



IMPERIAL GINSENG PRODUCTS LTD.

AUDITED ANNUAL FINANCIAL STATEMENTS

June 30, 2021 and June 30, 2020

Independent auditor's report

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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, 2021, and June 30, 2020 and the consolidated statements of 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, 2021 and June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 \$4,482,205 during the year ended June 30, 2021. 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

Grant Thornton LLP

Vancouver, Canada
October 20, 2021

Chartered Professional Accountants

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

As at June 30	Note	2021	2020
ASSETS			
Current			
Cash and cash equivalents		\$ 4,218,707	\$ 2,141,629
Receivables and prepaids		59,197	99,938
Inventories	8	1,289,106	2,244,566
Biological assets	10	1,856,000	2,862,000
Current assets before assets held for sale		7,423,010	7,348,133
Non-current assets classified as held for sale		-	1,092,889
Total current assets		7,423,010	8,441,022
Biological assets	10	-	5,310,000
Property and equipment	9	4,467,266	5,901,898
Right-of-use assets	13 (a)	127,844	789,152
Investments	11	167,010	167,010
Deferred tax assets	20 (b)	765,000	106,000
Total Assets		\$ 12,950,130	\$ 20,715,082
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 507,056	\$ 716,694
Lease liabilities	13 (b)	57,410	621,474
Post-employment benefit obligation	15	173,957	-
Long-term borrowings	14	-	559,711
Long-term loans	12	-	461,350
Deposit for planting cost reimbursement	7 (b)	-	55,694
Total current liabilities		738,423	2,414,923
Lease liabilities	13 (b)	15,423	517,126
Post-employment benefit obligation	15	183,740	-
Long-term borrowings	14	-	796,176
Deferred tax liabilities		-	571,000
Total liabilities		937,586	4,299,225
SHAREHOLDERS' EQUITY			
Share capital	16 (b)	34,821,963	34,792,623
Contributed surplus	16 (c)	1,393,710	1,344,158
Accumulated other comprehensive loss		(66,767)	(66,767)
Deficit		(24,136,362)	(19,654,157)
Total shareholders' equity		12,012,544	16,415,857
Total Liabilities and Shareholders' Equity		\$ 12,950,130	\$ 20,715,082

Commitments (Note 25)
Events after the reporting period (Note 27)

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	2021	2020
Revenues	17	\$ 7,195,693	\$ 5,787,703
Cost of sales		7,016,820	5,630,075
Gross profit		178,873	157,628
Administrative expenses	18	(1,259,333)	(1,020,058)
Decrease in fair value of biological assets	10	(1,173,863)	(7,248,407)
Loss from operations before other items		(2,254,323)	(8,110,837)
Other items			
Finance income		8,255	29,450
Finance costs	19	(128,396)	(238,263)
Other income	7	208,815	149,428
Gain on disposition of property and equipment		224,539	500
Loss on abandonment of biological assets, net of recovery	1 & 10	(3,978,109)	-
Extinguishment of lease liabilities	13 (b)	329,121	-
Stock-based payments	16 (c)	(61,940)	-
Windup expenses		(60,167)	-
Impairment of right-of-use assets	13 (b)	-	(417,557)
Write-down of inventories		-	(1,250,113)
Write-off of pre-planting costs		-	(176,831)
Loss before income taxes		(5,712,205)	(10,014,223)
Income tax recovery	20 (a)	1,230,000	2,660,000
Net loss for the year		(4,482,205)	(7,354,223)
Other comprehensive loss		-	(46,896)
Total comprehensive loss for the year		\$ (4,482,205)	\$ (7,401,119)
Loss per share, basic and diluted	21	\$ (0.61)	\$ (1.00)

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, 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	-	-	-	(227,432)	(227,432)
Balance, June 30, 2020	34,792,623	1,344,158	(66,767)	(19,654,157)	16,415,857
Changes in the year:					
Net loss	-	-	-	(4,482,205)	(4,482,205)
Stock-based payments	-	61,940	-	-	61,940
Stock options exercised	29,340	(12,388)	-	-	16,952
Balance, June 30, 2021	\$ 34,821,963	\$ 1,393,710	\$ (66,767)	\$ (24,136,362)	\$ 12,012,544

