



IMPERIAL GINSENG PRODUCTS LTD.

AUDITED ANNUAL FINANCIAL STATEMENTS

June 30, 2020 and June 30, 2019

Grant Thornton LLP
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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, 2020, and June 30, 2019 and the consolidated statements comprehensive loss, 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, 2020 and June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred a net loss of \$7,354,223 during the year ended June 30, 2020. As stated in Note 1, these events or conditions along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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, 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



Vancouver, Canada
October 20, 2020

Chartered Professional Accountants

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

As at June 30	Note	2020	2019
ASSETS			
Current			
Cash and cash equivalents		\$ 2,141,629	\$ 5,112,635
Trade and other receivables		97,538	97,848
Inventories	8	2,244,566	1,902,326
Prepaid expenses		2,400	224,010
Pre-planting costs	9	-	549,103
Biological assets	10	2,862,000	8,631,000
Current assets before assets held for sale		7,348,133	16,516,922
Non-current assets classified as held for sale	11	1,092,889	-
Total current assets		8,441,022	16,516,922
Biological assets	10	5,310,000	7,621,000
Property and equipment	12	5,901,898	7,550,776
Right-of-use assets	14 (a)	789,152	-
Investments	13	167,010	310,000
Deferred tax assets	21 (b)	106,000	62,000
Total Assets		\$ 20,715,082	\$ 32,060,698
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 716,694	\$ 1,961,777
Deposit for planting cost reimbursement	7 (c)	55,694	362,805
Current portion of long-term borrowings	16	559,711	271,224
Current portion of long-term loans	17	461,350	499,032
Current portion of lease liabilities	14 (b)	621,474	-
Total current liabilities		2,414,923	3,094,838
Long-term borrowings	16	796,176	1,355,887
Long-term loans	17	-	378,565
Lease liabilities	14 (b)	517,126	-
Deferred tax liabilities	21 (b)	571,000	3,187,000
Total liabilities		4,299,225	8,016,290
SHAREHOLDERS' EQUITY			
Share capital	18	34,792,623	34,792,623
Contributed surplus		1,344,158	1,344,158
Accumulated other comprehensive loss		(66,767)	(19,871)
Deficit		(19,654,157)	(12,072,502)
Total shareholders' equity		16,415,857	24,044,408
Total Liabilities and Shareholders' Equity		\$ 20,715,082	\$ 32,060,698

Going concern (Note 1)
Events after the reporting period (Note 28)

On Behalf of the Board

(signed) "Stephen McCoach"
Director

(signed) "Maurice Levesque"
Director

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Imperial Ginseng Products Ltd.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended June 30,	Note	2020	2019
Revenues	7 (a)	\$ 5,787,703	\$ 7,812,791
Cost of sales	8	5,630,075	7,570,341
Gross profit		157,628	242,450
Administrative expenses	19	(1,020,058)	(1,297,634)
Decrease in fair value of biological assets	10	(7,248,407)	(5,585,685)
Loss from operations before other items		(8,110,837)	(6,640,869)
Other items			
Finance income		29,450	56,707
Finance costs	20	(238,263)	(274,689)
Other income		149,428	329,076
Gain from disposition of property and equipment		500	41,927
Write-down of inventories	8	(1,250,113)	(260,000)
Write-off of pre-planting costs	9	(176,831)	-
Impairment of right-of-use assets	14 (a)	(417,557)	-
Loss before income taxes		(10,014,223)	(6,747,848)
Income tax recovery	21 (a)	2,660,000	1,795,323
Net loss for the year		(7,354,223)	(4,952,525)
Other comprehensive loss	13 (a)	(46,896)	(19,871)
Total comprehensive loss for the year		\$ (7,401,119)	\$ (4,972,396)
Loss per share, basic and diluted	22	\$ (1.00)	\$ (0.68)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Opening balance, July 1, 2018	\$ 35,120,605	\$ 1,089,722	\$ -	\$ (7,469,976)	\$ 28,740,351
Changes in the year:					
IFRS 9 transition adjustment (Note 13 (a))	-	-	-	349,999	349,999
Net loss	-	-	-	(4,952,525)	(4,952,525)
Change in fair value of investments	-	-	(19,871)	-	(19,871)
Stock options exercised	127,200	(63,800)	-	-	63,400
Common shares repurchased	(455,182)	318,236	-	-	(136,946)
Balance, June 30, 2019	34,792,623	1,344,158	(19,871)	(12,072,502)	24,044,408
Changes in the year:					
Net loss	-	-	-	(7,354,223)	(7,354,223)
Change in fair value of investments	-	-	(46,896)	-	(46,896)
Repurchase of preferred shares (Note 18 (e))	-	-	-	(227,432)	(227,432)
Balance, June 30, 2020	\$ 34,792,623	\$ 1,344,158	\$ (66,767)	\$ (19,654,157)	\$ 16,415,857

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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

