



# **IMPERIAL GINSENG PRODUCTS LTD.**

AUDITED ANNUAL FINANCIAL STATEMENTS

June 30, 2022 and June 30, 2021

# 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, 2022, and June 30, 2021 and the consolidated statements of comprehensive income(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, 2022 and June 30, 2021, 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 loss from operations of \$2,952,764 during the year ended June 30, 2022. As stated in Note 1, these events or conditions along with other matters as set forth in Note 1, 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.



Vancouver, Canada  
October 19, 2022

Chartered Professional Accountants

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

As at June 30	Note	2022	2021
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 10,613,287	\$ 4,218,707
Receivables and prepaids		55,581	59,197
Inventories	7	1,202,673	1,289,106
Biological assets	8	813,000	1,856,000
<b>Total current assets</b>		<b>12,684,541</b>	7,423,010
Property and equipment	9	3,336,034	4,467,266
Right-of-use assets	12 (a)	14,049	127,844
Investments	10	10	167,010
Deferred tax assets	17 (d)	304,000	765,000
<b>Total Assets</b>		<b>\$ 16,338,634</b>	\$ 12,950,130
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 656,421	\$ 507,056
Income tax payable		177,200	-
Lease liabilities	12 (b)	14,902	57,410
Post-employment benefit obligation	11	555,148	173,957
<b>Total current liabilities</b>		<b>1,403,671</b>	738,423
Lease liabilities	12 (b)	-	15,423
Post-employment benefit obligation	11	595,671	183,740
<b>Total liabilities</b>		<b>1,999,342</b>	937,586
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13 (b)	34,821,963	34,821,963
Contributed surplus		1,393,710	1,393,710
Accumulated other comprehensive loss		-	(66,767)
Deficit		(21,876,381)	(24,136,362)
<b>Total shareholders' equity</b>		<b>14,339,292</b>	12,012,544
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 16,338,634</b>	\$ 12,950,130

Commitments (Note 22)  
Event after the reporting period (Note 24)

On Behalf of the Board

*(signed)* "Stephen McCoach"  
\_\_\_\_\_  
Director

*(signed)* "Maurice Levesque"  
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Director

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

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

For the years ended June 30,	Note	2022	2021
Revenues	14	\$ 3,443,580	\$ 7,195,693
Cost of sales		3,649,422	7,016,820
Gross profit (loss)		(205,842)	178,873
Administrative expenses	15	(1,864,552)	(1,259,333)
Decrease in fair value of biological assets	8	(882,370)	(1,173,863)
<b>Loss from operations before other items</b>		<b>(2,952,764)</b>	<b>(2,254,323)</b>
<b>Other items</b>			
Finance income		24,672	8,255
Finance costs	16	(44,209)	(128,396)
Other income	6	84,065	104,291
Gain on disposition of property and equipment		300,337	224,539
Government program payments	1	5,818,673	104,524
Windup expenses		(152,659)	(60,167)
Write-down of inventories	7	(95,436)	-
Loss on abandonment of biological assets, net of recovery		-	(3,978,109)
Extinguishment of lease liabilities		-	329,121
Stock-based payments		-	(61,940)
Income (loss) before income tax taxes		2,982,679	(5,712,205)
Income tax (expense) recovery	17		
Current		(204,120)	-
Deferred		(461,000)	1,230,000
		(665,120)	1,230,000
<b>Net income (loss) and total comprehensive income (loss) for the year</b>		<b>\$ 2,317,559</b>	<b>\$ (4,482,205)</b>
Earning (loss) per share:	18		
Basic		\$ 0.31	\$ (0.61)
Diluted		0.31	(0.61)

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, 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
<b>Balance, June 30, 2021</b>	<b>34,821,963</b>	<b>1,393,710</b>	<b>(66,767)</b>	<b>(24,136,362)</b>	<b>12,012,544</b>
Changes in the year:					
Net income	-	-	-	2,317,559	2,317,559
Change in fair value of investment	-	-	9,189	-	9,189
Cumulative loss on equity investment transferred to deficit upon derecognition	-	-	57,578	(57,578)	-
<b>Balance, June 30, 2022</b>	<b>\$ 34,821,963</b>	<b>\$ 1,393,710</b>	<b>\$ -</b>	<b>\$ (21,876,381)</b>	<b>\$ 14,339,292</b>