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,	2021	2020
Cash provided by (used in) operating activities:		
Net loss	\$ (4,482,205)	\$ (7,354,223)
Adjustments for items not involving cash:		
Depreciation	248,598	112,263
Finance income	(8,255)	(29,450)
Finance costs	117,637	238,263
Decrease in fair value of biological assets	1,173,863	7,248,407
Gain on disposition of property and equipment	(224,539)	(500)
Loss on abandonment of biological assets, net of recovery	3,978,109	-
Extinguishment of lease liabilities	(329,121)	-
Share-based payment	61,940	-
Impairment of right-of-use assets	-	417,557
Write-down of inventories	-	1,250,113
Write-off of pre-planting costs	-	176,831
Income tax recovery	(1,230,000)	(2,660,000)
Changes in non-cash working capital items:		
Cost of crops harvested	5,141,000	6,395,000
Crop costs, net of depreciation	(2,936,650)	(4,485,457)
Receivables and prepaids	40,742	44,625
Inventories	919,880	(1,521,687)
Pre-planting costs	-	212,054
Accounts payable and accrued liabilities	(204,236)	(1,147,700)
Deposit for planting cost reimbursement	(48,597)	(288,686)
Post-employment benefit obligation	357,697	-
Net cash provided by (used in) operating activities	2,575,863	(1,392,590)
Cash provided by (used in) investing activities:		
Acquisitions of property and equipment	(17,623)	(269,030)
Proceeds from dispositions of property and equipment	105,727	500
Proceeds from disposition of held-for-sale assets	1,220,277	-
Proceeds from sale of abandoned biological assets	490,261	-
Acquisition of investments	-	(10)
Return of capital on investments	-	96,103
Net cash provided by (used in) investing activities	1,798,642	(172,437)
Cash provided by (used in) financing activities:		
Finance income received	8,255	51,700
Finance costs paid	(55,488)	(59,575)
Repayment of long-term borrowings	(1,355,887)	(271,224)
Repayment of long-term loans	(509,575)	(551,650)
Principal payments of lease liabilities	(382,360)	(193,767)
Interest paid on lease liabilities	(19,324)	(54,031)
Proceeds from stock options exercised	16,952	-
Repurchase of preferred shares	-	(327,432)
Net cash used in financing activities	(2,297,427)	(1,405,979)
Increase (decrease) in cash and cash equivalents	2,077,078	(2,971,006)
Cash and cash equivalents, beginning of the year	2,141,629	5,112,635
Cash and cash equivalents, end of the year	\$ 4,218,707	\$ 2,141,629

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, 2021 and June 30, 2020

(Expressed in Canadian Dollars)

1. Nature of operations

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. 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.

As disclosed in the Company’s audited consolidated financial statements for the year ended June 30, 2020, the continuing downward pressure on ginseng prices as a result of political factors and COVID-19 cast significant doubt about future ginseng prices and hence, the ability of the Company to attain profitability. In June 2020, the Board of the Company, after taking into account the material uncertainties about the Company’s ability to realize its assets and discharge its liabilities, decided that the Company would cease planting new crops going forward. In October 2020, the Board approved the abandonment of all the immature crops and the Company would continue with the remaining crops until they were gradually harvested out, which was expected to be completed in the year ended June 30, 2022. Subsequent to the public announcement of the Company’s decision to abandon the immature crops, the Company found an unrelated party to buy all of its immature crops, totaling 203 acres, for \$500,000. For the year ended June 30, 2021, the Company reported net loss of \$4.48 million primarily due to a loss of \$3.98 million from the sale of these immature crops.

At June 30, 2021, the Company had a working capital of \$6.68 million, of which approximately 63% was cash on hand. In addition, the Company paid off all of its loans and borrowings and had no outstanding debts at June 30, 2021. The Company believes that, given its current cash position, it will meet all of its current liabilities and the cash requirements for the harvests with the final one now expected in the year ending June 30, 2023 (Note 2).

These 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, and 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.

2. Future operating plan

Until August 2021, the Company was planning to harvest all the remaining ginseng crops in the year ending June 30, 2022. However, a shortage of local farm labour and temporary foreign workers caused by the COVID-19 pandemic has limited the Company’s ability to harvest all the remaining crops in one season. As a result, in September 2021, the Company decided that the best course of action is to carry some of the crops for one more year. After the Company has harvested all the remaining ginseng crops in the year ending June 30, 2023, it will commence liquidating the assets and wind up its ginseng operations. As the decision to change the future operating plan was made after the year end, these consolidated financial statements have not been adjusted for this non-adjusting subsequent event.

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2021 and June 30, 2020

(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, 2021.