For the years ended June 30,	2020	2019
Cash provided by (used in) operating activities:		
Net loss	\$ (7,354,223)	\$ (4,952,525)
Adjustments for items not involving cash:		
Depreciation	112,263	62,371
Finance income	(29,450)	(56,707)
Finance costs	238,263	274,689
Gain from disposition of property and equipment	(500)	(41,927)
Decrease in fair value of biological assets	7,248,407	5,585,685
Write-down of inventories	1,250,113	260,000
Write-off of pre-planting costs	176,831	-
Impairment of right-of-use assets	417,557	-
Income tax recovery	(2,660,000)	(1,795,323)
Income tax refunded	-	741,323
Changes in non-cash working capital items:		
Cost of crops harvested	6,395,000	8,513,000
Crop costs, net of depreciation (Note 10)	(4,485,457)	(5,980,418)
Trade and other receivables	(21,940)	43,354
Inventories	(1,521,687)	(1,668,221)
Prepaid expenses	66,565	146,752
Pre-planting costs	212,054	80,173
Accounts payable and accrued liabilities	(1,147,700)	(92,803)
Deposit for planting cost reimbursement	(288,686)	(120,332)
Net cash provided by (used in) operating activities	(1,392,590)	999,091
Cash provided by (used in) investing activities:		
Acquisition of property and equipment	(269,030)	(1,700,175)
Proceeds from disposition of property and equipment	500	70,260
Acquisition of investments	(10)	-
Return of capital on investments	96,103	120,129
Net cash used in investing activities	(172,437)	(1,509,786)
Cash provided by (used in) financing activities:		
Finance income received	51,700	65,730
Finance costs paid	(59,575)	(59,544)
Proceeds from long-term borrowings	-	661,441
Repayment of long-term borrowings	(271,224)	(382,607)
Repayment of long-term loans	(551,650)	(593,225)
Principal payments of lease liabilities	(193,767)	-
Interest paid on lease liabilities	(54,031)	-
Repurchase of preferred shares	(327,432)	-
Proceeds from stock options exercised	-	63,400
Shares repurchased for cancellation	-	(136,946)
Net cash used in financing activities	(1,405,979)	(381,751)
Decrease in cash and cash equivalents	(2,971,006)	(892,446)
Cash and cash equivalents, beginning of the year	5,112,635	6,005,081
Cash and cash equivalents, end of the year	\$ 2,141,629	\$ 5,112,635

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

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 China 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 555, 701 West Georgia Street, Vancouver, British Columbia, Canada, V7Y 1E4.

Since early 2019, ginseng prices have been under downward pressure since the start of an ongoing trade war between the United States and China and a deteriorating Canada-China diplomatic relationship. These factors have also made importing root into China, hence sales, more difficult not only for the Company but for the industry in Canada and the United States as a whole. Though there were still sales transactions at a slow pace, the Company responded by putting in measures to suspend non-critical capital expenditure and defer discretionary expenses. Despite the Company's effort, the market situation was made worse when the spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organization on January 31, 2020 and upgraded to a global pandemic on March 11, 2020. Ginseng sales were literally halted for a couple of months resulting in a record high global ginseng inventory. Although some sales activities have slowly resumed since the late spring of 2020, prices have plummeted to an unexpected low level. Despite all these happenings during the Company's year ended June 30, 2020, the Company was able to sell more root in terms of volume than the prior year, which slightly offset the lower prices, and had operating cash flows to meet its financial obligations without having to draw on its revolving line of credit or making changes to the operating plans.

Management believes that, based on the following, it remains appropriate to prepare these financial statements on a going concern basis as there is reasonable expectation that the Company will continue in operations for the next 12 months from the date these financial statements are authorized to issue:

- At June 30, 2020, the Company had net working capital of \$4.93 million and undrawn revolving line of credit of \$1 million.
- Subsequent to the year end, the Company generated net proceeds of approximately \$800,000 from the sale of its one of its farm properties, classified as assets held for sale, which the Company had planned to sell after harvesting the crops on it this fall.
- Management, took into account the possible downsides from the continued impacts of the political factors and COVID-19, and the operational changes discussed in Notes 2 and 28, has prepared a monthly cashflow projection for the next 24 months. The projection indicates that the Company will have sufficient cashflows to support its operating requirements and fulfill its debt obligations when they come due.

Based on the above, these consolidated financial statements have been prepared on the assumption that the Company is a going concern. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations and that such adjustments could be material.

For the year ended June 30, 2020, the Company reported net loss of \$7,354,223, primarily due to a substantial negative adjustment on the fair value of its ginseng crops, the net realizable value of its ginseng inventory, and writing off all the expenses relating to future planting. The Company concluded that these consolidated financial statements appropriately reflect and disclose management's best estimate of the impacts from the factors discussed above on the Company's future operations and financial results.

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

1. Nature of operations and going concern (continued)

At June 30, 2020, not including the carrying amount of a held-for-sale farm property, the Company had a working capital of approximately \$4.93 million, all of which was made up of ginseng in the form of dried root inventory and mature crops. As such, the ability of the Company to continue in operations depends highly on its ability to generate sales and provide adequate funds for its operating requirements. The Company may acquire additional working capital to fund its operations by selling its real properties.

2. Future operating plans

As discussed above, the continuing downward pressure on ginseng prices as a result of the political factors and COVID-19 cast significant doubt about the future ginseng prices and hence, the ability to attain profitability. As such, it had become necessary for the Company to make a decision, in the best interest of its stakeholders, on its future path and direction. In May 2020, the Board of Directors of the Company (the "Board") made a decision to not plant any new ginseng crop in the summer of 2020.

Since then, the economic condition and the political situation continued to deteriorate. In June 2020, the Board, after taking into account the following material uncertainties that may cast significant doubt to the Company's ability to realize its assets and discharge its liabilities, decided that there will be no plantings at all going forward. These material uncertainties include, but not limited to, the following:

- A coronavirus outbreak in our farm will completely shut down operations.
- The supply for offshore labour will be cut off if home countries impose travel bans due to the possibility of another coronavirus outbreak.
- Any further steps that may be taken by China for Canada not agreeing to the release of the Chief Financial Officer of Huawei Technologies Co., Ltd.
- Ginseng prices continue to decline as a result of the trade war, political factors and the economic impacts from COVID-19.

The Company will continue to monitor the situation and take necessary actions as they arise. Although some of the events related to the COVID-19 pandemic occurred during the Company's fiscal period, certain events since June 30, 2020 are considered non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended June 30, 2020 have not been adjusted to reflect their impact.

The duration and impact of the COVID-19 pandemic on the industry, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

See also Note 28 (b).

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

3. 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 on October 20, 2020.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company's subsidiaries over which it has control, where control is defined as the power to govern the financial and operating policies. Control is achieved when the Company has power over its subsidiaries, has exposure or rights to variable returns from the subsidiaries and has the ability to use its power to affect the amount of the returns.