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,	2022	2021
<b>Cash provided by (used in) operating activities:</b>		
Net income (loss)	\$ 2,317,559	\$ (4,482,205)
Adjustments for items not involving cash:		
Depreciation	164,617	248,598
Decrease in fair value of biological assets	882,370	1,173,863
Finance income	(24,672)	(8,255)
Finance costs	44,209	117,637
Gain on disposition of property and equipment	(300,337)	(224,539)
Write-down of inventories	95,436	-
Loss on abandonment of biological assets, net of recovery	-	3,978,109
Extinguishment of lease liabilities	-	(329,121)
Share-based payment	-	61,940
Deferred taxes	461,000	(1,230,000)
Changes in non-cash working capital items:		
Cost of crops harvested	3,050,000	5,141,000
Crop costs, net of depreciation	(1,916,894)	(2,936,650)
Receivables and prepaids	12,696	40,742
Inventories	(10,220)	919,880
Accounts payable and accrued liabilities	149,365	(204,236)
Income tax payable	177,200	-
Post-employment benefit obligation	750,501	357,697
Deposit for planting cost reimbursement	-	(48,597)
<b>Net cash provided by operating activities</b>	<b>5,852,830</b>	<b>2,575,863</b>
<b>Cash provided by (used in) investing activities:</b>		
Acquisitions of property and equipment	(12,688)	(17,623)
Proceeds from disposition of property and equipment	422,178	105,727
Return of capital on investments	176,190	-
Proceeds from disposition of held-for-sale assets	-	1,220,277
Proceeds from sale of abandoned biological assets	-	490,261
<b>Net cash provided by investing activities</b>	<b>585,680</b>	<b>1,798,642</b>
<b>Cash provided by (used in) financing activities:</b>		
Finance income received	15,589	8,255
Principal payments of lease liabilities	(57,931)	(382,360)
Interest paid on lease liabilities	(1,588)	(19,324)
Finance costs paid	-	(55,488)
Repayment of long-term borrowings	-	(1,355,887)
Repayment of long-term loans	-	(509,575)
Proceeds from stock options exercised	-	16,952
<b>Net cash used in financing activities</b>	<b>(43,930)</b>	<b>(2,297,427)</b>
Increase in cash and cash equivalents	6,394,580	2,077,078
Cash and cash equivalents, beginning of the year	4,218,707	2,141,629
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 10,613,287</b>	<b>\$ 4,218,707</b>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid	\$ 26,920	\$ -

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, 2022 and June 30, 2021

(Expressed in Canadian Dollars)

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#### 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. 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 732, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada V7X 1L2.

As disclosed in the Company’s audited consolidated financial statements for the year ended June 30, 2021, up 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 had 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 was to carry some of the crops for one more year. After the Company has harvested all the remaining ginseng crops in the fall of 2022, it will commence liquidating the remaining assets and winding up its ginseng operations.

During the year ended June 30, 2022, the Company received approximately \$5.82 million from government programs as a result of the large decline in the Company’s income due to the sharp decrease in ginseng prices in 2020 and 2021. At June 30, 2022, the Company had working capital of \$11.28 million with a majority of it being cash on hand. The Company believes that with its current cash position, it will meet all of its liabilities and the cash requirements for the final harvest in the year ending June 30, 2023.

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. 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 19, 2022.

##### (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 10 (a)). 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.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

June 30, 2022 and June 30, 2021

(Expressed in Canadian Dollars)

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### 2. Basis of preparation (continued)

(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.

### 3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits 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. Dried ginseng root inventory is 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.

(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. Beginning June 1, 2020, PP&E is depreciated on a straight-line basis over the remaining useful life, which will end on December 31, 2022 except for buildings on June 30, 2023, less its estimated residual value.

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.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2022 and June 30, 2021  
(Expressed in Canadian Dollars)

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

(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.

(h) Biological assets

The Company uses the following approaches when measuring the fair value of the ginseng crops:

(i) Mature crops

The fair value of the mature 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. The Company assumes that the costs to complete and harvest, the yields and the future selling prices of these crops can be reasonably estimated.

(ii) Harvested crops

At the point of harvest, the fair value of the crops is measured at market value less costs to dry. The Company does not incur any selling expenses as the ginseng is sold directly to the Distributor (Note 3 (j)).

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.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2022 and June 30, 2021  
(Expressed in Canadian Dollars)

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

(i) Leases (continued)

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.