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

Imperial Ginseng Products Ltd.

Notes to the Consolidated Financial Statements

June 30, 2021 and June 30, 2020

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(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
Farming equipment	7 years
Office and laboratory equipment	5 years
Processing equipment; Shadehousing and irrigation	10 – 15 years

At June 1, 2020, the useful life of PP&E was 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 ginseng 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.

(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 and reliable market information is not available, the Company estimates the fair value of its investment in Ponderosa primarily based on industry knowledge 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.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2021 and June 30, 2020
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(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.

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) Leases

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 all the future lease payments and 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. The lease liability 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 a 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.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2021 and June 30, 2020
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(i) Leases (continued)

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 and is depreciated using the straight-line method throughout 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.

(j) 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.

The Company has an exclusive agreement with a distributor (the "Distributor") for the sale of all its ginseng. 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. Fee or bonus paid or payable to the Distributor is recorded as a reduction of revenue.

(k) 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 point of harvest. Drying costs are the cost to process the crops into dried ginseng root. Processing equipment is depreciated according to the Company's accounting policy.

(l) Finance costs

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

(m) 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 profit or loss when received.

Imperial Ginseng Products Ltd.
Notes to the Consolidated Financial Statements
June 30, 2021 and June 30, 2020
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(n) 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 through the Distributor. Included in other income are planting fee from Ponderosa, management fee from Knightswood, government program payments, rent from sharing office space and occasional sale of hardware.

(o) Contingent liabilities and provisions

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or present obligations that arise from past events but are not recognized as it is not probable that there will be an outflow of economic resources to settle the obligations or the amount cannot be measured reliably. The obligations are disclosed as contingent liabilities unless the possibility of an outflow is remote.

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.

(p) Share-based payments

The Company has a stock option plan which is disclosed in Note 16 (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.

(q) 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.

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4. Significant accounting policies (continued)

(r) 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.

(s) 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.

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.

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4. Significant accounting policies (continued)

(s) Financial instruments (continued)

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.

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.

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5. Critical accounting estimates and judgments (continued)

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.

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.

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.

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6. Accounting pronouncements not yet adopted

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2, which amends IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases*, relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities. The amendments are effective for annual periods beginning on or after January 1, 2021, with early application permitted. The Company has determined that the amendments will not have a significant impact on its consolidated financial statements.

7. Related party balances and transactions

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

(a) Knightswood Holdings Ltd. and Business Management Agreement

In January 2020, the Company entered into a business management agreement with Elcyc Holdings Ltd. and Canterra Capital Corp. (collectively the "Operator") for the management of Knightswood Holdings Ltd. (the "Knightswood Agreement"). The Company acquired Knightswood in January 2020 (Note 11 (b)). Each Operator is owned and controlled by a director of the Company. Under the Knightswood Agreement, 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 paid by Knightswood directly to the Company. For the year ended June 30, 2021, the Company reported \$50,000 in other income (2020 - \$25,000). No amounts were outstanding from Knightswood at June 30, 2021 and 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 \$10.

(b) Ginseng farming agreement

The ginseng farming agreement (the "Farming Agreement") between the Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a private company having a director in common with the Company, came to an end in June 2021 when the Company had harvested all the ginseng acres for Ponderosa (the "Ponderosa Acres"), sold all the ginseng for Ponderosa and subsequently settled all the dues. Below is a description of the transactions with Ponderosa during the years ended June 30, 2021 and 2020.

Under the Farming Agreement, the Company planted and maintained a certain number of Ponderosa Acres in Ontario for Ponderosa in return for a planting fee equal to 15% of the farming expenses. The Company was also entitled to a yield bonus if the yield of the ginseng harvested in a year exceeded a pre-determined base yield. In 2017, Ponderosa notified the Company to terminate planting new acres but continue with maintaining the existing Ponderosa Acres until they were gradually harvested out. All the Ponderosa acres were harvested during the year ended June 30, 2021.

For the year ended June 30, 2021, the Company incurred farming expenses of \$101,859 (2020 - \$316,570) and earned a planting fee of \$15,279 (2020 - \$69,486). No amounts were outstanding from Ponderosa at June 30, 2021 (2020 - a deposit balance of \$55,694).

Also pursuant to the Farming Agreement, the Company would sell the ginseng for Ponderosa. For the year ended June 30, 2021, the Company made sales totaling \$655,658 for Ponderosa (2020 - \$901,375). No amounts were outstanding to Ponderosa at June 30, 2021 (2020 - \$nil).