The Company has two wholly owned subsidiaries, Canadian Imperial Ginseng Ontario Ltd. ("CIGO") and Knightswood Holdings Ltd. ("Knightswood") (Note 13 (b)). These consolidated financial statements do not include the accounts of Knightswood as the Company does not have control based on the definition of control under IFRS 10.

(c) Basis of presentation and measurement

These consolidated financial statements have been prepared on a historical cost basis with the exception of biological assets and investments which are measured at fair value. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

4. 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 gain or loss.

(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.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(c) Inventories (continued)

Cost of seed inventory includes labor and other costs directly incurred in harvesting the seed. Seed harvested in excess of planting requirements may be offered for sale. Seed inventory is accounted for using the weighted-average cost method.

(d) Non-current assets classified as held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use. The assets, immediately prior to their classification as held for sale, are measured at the lower of their carrying amounts and their fair value less costs to sell. Once classified as held for sale, the assets are not subject to depreciation.

Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

(e) 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. Until June 2020, PP&E was 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

At June 1, 2020, the useful life of PP&E is now expected to end on June 30, 2022. Accordingly, PP&E is depreciated over the remaining useful life after taking into account the estimated residual value at the end of the useful life.

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.

(f) 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, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(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.

(h) 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 7 (a)).

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.

(i) 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, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(i) Revenue recognition (continued)

The Company has an agreement with a distributor for the sale of all its ginseng (Note 7 (a)). 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 7 (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.

(j) 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.

(k) Finance costs

Finance costs include interest expense on the revolving credit facility and long-term borrowings. Amortization of the discount on long-term loans and lease liabilities is also included in finance costs.

(l) 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.

(m) 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, management fee from Knightswood, government program payments and occasional sale of ginseng seed.

(n) 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, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(o) Share-based payments

The Company has a stock option plan which is disclosed in Note 18 (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 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.

(p) 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.

(q) 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
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(r) 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. Investments are accounted for at FVTOCI.

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

5. 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 investments

Management estimates the fair value of its investment in Ponderosa using a discounted expected cash flows model based on its own industry knowledge, historical experience and expectations of future operating results believed to be reasonable under the circumstances. These estimates are subject to a number of factors including the realization of expected yields, volatility of the ginseng market, a discount rate based on management's judgment and a number of uncontrollable factors. Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Net realizable value of inventories

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

Assessment of property and equipment

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

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.

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.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

5. Critical accounting estimates and judgments (continued)

Leases

In assessing whether a contract contains a lease, management applies judgments when determining whether the contract involves the use of an identified asset, which should be physically distinct and provide the right to substantially all of the economic benefits from the use of the asset. Judgment is also applied in determining whether the Company has the right to control the use of the identified asset.

Lease liabilities are measured at the present value of the lease payments discounted using the Company's incremental borrowing rate. Management makes estimates in determining the incremental borrowing rate used to measure the lease liability for each lease contract when the interest rate implicit in the lease is not readily available. The incremental borrowing rate should reflect the interest rate that the Company would have to pay to borrow at a similar term and with a similar security. Determination of the incremental borrowing rate requires significant judgment and may have significant impact on the amount of lease liabilities recognized.

When estimating the lease term, on commencement date of the lease, management considers the facts and circumstances when determining whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company periodically reassesses whether it is reasonably certain to exercise the options and accounts for any changes at the date of the reassessment. Judgment on the lease term may significantly affect the amount of lease liabilities and right-of-use assets recognized.

Fair value measurement of share-based payments

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

Contingencies

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

Determination of control of subsidiaries

The Company relies on its interpretation of the definition of control under IFRS in determining whether consolidation of the financial statements of the Company and its subsidiaries is required. In determining whether the Company controls its subsidiary, management assesses whether the Company has (i) power over the subsidiary; (ii) exposure, or rights, to variable returns from its involvement with the subsidiary and (iii) the ability to use its power over the subsidiary to affect those returns.

Going concern assessment

The ability of the Company to continue as a going concern involves management judgments in assessing whether the going concern assumption is appropriate, for which management takes into account all available information about the future. Management continues to closely monitor any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

6. Adoption of new accounting standards

On July 1, 2019, the Company adopted IFRS 16 *Leases*. IFRS 16 *Leases* replaces IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. Instead, it requires a lessee to recognize a lease liability and a corresponding right-of-use asset at the date at which the leased asset is available for use. Exemption is available if the lease is either short-term or the underlying asset is of low value. A depreciation expense on the right-of-use asset and an interest expense on the lease liability replace the operating lease expense. IFRS 16 changes the presentation of cash flows relating to leases in the statement of cash flows.

The Company adopted IFRS 16 under the modified retrospective approach which does not require restatement of comparative information. Instead, comparative information remained as previously reported under IAS 17. In accordance with the transitional provisions, the cumulative effect of initial application was adjusted in the opening balances as at July 1, 2019.

On initial application, the Company also elected to apply the following practical expedients to leases previously classified as operating leases under IAS 17:

- Used transitional relief not to reassess whether a contract is, or contains a lease at the date of initial application.
- Relied on previous assessments in respect of onerous contracts that confirmed there were no existing onerous lease contracts.
- Applied the exemption not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and leases of low-value assets.
- Applied hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to land leases which had previously been classified as operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate of 4% as at July 1, 2019. Right-of-use assets were measured at an amount equal to the lease liabilities adjusted for the amounts in prepaids.