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 long-term borrowings, amortization of the discount on long-term loans, interest accretion on lease liabilities and post-employment benefit obligation.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

June 30, 2022 and June 30, 2021

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

(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 through the Distributor. Included in other income are management fee from Knightswood and miscellaneous rental income.

(n) 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.

(o) Share-based payments

The Company has a stock option plan which is disclosed in Note 13 (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 to the extent that it is probable that future taxable profit will be available against which the tax benefits 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.

**Imperial Ginseng Products Ltd.**  
Notes to the Consolidated Financial Statements  
June 30, 2022 and June 30, 2021  
(Expressed in Canadian Dollars)

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

(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.

(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.

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.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

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### 3. Significant accounting policies (continued)

#### (r) 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 at amortized cost. Investments are accounted for at FVTOCI.

### 4. Critical accounting estimates and judgments

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

##### Fair value of biological assets

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

##### 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.

##### 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.

# Imperial Ginseng Products Ltd.

## Notes to the Consolidated Financial Statements

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

##### 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.

##### 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.

##### 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.

#### 5. Accounting standards 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. The adoption of these amended standards did not have a significant impact on the Company's consolidated financial statements.

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**6. Related party balances and transactions**

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

(a) Knightswood Holdings Ltd. and Business Management Agreement

The Company has a business management agreement with Elcyc Holdings Ltd. and Canterra Capital Corp. (collectively the "Operator") for the management of Knightswood Holdings Ltd., a wholly owned subsidiary of the Company (the "Knightswood Agreement"). Each Operator is owned and controlled by a director of the Company. 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.

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, 2022, the Company reported \$50,000 in other income (2021 - \$50,000). No amounts were outstanding from Knightswood at June 30, 2022 and 2021.

(b) 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 11). The Company does not provide any other long-term employee benefits.

In the year ending June 30, 2022, no stock options were granted, exercised, forfeited or cancelled. 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 a price of \$0.26 per share. The options vested on the date of grant and will expire on June 30, 2023. Also in the same 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.

The table below summarizes the composition of key management personnel compensation for the years ended June 30, 2022 and 2021:

<b>For the years ended June 30,</b>	<b>2022</b>	<b>2021</b>
Short-term benefits	\$ 1,055,857	\$ 853,066
Post-employment benefits	510,301	240,573
Stock options	-	61,940
	<b>\$ 1,566,158</b>	<b>\$ 1,155,579</b>

## Imperial Ginseng Products Ltd.

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#### 7. Inventories

As at June 30,	2022	2021
Dried ginseng root	\$ 1,131,356	\$ 1,180,523
Chemicals	71,317	108,583
	\$ 1,202,673	\$ 1,289,106

The inventory cost of dried ginseng includes the fair value of the crops harvested during the year, drying expenses and depreciation charge on processing equipment. During the year ended June 30, 2022, fair value of the harvested crops of \$3,050,000 (2021 - \$5,141,000) was transferred from biological assets to inventory (Note 8). For the year ended June 30, 2022, \$3,649,422 of the total inventory cost (2021 - \$7,016,820) was recognized as cost of sales. At June 30, 2022, the Company wrote down the dried root inventory by \$95,436 to its net realizable value (2021 - \$nil).

#### 8. Biological assets

At June 30, 2022 and 2021, the Company's biological assets consisted solely of mature ginseng crops. Changes to the fair value of biological assets during the years ended June 30, 2022 and 2021 are summarized as follows:

As at June 30,	2022	2021
Balance, beginning of the year	\$ 1,856,000	\$ 8,172,000
Crop expenses for the year	2,889,370	4,413,294
Fair value of harvested crops transferred to inventories	(3,050,000)	(5,141,000)
Change in fair value due to lowering price expectations	(882,370)	(1,173,863)
Removal of fair value of crops sold	-	(4,414,431)
Balance, being all current, end of the year	\$ 813,000	\$ 1,856,000

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

- 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, 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.
- 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.
- 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.

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**8. Biological assets (continued)**

Crop expenses include all costs associated with 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, 2022 and 2021 are as follows:

For the years ended June 30,	2022	2021
Direct labour	\$ 1,207,269	\$ 1,636,664
Fertilizers	35,114	79,276
Fuel and utilities	133,491	114,658
Mulch	32,175	58,500
Office and program fees	41,512	50,031
Operating and maintenance	214,661	248,813
Pesticides	232,509	732,705
Short-term land rental	20,163	16,003
Crop costs before depreciation	1,916,894	2,936,650
Depreciation – property and equipment	914,877	1,279,759
Depreciation – right-of-use assets (Note 12 (a))	57,599	196,885
	<b>\$ 2,889,370</b>	<b>\$ 4,413,294</b>

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 \$156,000.
Yields	A 10% increase in yields would result in an increase in fair value of approximately \$156,000.
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 \$4,000.