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7. Related party balances and transactions (continued)

(c) 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. Short-term benefits for the president of CIGO are included in crop expenses. Post-employment benefits are pre-determined lump-sum amounts payable at the end of the retention period (Note 15). The Company does not provide any other long-term employee benefits.

During the year ended June 30, 2021, the Company granted stock options to key management personnel entitling the holders to acquire up to an aggregate of 326,000 Common Shares at an exercise price of \$0.26 per share. The options vested on the date of grant and will expire on June 30, 2023. Also during the year, the Company and certain option holders, who were key management personnel of the Company, mutually agreed to cancel the stock options that were granted in 2017 and exercisable to acquire up to 182,000 Common Shares at \$0.85 per share. No consideration was paid to the option holders for the cancellation of these stock options. During the year ended June 30, 2020, no stock options were granted and 320,000 stock options were forfeited by former key management personnel.

The table below summarizes the composition of key management personnel compensation for the years ended June 30, 2021 and 2020:

For the years ended June 30,	2021	2020
Short-term benefits	\$ 853,066	\$ 876,307
Post-employment benefits	240,573	-
Stock options	61,940	-
	\$ 1,155,579	\$ 876,307

8. Inventories

As at June 30,	2021	2020
Ginseng	\$ 1,180,523	\$ 2,147,409
Chemicals	108,583	97,157
	\$ 1,289,106	\$ 2,244,566

The inventory cost of ginseng 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, 2021, fair value of the harvested crops of \$5,141,000 (2020 - \$6,395,000) was transferred from biological assets to inventory (Note 10). For the year ended June 30, 2021, \$7,016,820 of the total inventory cost (2020 - \$5,630,075) was recognized as cost of sales. At June 30, 2021, the Company estimated that the ginseng inventory approximated its net realizable value and no write down was required (2020 – write down of \$940,000).

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9. Property and equipment

	Land	Buildings	Leasehold improvements	Farming equipment	Office and laboratory equipment	Processing equipment	Shadehousing and irrigation	Total
Cost								
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	(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
Acquired	-	-	-	3,329	2,596	-	11,698	17,623
Disposal	-	-	-	(135,500)	-	-	(33,752)	(169,252)
Balance, June 30, 2021	\$ 1,000,496	\$ 1,763,385	\$ 30,128	\$ 2,573,822	\$ 62,627	\$ 878,063	\$ 4,379,004	\$ 10,687,525
Accumulated depreciation								
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	-	(54,712)	-	-	-	-	-	(54,712)
Balance, June 30, 2020	-	460,073	30,128	1,999,360	49,559	537,932	1,860,204	4,937,256
Depreciation	-	82,870	-	112,784	8,749	158,547	1,080,728	1,443,678
Disposal	-	-	-	(128,586)	-	-	(32,089)	(160,675)
Balance, June 30, 2021	\$ -	\$ 542,943	\$ 30,128	\$ 1,983,558	\$ 58,308	\$ 696,479	\$ 2,908,843	\$ 6,220,259
Carrying amounts								
At June 30, 2020	\$ 1,000,496	\$ 1,303,312	\$ -	\$ 706,633	\$ 10,472	\$ 340,131	\$ 2,540,854	\$ 5,901,898
At June 30, 2021	1,000,496	1,220,442	-	590,264	4,319	181,584	1,470,161	4,467,266

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10. Biological assets

The Company's biological assets consist solely of ginseng crops. 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, 2021 and 2020:

As at June 30,	2021	2020
Immature ginseng crops ⁽¹⁾	\$ -	\$ 3,804,000
Near maturity ginseng crops	-	1,506,000
Mature ginseng crops	1,856,000	2,862,000
	\$ 1,856,000	\$ 8,172,000

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

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

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10. Biological assets (continued)

Changes to the fair value of biological assets during the years ended June 30, 2021 and 2020 are summarized as follows:

As at June 30,	2021	2020
Balance, beginning of the year	\$ 8,172,000	\$ 16,252,000
Crop expenses for the year	4,413,294	5,563,407
Change in fair value due to lowering price and yield expectations	(1,173,863)	(7,248,407)
Removal of fair value of crops sold ⁽¹⁾	(4,414,431)	-
Fair value of harvested crops transferred to inventories	(5,141,000)	(6,395,000)
Balance, end of the year	\$ 1,856,000	\$ 8,172,000
Consist of:		
Current portion	\$ 1,856,000	\$ 2,862,000
Non-current portion	-	5,310,000

⁽¹⁾ The fair value of immature crops was removed from biological assets upon the Company's decision to abandon these crops, which were eventually sold for \$500,000 (Note 1).

