	<b>\$ 259,705</b>

(c) Other collateral loans

The Company financed certain equipment and vehicle purchases via collateral loans at interest rates ranging from 0% to 3.49% maturing from 2020 to 2025. 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:

As at June 30,	2019	2018
Within 1 year	\$ 45,985	\$ 35,744
After 1 year but within 5 years	99,318	94,102
More than 5 years	8,534	-
<b>Total principal and interest payment</b>	<b>\$ 153,837</b>	<b>\$ 129,846</b>

**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"). At that time, Trilogy assigned the Indebtedness to certain parties, who are, or were directors and officers of the Company (together the "Debt Holders"). The Indebtedness of \$1,870,000 was 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 are subordinate to the Company's indebtedness to the Bank. The Loans bore 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 was required until January 1, 2018. Beginning on January 1, 2018, the Company was 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.

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**14. Long-term loans (continued)**

On January 1, 2019, the Company paid the second instalment totaling \$593,225, of which \$467,000 was for principal repayment, to the Debt Holders. Minimum principal and interest payments over the remaining term of the Loans are as follows:

As at June 30,	2019	2018
Within 1 year	\$ 551,650	\$ 593,225
After 1 year but within 5 years	509,575	1,061,225
<b>Total principal and interest payment</b>	<b>\$ 1,061,225</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, 2019 and 2018, the carrying amount of the Loans was as follows:

As at June 30,	2019	2018
Balance, beginning of the year	\$ 1,256,422	\$ 1,029,854
Accretion	214,400	226,568
Payment in the year	(593,225)	-
<b>Balance, end of the year</b>	<b>\$ 877,597</b>	<b>\$ 1,256,422</b>
Consist of:		
Current portion	\$ 499,032	\$ 536,642
Non-current portion	378,565	719,780

**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, 2017	7,209,847	\$ 35,101,085
Shares issued upon exercise of stock options	32,000	19,520
<b>Balance, June 30, 2018</b>	<b>7,241,847</b>	<b>35,120,605</b>
Shares issued upon exercise of stock options (Note 15 (c))	180,000	127,200
Shares repurchased and cancelled under NCIB (Note 15 (d))	(95,300)	(455,182)
<b>Balance, June 30, 2019</b>	<b>7,326,547</b>	<b>\$ 34,792,623</b>

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**15. Share capital (continued)**

(c) Stock options

The Company has an amended and restated stock option plan (the "Amended Plan") under which it is authorized to grant options to officers, directors, employees and consultants enabling them to acquire up to 720,000 Common Shares. The Amended Plan was adopted by the board of directors of the Company (the "Board") in May 2017 and approved by shareholders of the Company in December 2017. Under the Amended Plan, the stock options can be granted for a maximum term of 10 years and vest at the discretion of the Board. The exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange.

During the year ended June 30, 2018, the Company issued 522,000 stock options to officers and directors of the Company. Each stock option entitles the holder to purchase one Common Share at an exercise price of \$0.85 per Common Share on or before May 26, 2022. All these options vested immediately upon issuance. The Company used the Black-Scholes option pricing model with the following assumptions to value these stock options and recorded an estimated grant value of \$328,860, which was charged to profit or loss for the year ended June 30, 2018.

Stock price on the date of grant	\$ 0.85
Exercise price	\$ 0.85
Risk-free interest rate	1.53%
Expected life	5 years
Expected volatility	98.76%
Forfeiture rate	0%

During the year ended June 30, 2019, 180,000 stock options were exercised (2018 – 32,000). The weighted average share price at the date of exercise was \$1.23 (2018 - \$1.64). Below is a continuity schedule of stock options outstanding and exercisable:

	Number of options	Weighted average exercise price
Outstanding and exercisable, July 1, 2017	192,000	\$ 0.29
Granted	522,000	0.85
Exercised	(32,000)	0.29
Outstanding and exercisable, June 30, 2018	682,000	0.72
Exercised	(180,000)	0.35
Outstanding and exercisable, June 30, 2019	502,000	\$ 0.85

At June 30, 2019, the weighted-average remaining contractual life of the outstanding and exercisable stock options was 2.91 years. These stock options will expire on May 26, 2022.

(d) Accumulated other comprehensive income

Accumulative other comprehensive income is comprised solely of the gains or losses arising from the change in fair value estimate of the Company's investment in Ponderosa (Note 11).