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### 9. Property and equipment

	Land	Buildings	Farming equipment	Office and laboratory equipment	Processing equipment	Shadehousing and irrigation	Total
<b>Cost</b>							
Balance, June 30, 2020	\$ 1,000,496	\$ 1,763,385	\$ 2,705,993	\$ 60,031	\$ 878,063	\$ 4,401,058	\$ 10,809,026
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	2,573,822	62,627	878,063	4,379,004	10,657,397
Acquired	-	-	-	12,688	-	-	12,688
Disposal	-	-	(86,943)	-	(2,200)	(624,222)	(713,365)
Balance, June 30, 2022	\$ 1,000,496	\$ 1,763,385	\$ 2,486,879	\$ 75,315	\$ 875,863	\$ 3,754,782	\$ 9,956,720
<b>Accumulated depreciation</b>							
Balance, June 30, 2020	\$ -	\$ 460,073	\$ 1,999,360	\$ 49,559	\$ 537,932	\$ 1,860,204	\$ 4,907,128
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	1,983,558	58,308	696,479	2,908,843	6,190,131
Depreciation	-	31,077	103,355	8,668	99,378	779,602	1,022,080
Disposal	-	-	(79,785)	-	(2,144)	(509,596)	(591,525)
Balance, June 30, 2022	\$ -	\$ 574,020	\$ 2,007,128	\$ 66,976	\$ 793,713	\$ 3,178,849	\$ 6,620,686
<b>Carrying amounts</b>							
At June 30, 2021	\$ 1,000,496	\$ 1,220,442	\$ 590,264	\$ 4,319	\$ 181,584	\$ 1,470,161	\$ 4,467,266
At June 30, 2022	1,000,496	1,189,365	479,751	8,339	82,150	575,933	3,336,034

# Imperial Ginseng Products Ltd.

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#### 10. Investments

(a) Knightswood Holdings Ltd.

In 2020, the Company acquired all the issued and outstanding shares of Knightswood Holdings Ltd. ("Knightswood") from an unrelated party 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 6 (a)). 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. 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.

(b) Ponderosa Ginseng Farms Corp.

The Company had approximately 9.8% of the voting rights in Ponderosa. The investment in Ponderosa was categorized as fair value through other comprehensive income. In October 2021, the Company received a final liquidating distribution of \$176,190 from Ponderosa. Consequently, the Company removed the investment and transferred the balance of the fair value reserve to deficit on derecognition of the investment.

#### 11. Post-employment benefits

For the Company to complete the final harvest, the sale of ginseng and the subsequent wind up of 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, during the year ended June 30, 2021, the Company entered into a retention agreement with these key employees. Under the retention agreement, each of these key employees 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 at that time.

Retention Payment is discounted at 2% and amortized over the expected retention period. Present value of the Retention Payment is reported as a 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.

As the Company was unable to harvest all the crops in the year ending June 30, 2022 due to a shortage of labour and has to carry some of the crops for one more year (Note 1), during the year ended June 30, 2022, the Company and the key employees entered into an amended agreement for extending the duration of the retention period. The Retention Payment to each key employee remains unchanged.

The table below summarizes the present value of the Company's post-employment benefit obligation as at June 30, 2022 and June 30, 2021.

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#### 11. Post-employment benefits (continued)

As at June 30,	2022	2021
Balance, beginning of the year	\$ 357,697	\$ -
Additions in the year:		
Benefits (Note 15)	750,501	346,938
Interest (Note 16)	42,621	10,759
Balance, end of the year	\$ 1,150,819	\$ 357,697
Consist of:		
Current portion	\$ 555,148	\$ 173,957
Non-current portion	595,671	183,740

#### 12. Leases

##### (a) Right-of-use assets

At June 30, 2022, right-of-use assets consisted of an office lease. At June 30, 2021, right-of-use assets consisted of an office lease and several land leases. All the land leases were fully depreciated on December 31, 2021.