The following table reconciles the Company's operating lease commitments at June 30, 2019, as previously disclosed in the Company's annual consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at July 1, 2019:

Operating lease commitments at June 30, 2019	\$ 1,582,340
Less: amounts paid before initial application of IFRS 16	(214,828)
Less: short-term leases	(77,884)
Undiscounted lease liabilities at July 1, 2019	1,289,628
Effect of discounting at July 1, 2019	(84,387)
Lease liabilities recognized at July 1, 2019	\$ 1,205,241

The corresponding right-of-use asset was measured at an amount equal to the lease liability adjusted for the amounts in prepaid expenses. The following table reconciles the lease liabilities to the right-of-use assets recognized on initial application of IFRS 16 at July 1, 2019:

Lease liabilities recognized at July 1, 2019	\$ 1,205,241
Add: prepaid lease expenses	155,045
Add: land rental in pre-planting costs	160,218
Right-of-use assets recognized at July 1, 2019	\$ 1,520,504

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

6. Adoption of new accounting standards (continued)

The Company's accounting policy for leases in accordance with IFRS 16 is provided below.

The definition of a lease under IFRS 16 is applied only to contracts entered into or change on or after July 1, 2019. Substantially all the lands on which the Company cultivates ginseng are leased. At inception of a contract, the Company assesses whether it is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Except for short-term leases and leases of low-value assets, the Company recognizes a right-of-use asset and a corresponding lease liability with respect to all leases at the lease commencement date. Short-term leases are leases with a term of 12 months or less. Payments for these leases relating to cultivation are recognized in current crops costs within biological assets, or administrative expenses for general operations, on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally, the Company uses its incremental borrowing rate as the discount rate and uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments include rent during the lease term and the optional extension period if it is reasonably certain that the Company will exercise the extension option. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rates or changes in the Company's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Modifications to a lease will be considered a remeasurement of the lease liability if there are no changes in the scope of the lease. Otherwise, a lease modification is accounted for as a separate lease. For a modification that is not accounted for as a separate lease, the Company will remeasure the liability by discounting the revised lease payments using a revised discount rate and make a corresponding adjustment to the right-of-use asset.

Each lease payment is apportioned between an interest charge and a reduction of the lease liability. Interest charges are included in finance cost in the consolidated statements of profit or loss. Lease liability is subsequently increased by the interest charges and decreased when lease payments are made.

The right-of-use asset is initially measured at cost, which includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. It is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease term includes periods covered by an extension option if the Company is reasonably certain that the option will be exercised. This determination is made on a lease by lease basis and reviewed periodically. Depreciation is included in current crops costs within biological assets. The right-of-use asset may be adjusted for certain remeasurements of the corresponding lease liability.

Prior to July 1, 2019, under IAS 17, the Company recognized the land lease payments in current crop costs within biological assets and the office lease payments in administrative expenses on a straight-line basis over the lease term.

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

7. Related party balances and transactions

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

(a) Distributor services

The Company has a distribution agreement with an entity controlled by a former director of the Company (the "Distributor"), who retired from the Board in May 2020. Under the agreement, 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. The distribution agreement is still in effect subsequent to the retirement of the former director.

For the year ended June 30, 2020, the Company had sales transactions totaling \$5,787,703 with the Distributor (2019 - \$7,812,791). No amount was outstanding from the Distributor at June 30, 2020 (2019 - \$nil).

(b) Knightswood Holdings Ltd. and Business Management Agreement

On January 6, 2020, the Company acquired all the issued and outstanding shares of Knightswood (Note 13 (b)) and subsequently entered into a business management agreement with Elcyc Holdings Ltd. and Canterra Capital Corp. (collectively the "Operator") for the management and administration of all the business and affairs of Knightswood (the "Knightswood Agreement"). Each Operator is owned and controlled by a director of the Company.

Under the Knightswood Agreement, the Company will not commit its management or resources and is under no obligation to advance funds to or cover the expenses of Knightswood. The Operator is solely responsible for managing the business operations and financial affairs, making decisions and setting out policies of Knightswood. In return, the Operator is entitled to all the cash surplus in Knightswood after paying a fixed annual fee of \$50,000 to the Company for holding the shares of Knightswood (the "Fixed Fee"). The Fixed Fee is due in four equal instalments at the end of each calendar quarter and is to be paid by Knightswood directly to the Company. For the year ended June 30, 2020, the Company reported \$25,000 in other income. No amount was outstanding from Knightswood at June 30, 2020.

The Knightswood Agreement has a term of five years expiring January 6, 2025 but may be terminated earlier either by mutual agreement or providing a 60-day written notice to the other party. Upon termination, the Company will transfer all the shares of Knightswood to the Operator for a consideration of \$10.

(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.

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 \$22,000 of yield bonus estimated from the sale of Bonus Root for the year ended June 30, 2020 (2019 - \$71,850), which was outstanding at June 30, 2020 (2019 - \$nil).

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

7. Related party balances and transactions (continued)

(c) Ginseng farming agreement (continued)

For the year ended June 30, 2020, the Company incurred Actual Costs of \$316,570 (2019 - \$453,517). Total fee income including yield bonus was \$69,486 (2019 - \$139,878). At June 30, 2020, the balance of prepayment was \$55,694 (2019 - \$362,805).

Pursuant to the Farming Agreement, the Company will undertake the selling of ginseng root harvested from the Ponderosa Acres and pay to Ponderosa the full amount of proceeds from each completed sale within 30 days of receipt by the Company. For the year ended June 30, 2020, the Company made sales totaling \$901,375 for Ponderosa (2019 - \$1,383,292). No amounts were outstanding to Ponderosa at June 30, 2020 (2019 - \$nil).

In 2017, Ponderosa notified the Company to terminate planting new acres but continue with farming the existing Ponderosa Acres until they are gradually harvested out by the fall of 2020. During the year ended June 30, 2020, the Company harvested 23 Ponderosa Acres (2019 – 20 Ponderosa Acres). At June 30, 2020, the Company was maintaining 7 Ponderosa Acres, which will all be harvested in the fall of 2020.