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#### 15. Share capital (continued)

(e) Normal course issuer bid ("NCIB")

In September 2018, the Company received an approval from TSXV for the renewal of NCIB under which the Company is entitled to repurchase for cancellation up to 363,000 Common Shares over a twelve-month period commencing October 1, 2018 and ending September 30, 2019. All purchases are made through the facilities of the TSXV and are done at market prices. As purchases are made, the Company reduces share capital for the average book value of the Common Shares repurchased, and charges contributed surplus for the difference between the price paid and the average book value. During the year ended June 30, 2019, the Company repurchased 95,300 Common Shares for cancellation at an average price of \$1.44 per share (2018 – no Common Shares were repurchased).

(f) Dividends

No dividends were declared during the year ended June 30, 2019 (2018 - \$0.03 per Common Share).

#### 16. Administrative expenses

For the years ended June 30,	2019	2018
Filing and transfer agent	\$ 12,920	\$ 17,100
Insurance	9,450	9,450
Investor relations	6,308	6,792
Marketing and promotion	10,597	28,724
Office	52,977	49,887
Professional fees	75,188	103,049
Rent	47,230	45,546
Salaries	1,069,169	1,404,392
Travel	13,795	17,925
	\$ 1,297,634	\$ 1,682,865

#### 17. Finance costs

For the years ended June 30,	2019	2018
Interest accretion on long-term loans	\$ 214,400	\$ 226,568
Interest on long-term borrowings	60,289	47,630
	\$ 274,689	\$ 274,198

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#### 18. 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, 2019 and 2018 are detailed as follows:

For the years ended June 30,	2019	2018
Depreciation	\$ 568,267	\$ 479,257
Direct labour	2,448,841	2,329,815
Fertilizers	659,027	599,724
Fuel and utilities	154,636	134,426
Land rental	531,412	480,944
Mulch	393,303	472,405
Office	92,841	84,882
Operating and maintenance	201,348	132,957
Pesticides	1,283,636	971,891
Seed	215,374	194,030
	<b>\$ 6,548,685</b>	<b>\$ 5,880,331</b>

#### 19. Income taxes

##### (a) Income tax expense

Income tax expense for the years ended June 30, 2019 and 2018 consists of the following:

For the years ended June 30,	2019	2018
Current tax recovery	\$ (323)	\$ (740,677)
Deferred tax (recovery) expense	(1,795,000)	2,557,000
	<b>\$ (1,795,323)</b>	<b>\$ 1,816,323</b>

The following table reconciles income taxes calculated at statutory tax rate to the actual tax provision for the years ended June 30, 2019 and 2018:

	2019	2018
(Loss) income before taxes	\$ (6,747,848)	\$ 6,546,034
Statutory tax rate	26.4%	26.5%
Income tax (recovery) expense at statutory tax rate	(1,784,323)	1,735,323
Amounts not deductible for tax purposes	-	86,000
Other reconciling items	(11,000)	(5,000)
	<b>\$ (1,795,323)</b>	<b>\$ 1,816,323</b>

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**19. Income taxes (continued)**

(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, 2019 and 2018:

As at June 30,	2019	2018
Deferred tax assets:		
Non-capital loss carry-forwards	\$ 56,000	\$ 263,000
Property and equipment	22,000	17,000
Share issue cost	-	9,000
Other	(16,000)	(38,000)
<b>Total recognized deferred tax assets</b>	<b>\$ 62,000</b>	<b>\$ 251,000</b>

As at June 30,	2019	2018
Deferred tax liabilities:		
Biological assets	\$ (4,307,000)	\$ (6,306,000)
Non-capital loss carry-forwards	664,000	294,000
Property and equipment	329,000	536,000
Cumulative eligible capital	209,000	224,000
Other	(82,000)	81,000
<b>Total recognized deferred tax liabilities</b>	<b>\$ (3,187,000)</b>	<b>\$ (5,171,000)</b>

(c) The following table summarizes the movements of deferred income tax account during the years ended June 30, 2019 and 2018:

For the years ended June 30,	2019	2018
Deferred tax assets:		
Balance, beginning of the year	\$ 251,000	\$ 250,000
Recognized in net income	(189,000)	1,000
<b>Balance, end of the year</b>	<b>\$ 62,000</b>	<b>\$ 251,000</b>
Deferred tax liabilities:		
Balance, beginning of the year	\$ (5,171,000)	\$ (2,613,000)
Recognized in net income	1,984,000	(2,558,000)
<b>Balance, end of the year</b>	<b>\$ (3,187,000)</b>	<b>\$ (5,171,000)</b>

(d) At June 30, 2019, the Company has non-capital loss carry-forwards for income tax purposes of \$2,712,000 that expire in varying annual amounts between 2030 and 2039.