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, 2021 and 2020 are as follows:

For the years ended June 30,	2021	2020
Direct labour	\$ 1,636,664	\$ 1,945,784
Fertilizers	79,276	473,674
Fuel and utilities	114,658	121,625
Mulch	58,500	343,731
Office and program fees	50,031	74,720
Operating and maintenance	248,813	225,124
Pesticides	732,705	1,148,323
Seed	-	72,992
Short-term leases	16,003	79,484
Crop costs before depreciation	2,936,650	4,485,457
Depreciation – property and equipment	1,279,759	637,714
Depreciation – right-of-use assets (Note 13 (a))	196,885	440,236
	\$ 4,413,294	\$ 5,563,407

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10. Biological assets (continued)

Sensitivity analysis

The Company's biological assets 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 \$449,000.
Yields	A 10% increase in yields would result in an increase in fair value of approximately \$449,000.
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 \$9,000.

11. 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 by December 2021, the Company considers the probability of possible outcomes when discounting the value of the projected cash flows upon Ponderosa's liquidation.

The following table details the changes to the carrying amount of the investment during the years ended June 30, 2021 and 2020:

	2021		2020	
Balance, beginning of the year	\$	167,000	\$	310,000
Deduct distributions received in the year		-		(96,104)
Change in fair value estimate		-		(46,896)
Balance, end of the year	\$	167,000	\$	167,000

See also Note 27 (b) for the final liquidating distribution received from Ponderosa subsequent to the year end.

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11. Investments (continued)

(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 (a)). 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.

12. Long-term loans

On January 1, 2021, the Company made a final payment of \$509,575, which included interest of \$42,075, and had the Loans paid off in its entirety. Below is a description of the Loans.

In 2014, the Company settled a debt with Trilogy Bancorp Ltd. ("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. Under the terms of the loan agreements, the Indebtedness of \$1,870,000 (the "Loans") bore no interest until January 1, 2018 and the principal was to be repaid in four equally annual instalments, with interest rate at 9% per annum, beginning on January 1 of each year starting 2018 with the final instalment due on January 1, 2021. The Loans were measured at amortized cost and accreted to their face value over the term at effective interest rate of 22%. At June 30, 2021 and 2020, the carrying amount of the Loans was as follows:

As at June 30,	2021		2020	
Balance, beginning of the year	\$	461,350	\$	877,597
Accretion (Note 19)		48,225		135,403
Payment made in the year		(509,575)		(551,650)
Balance, end of the year	\$	-	\$	461,350

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13. Leases

The Company has an office lease and lease agreements for the land used for cultivation. 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,	2021	2020
Balance, beginning of the year	\$ 789,152	\$ 1,520,504
Additions	-	140,490
Derecognition as a result of sale of crops ⁽¹⁾	(408,227)	-
Depreciation recognized in crop expenses	(196,885)	(440,236)
Depreciation recognized in administrative expenses	(56,196)	(14,049)
Impairment ⁽²⁾	-	(417,557)
	\$ 127,844	\$ 789,152

(b) Lease liabilities

As at June 30,	2021	2020
Balance, beginning of the year	\$ 1,138,600	\$ 1,205,241
Additions	-	140,490
Removal as a result of lease assignments ⁽¹⁾	(354,286)	-
Cancellation of lease agreements ⁽²⁾	(329,121)	-
Interest accretion	19,324	40,667
Lease payments made	(401,684)	(247,798)
	\$ 72,833	\$ 1,138,600
Consist of:		
Current portion	\$ 57,410	\$ 621,474
Non-current portion	15,423	517,126

⁽¹⁾ In December 2020, the Company and an unrelated party entered into an agreement for the sale of all of the Company's immature crops (Note 1). Pursuant to the agreement, the purchaser assumed the land lease agreements for which the crops were sold. Upon the assignment of the lease agreements, the net book value of the corresponding right-of-use assets was derecognized and the remaining lease liabilities were eliminated.

⁽²⁾ During the year ended June 30, 2020, an impairment of the net book value of the right-of-use assets for the land leased for future plantings was recognized when the Company decided to cease all new plantings going forward (Note 1). Subsequently, the landlords agreed to cancel these leases for no monetary consideration effective December 31, 2020. As such, the Company was discharged from the obligations and liabilities for the remaining term of these leases.