(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, 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, 2020 and 2019. For the years ended June 30, 2020 and 2019, key management personnel compensation is as follows:

For the years ended June 30,	2020	2019
Short-term benefits	\$ 876,307	\$ 1,217,413
Termination benefits	-	198,888
	\$ 876,307	\$ 1,416,301

(e) Management company transactions

Prior to January 1, 2020, the Company had an administrative agreement with Trilogy Bancorp Ltd. ("Trilogy"), a company owned and controlled by certain directors of the Company. Under the administrative agreement, Trilogy provided accounting, office and administrative services to the Company for a monthly fee of \$10,500. The agreement was terminated effective December 31, 2019. For the year ended June 30, 2020, the Company was charged administrative fee of \$63,000 (2019 - \$126,000). No administrative fee was outstanding to Trilogy at June 30, 2020 (2019 - \$nil).

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

8. Inventories

As at June 30,	2020	2019
Ginseng root	\$ 2,147,409	\$ 1,341,158
Ginseng seed	-	339,778
Chemicals	97,157	221,390
	\$ 2,244,566	\$ 1,902,326

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, 2020, fair value of the harvested crops of \$6,395,000 (2019 - \$8,513,000) was transferred from biological assets to root inventory (Note 10). For the year ended June 30, 2020, \$5,630,075 of the total inventory cost (2019 - \$7,570,341) was recognized as cost of sales. At June 30, 2020, ginseng root inventory was written down by \$940,000 (2019 - \$260,000) to its estimated net realizable value.

As the Company had decided to cease new planting, the entire seed inventory of \$310,113 was written off at June 30, 2020.

9. Pre-planting costs

Pre-planting costs are expenses associated with preparing the land for planting in the next fiscal year and these costs will be transferred to biological assets when the land is seeded. Prior to the adoption of IFRS 16, pre-planting costs included land lease payments. On initial application of IFRS 16, land lease payments accumulated in pre-planting costs were transferred to right-of-use assets. The following is a summary of transactions in pre-planting costs during the years ended June 30, 2020 and 2019:

	Land rental	Chemicals	Total
As at June 30, 2018	\$ 161,907	\$ 467,369	\$ 629,276
Transferred to biological assets	(120,880)	(421,614)	(542,494)
Expenses incurred in the year	119,191	343,130	462,321
As at June 30, 2019	160,218	388,885	549,103
Transferred to right-of-use assets	(160,218)	-	(160,218)
As at July 1, 2019	-	388,885	388,885
Transferred to biological assets	-	(219,169)	(219,169)
Expenses incurred in the year	-	7,115	7,115
	-	176,831	176,831
Write off pre-planting costs	-	(176,831)	(176,831)
Balance, June 30, 2020	\$ -	\$ -	\$ -

At June 30, 2020, all pre-planting costs were written off as the Company has decided to cease new planting.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

10. Biological assets

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

As at June 30,	2020	2019
Balance, beginning of the year	\$ 16,252,000	\$ 23,802,000
Crop expenses for the year	5,563,407	6,548,685
Change in fair value due to lowering price and yield expectations	(7,248,407)	(5,585,685)
Fair value of harvested crops transferred to inventories	(6,395,000)	(8,513,000)
Balance, end of the year	\$ 8,172,000	\$ 16,252,000
Consist of:		
Current portion	\$ 2,862,000	\$ 8,631,000
Non-current portion	5,310,000	7,621,000

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, 2020 and 2019 are as follows:

For the years ended June 30,	2020	2019
Direct labour	\$ 1,945,784	\$ 2,448,841
Fertilizers	473,674	659,027
Fuel and utilities	121,625	154,636
Land rental	-	531,412
Short-term leases (Note 14 (d))	79,484	-
Mulch	343,731	393,303
Office and program fees	74,720	92,841
Operating and maintenance	225,124	201,348
Pesticides	1,148,323	1,283,636
Seed	72,992	215,374
Crop costs before depreciation	4,485,457	5,980,418
Depreciation – property and equipment	637,714	568,267
Depreciation – right-of-use assets (Note 14 (a))	440,236	-
	\$ 5,563,407	\$ 6,548,685

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,	2020	2019
Immature ginseng crops	\$ 3,804,000	\$ 4,946,000
Near maturity ginseng crops	1,506,000	2,675,000
Mature ginseng crops	2,862,000	8,631,000
	\$ 8,172,000	\$ 16,252,000

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

10. Biological assets (continued)

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.
- (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 and weather. 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 \$882,000.
Yields	A 10% increase in yields would result in an increase in fair value of approximately \$818,000.
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 \$36,000.

11. Non-current assets classified as held for sale

In June 2020, the Company listed its property in Walsingham, Ontario for sale. Just prior to the year end, the Company entered into a conditional sales agreement with an unrelated party. As the Company regarded the sale highly probable, the land and buildings allocable to the property were classified as held for sale at June 30, 2020 (Note 12). No impairment loss was recognized on classification of the property as held for sale as it was expected that its fair value less costs to sell would exceed the carrying amount. See also Note 28 (a).

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

12. Property and equipment

	Land	Buildings	Leasehold improvements	Farming equipment	Office and laboratory equipment	Processing equipment	Shadehousing and irrigation	Total
Cost								
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
Disposals	-	-	-	(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
Acquired	-	176,018	-	5,289	1,900	18,752	67,071	269,030
Disposal	-	-	-	-	-	(1,135)	-	(1,135)
Reclassified to held for sale (Note 11)	(967,179)	(180,422)	-	-	-	-	-	(1,147,601)
Balance, June 30, 2020	\$ 1,000,496	\$ 1,763,385	\$ 30,128	\$ 2,705,993	\$ 60,031	\$ 878,063	\$ 4,401,058	\$ 10,839,154
Accumulated depreciation								
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
Disposals	-	-	-	(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
Depreciation	-	93,554	5,649	222,539	9,400	176,491	317,386	825,019
Disposal	-	-	-	-	-	(1,135)	-	(1,135)
Reclassified to held for sale (Note 11)	-	(54,712)	-	-	-	-	-	(54,712)
Balance, June 30, 2020	\$ -	\$ 460,073	\$ 30,128	\$ 1,999,360	\$ 49,559	\$ 537,932	\$ 1,860,204	\$ 4,973,256
Carrying amounts								
At June 30, 2019	\$ 1,967,675	\$ 1,346,558	\$ 5,649	\$ 923,883	\$ 17,972	\$ 497,870	\$ 2,791,169	\$ 7,550,776
At June 30, 2020	1,000,496	1,303,312	-	706,633	10,472	340,131	2,540,854	5,901,898

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Nine Months Ended March 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

13. Investments

(a) Ponderosa Ginseng Farms Corp.