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**20. Basic and diluted earnings (loss) per share**

For the years ended June 30,	2019	2018
Net (loss) income	\$ (4,952,525)	\$ 4,729,711
Weighted average number of shares outstanding	7,274,258	7,213,880
Basic (loss) earnings per share	\$ (0.68)	\$ 0.66
Weighted average number of shares outstanding	7,274,258	7,213,880
Effect of common share equivalents	-	345,624
	7,274,258	7,559,504
Diluted (loss) earnings per share	\$ (0.68)	\$ 0.63

For the year ended June 30, 2019, potentially dilutive common shares relating to the outstanding stock options at year end, totaling 159,983, were not included in the computation of loss per share because their effect was anti-dilutive.

Included in the calculation of diluted earnings per share for the year ended June 30, 2018 were 682,000 outstanding stock options for which their weighted average exercise price of \$0.72 was lower than the average share price in the respective reporting period.

**21. Financial instruments**

Financial instruments measured at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices in active markets for identical assets and liabilities;
- Level 2 - Inputs other than quoted prices from observable market transactions either directly or indirectly; and
- Level 3 - Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company classifies and measures its cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities at amortized cost and their fair values approximate their carrying amounts due to their immediate or short-term nature.

Their fair values of long-term borrowings and long-term loans are determined using a discounted cash flow approach, which approximates their carrying values as the discount rates on these liabilities are at rates similar to prevailing market rates. As such, long-term borrowings and long-term loans are classified within Level 2 of the fair value hierarchy where observable market interest rates of similar loans with similar risks are available.

Investment in Ponderosa is classified within Level 3 of the fair value hierarchy as observable inputs are not available for an unquoted private equity investment that is soon to be wound up. The Company determines the fair value of its investment in Ponderosa based on the best estimate of its own assumptions (Note 11).

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**22. Financial risk management**

Credit risk

The Company's primary credit risk is its trade receivables. The carrying amount of trade receivables represents the Company's maximum exposure to credit risk. At June 30, 2019, the Company did not have any trade receivables (2018 - \$24,444). 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, 2019 totaled \$5,112,635 (2018 - \$6,005,081), 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, 2019, the Company had a working capital surplus of approximately \$13,422,000 (2018 - \$16,852,000).

The table below provides a summary of contractual obligations and payments related to financial liabilities due as at June 30, 2019 and 2018. The amounts disclosed are the contractual undiscounted cash flows.

<b>Contractual obligations due in</b>				
<b>As at June 30, 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 and thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 1,731,777	\$ 95,000	\$ 135,000	\$ 1,961,777
Long-term borrowings	322,900	599,028	856,953	1,778,881
Long-term loans	551,650	509,575	-	1,061,225
	\$ 2,606,327	\$ 1,203,603	\$ 991,953	\$ 4,801,883

<b>Contractual obligations due in</b>				
<b>As at June 30, 2018</b>	<b>2019</b>	<b>2020</b>	<b>2021 and thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 1,895,835	\$ 79,000	\$ 79,000	\$ 2,053,835
Long-term borrowings	348,263	583,700	485,094	1,417,057
Long-term loans	593,225	551,650	509,575	1,654,450
	\$ 2,837,323	\$ 1,214,350	\$ 1,073,669	\$ 5,125,342

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**22. 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, 2019 and June 30, 2018, a change in the interest rate would not have any impact on the Company. The Company's long-term borrowings and long-term loans 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, other collateral loans and long-term loans, 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, 2019. The Company's capital includes the following:

<b>As at June 30,</b>	<b>2019</b>	<b>2018</b>
Long-term loans	\$ 877,597	\$ 1,256,422
Long-term borrowings	1,627,111	1,348,277
Shareholders' equity	24,044,408	28,740,351
	<b>\$ 26,549,116</b>	<b>\$ 31,345,050</b>

**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, 2019 and 2018 are as follows:

<b>For the years ended June 30,</b>	<b>2019</b>	<b>2018</b>
2019	\$ -	\$ 524,000
2020	523,000	453,000
2021	407,000	366,000
2022	304,000	262,000
2023	191,000	149,000
2024	113,000	48,000
Thereafter	44,000	-
	<b>\$ 1,582,000</b>	<b>\$ 1,802,000</b>

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### **25. 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 Distributor located in Canada (Note 6 (b)). During the year ended June 30, 2019, sales transactions with the Distributor amounted to \$7,812,791 (2018 - \$4,056,341).

As all ginseng of the Company is sold to the Distributor who has an exclusive right to distribute the Company's ginseng in Asia and North America, the end-buyers of the ginseng are not made known to the Company.