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13. Leases (continued)

(c) Contractual undiscounted cash flows

As at June 30	2021	2020
Within 1 year	\$ 59,514	\$ 645,233
After 1 year but within 5 years	14,942	543,897
Total undiscounted lease payments	\$ 74,456	\$ 1,189,130

14. Long-term borrowings

At June 30, 2021, the Company had no outstanding long-term borrowings as they were all paid off during the year ended June 30, 2021.

As at June 30,	2021	2020
Current portion of principal:		
Mortgages (a)	\$ -	\$ 393,394
Revolving term facility (b)	-	134,073
Other collateral loans (c)	-	32,244
	-	559,711
Non-current portion of principal:		
Mortgages (a)	-	362,187
Revolving term facility (b)	-	360,511
Other collateral loans (c)	-	73,478
	-	796,176
	\$ -	\$ 1,355,887

(a) Mortgages

At June 30, 2020, the Company had mortgages on two of its farm properties, one of which was paid out upon its sale during the year ended June 30, 2021 and the other one was paid off when its mortgage term matured during the year.

(b) Revolving term facility

The Company has a revolving term facility with a Canadian chartered bank (the "Bank") for the purchase of equipment by way of either variable interest rate term loans at the Bank's prime rate plus 0.25% or fixed rate term loans for which the interest rate is to be determined at the time of borrowing. During the year ended June 30, 2021, the Company paid off all the term loans.

(c) Other collateral loans

The Company financed certain equipment and vehicle purchases via collateral loans at interest rates ranging from 0% to 2.90%. During the year ended June 30, 2021, the Company paid off all the collateral loans early.

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15. Post-employment benefits

For the Company to complete the final harvest, the sale of ginseng and subsequently winding up its ginseng operations, it is crucial to retain the current management team and certain employees. In order to incentivize the key employees to stay with the Company as required, In the fourth quarter of fiscal 2021, the Company entered into a retention agreement with these key employees. Under the retention agreement, employee will receive a pre-determined lump-sum amount (the "Retention Payment") at the end of the retention period, which is to be determined by the Company. The Retention Payment is fixed and will not change irrespective of the duration of the retention period. As the Retention Payment is designed and intended to incentivize the employee to continue employment with the Company through the retention period, it will not be paid on a pro-rated basis if the employee resigns during the retention period.

It is expected that all the employees who entered into a retention agreement will continue their employment with the Company until the end of the retention period. The Retention Payment, which is approximately \$2.2 million, will be paid with cash on hand.

Retention Payment is discounted at 2% and amortized over the expected retention period. Present value of the Retention Payment is reported as post-employment benefit obligation in the consolidated statements of financial position, with the corresponding expenses in administrative expenses and finance costs in the consolidated statements of profit or loss.

16. 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, 2019 and 2020	7,326,547	\$ 34,792,623
Shares issued upon exercise of stock options (c)	65,200	29,340
Balance, June 30, 2021	7,391,747	\$ 34,821,963

- (c) Stock options

The Company has an amended and restated stock 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. During the year ended June 30, 2021, the Company granted stock options to officers and directors of the Company entitling the holders to acquire up to an aggregate of 326,000 Common Shares at an exercise price of \$0.26 per share. The options vested on the date of grant and will expire on June 30, 2023. The Company used the Black-Scholes option pricing model with the following assumptions to value these stock options and recorded an estimated grant value of \$61,940, which was charged to profit or loss and the corresponding amount is accumulated in contributed surplus.

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16. Share capital (continued)

(c) Stock options

Stock price on the date of grant	\$ 0.35
Exercise price	\$ 0.26
Risk-free interest rate	0.13%
Expected life	2.47 years
Expected volatility	80.76%
Forfeiture rate	0%

Also during the year ended June 30, 2021, the Company and certain option holders mutually agreed to cancel the stock options that were granted in 2017 and exercisable to acquire up to 182,000 Common Shares at \$0.85 per share. Below is a continuity schedule of stock options outstanding and exercisable:

	Number of options	Weighted average exercise price
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
Granted	326,000	0.26
Cancelled	(182,000)	0.85
Exercised	(65,200)	0.26
Outstanding and exercisable, June 30, 2021	260,800	\$ 0.26

At June 30, 2021, the weighted-average remaining contractual life of the outstanding and exercisable stock options was 2 years. These stock options will expire on June 30, 2023.