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.

The 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 10) 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.

On July 1, 2018 upon the adoption of IFRS 9, \$349,999 was added to the carrying amount of the investment for a fair value of \$450,000 and a corresponding IFRS 9 transition adjustment was included in the opening deficit. The following table details the changes to the carrying amount of the investment during the years ended June 30, 2020 and 2019:

	2020		2019	
Balance, beginning of the year	\$	310,000	\$	450,000
Deduct distributions received in the year		(96,104)		(120,129)
Change in fair value estimate		(46,896)		(19,871)
Balance, end of the year	\$	167,000	\$	310,000

(b) Knightswood Holdings Ltd.

On January 6, 2020, the Company and Auxly Cannabis Group Inc. entered into a share purchase agreement under which the Company bought all the issued and outstanding shares of Knightswood Holdings Ltd. ("Knightswood") for \$10. Knightswood is in the business of providing its subsidiaries a qualified investment, as defined in the *Income Tax Act* (Canada), for their debentures or debt securities.

The Company has engaged the Operator for the sole management and finances of Knightswood (Note 7 (b)). Under the agreement with the Operator, the Company will not commit its management or resources and is under no obligation to advance funds to or cover the expenses of Knightswood. On the other hand, the Company does not have any right to any variable financial returns from the activities of Knightswood other than the Fixed Fee. The Company also has no rights, power, ability or obligation to direct the activities of Knightswood or be involved in any of the daily affairs, decision making, management or activities of Knightswood. As such, the financial results and position of Knightswood are not consolidated with the financial statements of the Company pursuant to the definition of control under IFRS.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

14. Leases

The Company has lease agreements for the land used for cultivation and an office space. Lease term for the land generally ranges from five to seven years with an option to extend for one additional year or terminate before the end of the term.

(a) Right-of-use assets

As at June 30, 2020	Amount
Amount recognized at July 1, 2019 (Note 6)	\$ 1,520,504
Additions during the year	140,490
Depreciation recognized in current crop costs (Note 10)	(440,236)
Depreciation recognized in administrative expenses	(14,049)
Impairment	(417,557)
	\$ 789,152

As a decision of no future plantings was made in June 2020 (Note 1), land leases for future plantings had become impaired and were removed from right-of-use assets.

(b) Lease liabilities

As at June 30, 2020	Amount
Amount recognized at July 1, 2019 (Note 6)	\$ 1,205,241
Additions during the year	140,490
Interest accretion (Note 20)	40,667
Payments in the year	(247,798)
	\$ 1,138,600
Consist of:	
Current portion	\$ 621,474
Non-current portion	517,126

(c) Contractual undiscounted cash flows

As at June 30, 2020	Amount
Within 1 year	\$ 645,233
After 1 year but within 5 years	543,897
Total undiscounted lease payments	\$ 1,189,130

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

14. Leases (continued)

(d) Short-term lease expenses

For the year ended June 30, 2020, the Company included payments for short-term leases of \$79,484 in crop costs within biological assets (Note 10) on the consolidated statements of financial position, and \$43,199 in administrative expenses (Note 19) on the consolidated statements of loss. Short-term leases in biological assets were solely land leases for crops to be harvested in the current year, and in administrative expense an office lease expired during the year.

15. Credit facilities

The credit facilities made available to CIGO by a Canadian chartered bank (the "Bank") include a revolving term facility (Note 16 (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, 2020, \$Nil was drawn on the revolving demand facility (2019 - \$Nil).

16. Long-term borrowings

As at June 30,	2020	2019
Current portion of principal:		
Mortgages (a)	\$ 393,394	\$ 57,813
Revolving term facility (b)	134,073	169,626
Other collateral loans (c)	32,244	43,785
	559,711	271,224
Non-current portion of principal:		
Mortgages (a)	362,187	755,580
Revolving term facility (b)	360,511	494,585
Other collateral loans (c)	73,478	105,722
	796,176	1,355,887
	\$ 1,355,887	\$ 1,627,111

(a) Mortgages

- (i) The mortgage on the Company's farm property in Tillsonburg, Ontario 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 ending in January 2021. At June 30, 2020, the principal balance was \$356,653 (2019 - \$379,089).
- (ii) The mortgage on Company's farm property in Walsingham, Ontario is amortized over 25 years, has a term of five years and bears an annual interest rate of 3.80%, compounded semi-annually with monthly blended principal and interest payment of \$4,263 during the term ending in July 2024. At June 30, 2020, the principal balance was \$398,928 (2019 - \$434,304). See also Note 28 (a).

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

16. Long-term borrowings (continued)

(a) Mortgages (continued)

No financial covenants are imposed on the Company with respect to the mortgages. Minimum mortgage payments, including interest, during the amortization periods are as follows:

As at June 30,	2020	2019
Within 1 year	\$ 413,321	\$ 83,542
After 1 year but within 5 years	397,507	566,773
More than 5 years	-	244,053
Total principal and interest payment	\$ 810,828	\$ 894,368

(b) Revolving term facility

The Bank has made available to the Company a 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, 2020, the Company had several fixed rate term loans at annual interest rates between 2.82% and 4.25% maturing from 2021 to 2024. Minimum principal and interest payments over the term of the loans are as follows:

As at June 30,	2020	2019
Within 1 year	\$ 152,125	\$ 193,373
After 1 year but within 5 years	385,178	518,503
More than 5 years	-	18,800
Total principal and interest payment	\$ 537,303	\$ 730,676

(c) Other collateral loans

The Company financed certain equipment and vehicle purchases via collateral loans at interest rates ranging from 0% to 2.90% maturing from 2022 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,	2020	2019
Within 1 year	\$ 33,584	\$ 45,985
After 1 year but within 5 years	74,269	99,318
More than 5 years	-	8,534
Total principal and interest payment	\$ 107,853	\$ 153,837

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

17. 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.

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

As at June 30,	2020	2019
Within 1 year	\$ 509,575	\$ 551,650
After 1 year but within 5 years	-	509,575
Total principal and interest payment	\$ 509,575	\$ 1,061,225

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, 2020 and 2019, the carrying amount of the Loans was as follows:

As at June 30,	2020	2019
Balance, beginning of the year	\$ 877,597	\$ 1,256,422
Accretion	135,403	214,400
Payment in the year	(551,650)	(593,225)
Balance, end of the year	\$ 461,350	\$ 877,597
Consist of:		
Current portion	\$ 461,350	\$ 499,032
Non-current portion	-	378,565

Payment in the year ended June 30, 2020 included interest of \$84,150 (2019 - \$126,225).

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

18. 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, June 30, 2018	7,241,847	\$ 35,120,605
Shares issued upon exercise of stock options (c)	180,000	127,200
Shares repurchased and cancelled under NCIB (d)	(95,300)	(455,182)
Balance, June 30, 2019 and 2020	7,326,547	\$ 34,792,623

- (c) Stock options

The Company has an amended and restated stock option plan (the "Option 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. Under the Option 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, 2020, 320,000 stock options were forfeited and returned to the Option Plan. No stock options were granted or exercised during the year ended June 30, 2020 (2019 – no options granted and 180,000 stock options exercised). Below is a continuity schedule of stock options outstanding and exercisable:

	Number of options	Weighted average exercise price
Outstanding and exercisable, July 1, 2018	682,000	\$ 0.72
Exercised	(180,000)	0.35
Outstanding and exercisable, June 30, 2019	502,000	0.85
Forfeited	(320,000)	0.85
Outstanding and exercisable, June 30, 2020	182,000	\$ 0.85

At June 30, 2020, the weighted-average remaining contractual life of the outstanding and exercisable stock options was 1.90 years. These stock options will expire on May 26, 2022.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

18. Share capital (continued)

(d) Normal course issuer bid (“NCIB”)

In September 2019, TSXV approved the renewal of the NCIB under which the Company is entitled to repurchase for cancellation up to 366,000 Common Shares over a twelve-month period commencing October 1, 2019 and ending September 30, 2020. All Common Shares 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. No Common Shares were repurchased during the year ended June 30, 2020 (2019 – 95,300 Common Shares repurchased at an average price of \$1.44 per share).

(e) Repurchase of preferred shares

In 2015, the Company had a plan of arrangement under which the then preferred shares of the Company (the “Preferred Shares”) were either bought back by the Company or exchanged for Common Shares at the option of the holders (the “Arrangement”). Holders of the Preferred Shares were entitled to dissent in respect of the Arrangement and to be paid the fair value of all of the Preferred Shares held by them in accordance with the provisions of Division 2 of Part 8 of the *Business Corporations Act* (British Columbia), an interim order and a final order by the Supreme Court of British Columbia. Subsequent to the Arrangement, all the Preferred Shares were cancelled and delisted from the TSXV.

In respect of the Arrangement, the Company received a written notice of dissent from a holder of the Preferred Shares (the “Dissenting Shareholder”). In December 2019, pursuant to a final order by the Supreme Court of British Columbia, the Company paid the Dissenting Shareholder \$302,432 as payout value of all the Preferred Shares held by the Dissenting Shareholder and by consent between the Company and the Dissenting Shareholder, \$25,000 in full settlement of any claims for costs and interest.

19. Administrative expenses

For the years ended June 30,	2020	2019
Filing and transfer agent	\$ 13,274	\$ 12,920
Insurance	9,765	9,450
Investor relations	5,595	6,308
Marketing and promotion	-	10,597
Office	54,568	52,977
Professional fees	116,850	75,188
Rent	-	47,230
Short-term leases (Note 14 (d))	43,199	-
Salaries	769,696	1,069,169
Travel	7,111	13,795
	\$ 1,020,058	\$ 1,297,634

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

20. Finance costs

For the years ended June 30,	2020	2019
Interest on long-term borrowings	\$ 62,193	\$ 60,289
Interest accretion on long-term loans	135,403	214,400
Interest accretion on lease liabilities (Note 14 (b))	40,667	-
	\$ 238,263	\$ 274,689

21. Income taxes

At June 30, 2020, the Company has non-capital loss carry-forwards for income tax purposes of \$5,636,000 that expire in varying annual amounts between 2035 and 2040.

(a) Income tax recovery

Income tax recovery for the years ended June 30, 2020 and 2019 consists of the following:

For the years ended June 30,	2020	2019
Current	\$ -	\$ 323
Deferred	2,660,000	1,795,000
	\$ 2,660,000	\$ 1,795,323

The following table reconciles income taxes calculated at statutory tax rate to the actual tax provision for the years ended June 30, 2020 and 2019:

	2020	2019
Loss before taxes	\$ (10,014,223)	\$ (6,747,848)
Statutory tax rate	26.5%	26.4%
Income tax recovery at statutory tax rate	2,655,000	1,784,323
Other reconciling items	(5,000)	11,000
	\$ 2,660,000	\$ 1,795,323

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

21. 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, 2020 and 2019:

As at June 30,	2020	2019
Deferred tax assets:		
Non-capital loss carry-forwards	\$ 82,000	\$ 56,000
Property and equipment	25,000	22,000
Other	(1,000)	(16,000)
Total recognized deferred tax assets	\$ 106,000	\$ 62,000