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

In September 2019, TSXV approved the renewal of the NCIB under which the Company was 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. No Common Shares were repurchased during this twelve-month period and in the year ended June 30, 2020. The Company did not renew the NCIB upon its expiry on September 30, 2020.

17. Completion bonus

Pursuant to an agreement between the Company and the Distributor, the Company will pay a bonus (the "Completion Bonus") to the Distributor if the Distributor buys all the Company's remaining ginseng in the event that the Company ceases to be in the ginseng business ("Completion"). The Completion Bonus is calculated based on the sales in the three years immediately prior to Completion. The Completion Bonus will be paid upon Completion.

At June 30, 2021, a provision of \$122,000 for the Completion Bonus was made as it is highly probable that the Distributor will buy all the Company's ginseng inventory and its final harvest of ginseng in the year ended June 30, 2023. The Completion Bonus was recorded as a reduction of revenues for the year ended June 30, 2021 (2020 - \$nil).

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18. Administrative expenses

For the years ended June 30,	2021	2020
Depreciation	\$ 61,568	\$ 24,863
Filing and transfer agent	10,731	13,274
Insurance	15,645	9,765
Office	18,123	42,411
Professional fees	72,638	116,850
Salaries ⁽¹⁾	1,080,628	769,696
Short-term leases	-	43,199
	\$ 1,259,333	\$ 1,020,058

⁽¹⁾ Included in salaries for the year ended June 30, 2021 was post-employment benefits of \$346,938 (2020 - \$nil) (Note 15).

19. Finance costs

For the years ended June 30,	2021	2020
Interest accretion on long-term loans (Note 12)	\$ 48,225	\$ 135,403
Interest accretion on lease liabilities (Note 13 (b))	19,324	40,667
Interest on long-term borrowings	50,088	62,193
Interest on post-employment benefits (Note 15)	10,759	-
	\$ 128,396	\$ 238,263

20. Income taxes

(a) Income tax recovery

Income tax recovery for the years ended June 30, 2021 and 2020 consists solely of deferred tax recovery of \$1,230,000 and \$2,660,000, respectively. The following table reconciles income taxes calculated at statutory tax rate to the actual tax provision for the years ended June 30, 2021 and 2020:

For the years ended June 30,	2021	2020
Loss before taxes	\$ (5,712,205)	\$ (10,014,223)
Statutory tax rate	26.49%	26.51%
Income tax recovery at statutory tax rate	1,513,000	2,655,000
Amounts not deductible for tax purposes	(17,000)	-
Unused tax losses not recognized (e)	(270,000)	-
Other reconciling items	4,000	5,000
	\$ 1,230,000	\$ 2,660,000

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20. 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 Company operates under two tax jurisdictions, British Columbia and Ontario. The following table sets out the significant components of the recognized deferred tax assets and liabilities under the tax jurisdiction in which the Company operates. At June 30, 2021, the combined recognized deferred tax assets were \$765,000 (2020 – deferred tax assets of \$106,000 and deferred tax liabilities of \$571,000).

As at June 30,	2021	2020
Under the British Columbia tax jurisdiction:		
Non-capital loss carry-forwards	\$ -	\$ 82,000
Property and equipment	19,000	25,000
Other	-	(1,000)
Total recognized deferred tax assets	\$ 19,000	\$ 106,000
Under the Ontario tax jurisdiction:		
Biological assets	\$ (492,000)	\$ (2,166,000)
Non-capital loss carry-forwards	761,000	1,413,000
Property and equipment	318,000	223,000
Cumulative eligible capital	180,000	194,000
Other	(21,000)	(235,000)
Total recognized deferred tax assets (liabilities)	\$ 746,000	\$ (571,000)

(c) The following table summarizes the movements of deferred tax account under its tax jurisdiction during the years ended June 30, 2021 and 2020:

For the years ended June 30,	2021	2020
Under the British Columbia tax jurisdiction:		
Deferred tax assets, beginning of the year	\$ 106,000	\$ 62,000
Recognized in net income	(87,000)	44,000
Deferred tax assets, end of the year	\$ 19,000	\$ 106,000
Under the Ontario tax jurisdiction:		
Deferred tax liabilities, beginning of the year	\$ (571,000)	\$ (3,187,000)
Recognized in net income	1,317,000	2,616,000
Deferred tax assets (liabilities), end of the year	\$ 746,000	\$ (571,000)

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20. Income taxes (continued)

(d) Unrecognized deferred tax assets

Deferred tax assets for unused tax losses are recognized to the extent of their recoverability, which depends on the Company's ability to generate future taxable profits against which the unused tax losses can be utilized. At June 30, 2021, the Company had non-capital loss carry-forwards of \$3,889,000 that expire in varying annual amounts between 2035 and 2040. For the year ended June 30, 2021, tax benefits of \$270,000 for unused tax losses had not been recognized as it is not probable that future taxable profits will be available against which these losses can be utilized (2020 - \$nil).