As at June 30,	2020	2019
Deferred tax liabilities:		
Biological assets	\$ (2,166,000)	\$ (4,307,000)
Non-capital loss carry-forwards	1,413,000	664,000
Property and equipment	223,000	329,000
Cumulative eligible capital	194,000	209,000
Other	(235,000)	(82,000)
Total recognized deferred tax liabilities	\$ (571,000)	\$ (3,187,000)

(c) The following table summarizes the movements of deferred income tax account during the years ended June 30, 2020 and 2019:

For the years ended June 30,	2020	2019
Deferred tax assets:		
Balance, beginning of the year	\$ 62,000	\$ 251,000
Recognized in net income	44,000	(189,000)
Balance, end of the year	\$ 106,000	\$ 62,000
Deferred tax liabilities:		
Balance, beginning of the year	\$ (3,187,000)	\$ (5,171,000)
Recognized in net income	2,616,000	1,984,000
Balance, end of the year	\$ (571,000)	\$ (3,187,000)

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2020 and June 30, 2019

(Expressed in Canadian Dollars)

22. Basic and diluted loss per share

For the years ended June 30,	2020	2019
Net loss	\$ (7,354,223)	\$ (4,952,525)
Weighted average number of shares outstanding	7,326,547	7,274,258
Loss per share, basic and diluted	\$ (1.00)	\$ (0.68)

For the year ended June 30, 2020, potentially dilutive common shares relating to the outstanding stock options at year end were not included in the computation of loss per share as their average exercise price of \$0.85 was higher than the closing share price of \$0.27 at year end.

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.

23. 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 estimated liquidation value of the investment (Note 13 (a)).

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

24. 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, 2020, the Company did not have any trade receivables (2019 - \$nil). 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, 2020 totaled \$2,141,629 (2019 - \$5,112,635), 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. This process assumes ginseng sales occur in a normal manner over the selling season, which, given the current political and novel coronavirus situation, may or may not happen. The Company also attempts to ensure that there is sufficient working capital for its ongoing operating expenditures through an arrangement with credit facilities. At June 30, 2020, the Company had a working capital surplus of approximately \$4,933,000 (2019 - \$13,422,000) comprised solely of root inventory and mature crops that are to be harvested in fiscal 2021. Liquidity risk is therefore highly dependent on the sale price and timing of sales of the root in inventory and to be harvested in the coming year.

The table below provides a summary of contractual obligations and payments related to financial liabilities due as at June 30, 2020 and 2019. The amounts disclosed are the contractual undiscounted cash flows.

<u>Contractual obligations due in</u>						
As at June 30, 2020		2021		2022 and thereafter	Total	
Payables and accrued liabilities	\$	608,694	\$	47,000	\$ 61,000	\$ 716,694
Long-term borrowings		599,030		211,191	645,761	1,455,982
Long-term loans		509,575		-	-	509,575
	\$	1,717,299	\$	258,191	\$ 706,761	\$ 2,682,251

<u>Contractual obligations due in</u>						
As at June 30, 2019		2020		2021	2022 and thereafter	Total
Payables 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

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

24. 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 15). As the Company did not have an amount outstanding on the revolving demand facility on June 30, 2020 and June 30, 2019, 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.

25. 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, 2020. The Company's capital includes the following:

As at June 30,	2020	2019
Long-term borrowings	\$ 1,355,887	\$ 1,627,111
Long-term loans	461,350	877,597
Shareholders' equity	16,415,857	24,044,408
	\$ 18,233,094	\$ 26,549,116

26. Commitments

The Company is committed under various leases for rental periods ranging from two to seven years. Future minimum lease payments as at June 30, 2020 and 2019 are as follows:

For the years ended June 30,	2020	2019
2020	\$ -	\$ 523,000
2021	465,000	407,000
2022	364,000	304,000
2023	206,000	191,000
2024	80,000	113,000
2025 and thereafter	11,000	44,000
	\$ 1,126,000	\$ 1,582,000

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2020 and June 30, 2019
(Expressed in Canadian Dollars)

27. 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 the Distributor located in Canada (Note 7 (a)). During the year ended June 30, 2020, sales transactions with the Distributor amounted to \$5,787,703 (2019 - \$7,812,791).

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.

28. Events after the reporting period

(a) Sale of farm property in Walsingham

In June 2020, the Company entered into an agreement with an unrelated party for the sale of its farm property located at Walsingham, Ontario for \$1,275,000. The sale was conditional upon the removal of certain subjects imposed by the purchaser. Subsequent to the Company's year end, in July 2020, the purchaser waived all the conditions imposed on the sale. The transaction was completed in September 2020 and the net proceeds, after mortgage payout and closing costs, were approximately \$800,000.

(b) Abandonment of immature crops

Since June 2020, management has seen no improvements to the political and economic environment discussed in Note 1, and has considerable doubt if the Canadian government will resolve these issues in the near future. In fact, it has become an urgent matter for the ginseng industry and growers in Ontario are working together to develop and implement a new marketing system.

In September 2020, management, after taking into account the risks as discussed in Note 2 and running different scenarios for possible downsides, concluded that the end value of the Company might reduce if it were to grow out all the existing crops. Assuming ginseng prices stayed at the current level, the Company would attain the most end value if it were to abandon all the immature crops of 203 acres. In addition, there would be far less cash flow challenges and the Company would have sufficient working capital for its operations and meeting all its debt obligations.

In October 2020, the Board, in the ultimate best interest of the stakeholders, accepted management's recommendation and approved the plan of abandoning all the immature crops. It is estimated that the entire cost incurred on the immature crops and the corresponding land leases in right-of-use assets, of approximately \$4.50 million, will be written off in the first quarter of fiscal 2021. The remaining 319 acres are expected to be completed in the next two years and the final harvest will be in the year ended June 30, 2022.