21. Basic and diluted loss per share

For the years ended June 30,	2021	2020
Net loss	\$ (4,482,205)	\$ (7,354,223)
Weighted average number of shares outstanding	7,335,657	7,326,547
Loss per share, basic and diluted	\$ (0.61)	\$ (1.00)

For the year ended June 30, 2021, potentially dilutive common shares relating to the outstanding stock options at year end, totaling 176,675, were not included in the computation of loss per share because their effect was anti-dilutive.

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.

22. 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.

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 11 (a)).

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23. Financial risk management

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 operating requirements on an ongoing basis. This process assumes ginseng sales occur in a normal manner over the selling season which 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 its bank, which makes available to the Company a revolving term facility (Note 14 (b)) and a revolving demand facility of \$500,000 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, and one of the Company's properties. No financial covenants are imposed on the Company with respect to the Credit Facility. At June 30, 2021 and 2020, \$Nil was drawn on the revolving demand facility. At June 30, 2021, the Company had a working capital surplus of approximately \$6,685,000, of which approximately 63% was cash on hand (2020 - \$4,933,000).

The Company's contractual obligations include accounts payable and accrued liabilities, loans, borrowings and post-employment benefit obligation. The following tables are a summary of contractual obligations and payments related to financial liabilities due as at June 30, 2021 and 2020. The amounts disclosed are the contractual undiscounted cash flows.

Contractual obligations due in					
As at June 30, 2021	2022	2023	2024 and thereafter	Total	
Payables and accrued liabilities	\$ 385,056	\$ 122,000	\$ -	\$ 507,056	
Post-employment benefit obligation	173,957	183,740	-	357,697	
	\$ 559,013	\$ 305,740	\$ -	\$ 864,753	

Contractual obligations due in					
As at June 30, 2020	2021	2022	2023 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	

Currency risk

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

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23. Financial risk management (continued)

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, 2021 and 2020, the Company did not have any trade receivables. 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, 2021 totaled \$4,218,707 (2020 - \$2,141,629), representing the maximum exposure to credit risk of these financial assets.

24. Capital management

As the Company will be winding up its ginseng operations and liquidating the assets after the final harvest, the Company's main objective in managing its capital is to safeguard its ability to continue operations until the final harvest and the sale of ginseng is complete. There were no changes in the Company's approach to capital management during the year ended June 30, 2021. The Company's capital includes the following:

As at June 30,	2021	2020
Shareholders' equity	\$ 12,012,544	\$ 16,415,857
Long-term borrowings	-	1,355,887
Long-term loans	-	461,350
	\$ 12,012,544	\$ 18,233,094

25. 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, 2021 and 2020 are as follows:

For the years ended June 30,	2021	2020
2021	\$ -	465,000
2022	60,000	364,000
2023	15,000	206,000
2024	-	80,000
2025 and thereafter	-	11,000
	\$ 75,000	\$ 1,126,000

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26. Segmented reporting

The Company operates principally in one single industry segment, being cultivating and selling ginseng. All the assets of the Company are located in Canada. The Company has an agreement with the Distributor under which the Distributor will buy all the Company's ginseng harvested in a given year at agreed market prices in return for an exclusive right to distribute the Company's ginseng in Asia and North America. As all the 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.

27. Events after the reporting period

(a) Government subsidies

Subsequent to the year ended June 30, 2021, the Company received government subsidies of approximately \$2.74 million from the Agristability and similar programs as a result of the large decline in income due to the sharp decrease in ginseng prices caused by market conditions in 2020. In Ontario, AgriStability is one of the business risk management programs delivered by the provincial government that helps farmers who are faced with disaster situations such as production loss, increased costs and market conditions.

(b) Final distribution from and investment in Ponderosa

In October 2021, the Company received a final liquidating distribution of approximately \$176,000 from Ponderosa and subsequently removed its investment in Ponderosa.