As at June 30,	2022	2021
Balance, beginning of the year	\$ 127,844	\$ 789,152
Depreciation recognized in crop expenses	(57,599)	(196,885)
Depreciation recognized in administrative expenses	(56,196)	(56,196)
Derecognition as a result of sale of crops	-	(408,227)
	\$ 14,049	\$ 127,844

##### (b) Lease liabilities

At June 30, 2022 and 2021, lease liabilities consisted solely of an office lease.

As at June 30,	2022	2021
Balance, beginning of the year	\$ 72,833	\$ 1,138,600
Interest accretion	1,588	19,324
Lease payments made	(59,519)	(401,684)
Removal as a result of lease assignments	-	(354,286)
Cancellation of lease agreements	-	(329,121)
	\$ 14,902	\$ 72,833
Consist of:		
Current portion	\$ 14,902	\$ 57,410
Non-current portion	-	15,423

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**12. Leases (continued)**

- (c) Contractual undiscounted cash flows

At June 30, 2022 and 2021, contractual undiscounted cash flows represented lease payments for an office.

As at June 30	2022	2021
Within 1 year	\$ 14,942	\$ 59,514
After 1 year but within 5 years	-	14,942
<b>Total undiscounted lease payments</b>	<b>\$ 14,942</b>	<b>\$ 74,456</b>

**13. 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, 2020	7,326,547	\$ 34,792,623
Shares issued upon exercise of stock options	65,200	29,340
<b>Balance, June 30, 2021 and 2022</b>	<b>7,391,747</b>	<b>\$ 34,821,963</b>

- (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. No stock options were granted, exercised, forfeited or cancelled during the year ended June 30, 2022. Below is a continuity schedule of stock options outstanding and exercisable:

	Number of options	Weighted average exercise price
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
<b>Outstanding and exercisable, June 30, 2021 and 2022</b>	<b>260,800</b>	<b>\$ 0.26</b>

At June 30, 2022, the weighted-average remaining contractual life of the outstanding and exercisable stock options was 1 year. These stock options will expire on June 30, 2023.

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#### 14. 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, 2022, a provision of \$155,000 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. For the year ended June 30, 2022, \$33,000 of Completion Bonus was recorded as a reduction of revenues (2021 - \$122,000).

#### 15. Administrative expenses

For the years ended June 30,	2022	2021
Depreciation	\$ 64,022	\$ 61,568
Insurance	14,643	15,645
Office	34,470	28,854
Professional fees	75,395	72,638
Salaries <sup>(1)</sup>	1,676,022	1,080,628
	\$ 1,864,552	\$ 1,259,333

<sup>(1)</sup> Included in salaries for the year ended June 30, 2022 was post-employment benefits of \$750,501 (2021 - \$346,938) (Note 11).

#### 16. Finance costs

For the years ended June 30,	2022	2021
Interest on post-employment benefits (Note 11)	\$ 42,621	\$ 10,759
Interest accretion on lease liabilities (Note 12 (b))	1,588	19,324
Interest accretion on long-term loans	-	48,225
Interest on long-term borrowings	-	50,088
	\$ 44,209	\$ 128,396

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**17. Income taxes**

(a) Income tax expense (recovery)

<b>For the years ended June 30,</b>	<b>2022</b>	<b>2021</b>
Current tax		
Current year	\$ 177,200	\$ -
Adjustments with respect to prior year	26,920	-
	<u>\$ 204,120</u>	<u>\$ -</u>
Deferred tax		
Origination and reversal of temporary differences	\$ 772,600	\$ (1,230,000)
Change in valuation allowance	(311,600)	-
	<u>\$ 461,000</u>	<u>\$ (1,230,000)</u>
<b>Income tax expense (recovery)</b>	<b>\$ 665,120</b>	<b>\$ (1,230,000)</b>

(b) Reconciliation of income taxes

The following table reconciles income taxes calculated at statutory tax rate to the actual tax provision for the years ended June 30, 2022 and 2021:

<b>For the years ended June 30,</b>	<b>2022</b>	<b>2021</b>
Income (loss) before taxes	\$ 2,982,679	\$ (5,712,205)
Statutory tax rate	26.45%	26.49%
Expected income tax expense (recovery)	788,900	(1,513,000)
Increase (decrease) in income taxes resulting from:		
Change in unrecognized deferred tax assets (c)	(109,000)	270,000
Change in prior year provisions	(41,600)	-
Adjustments with respect to current tax of prior year	26,920	-
Non-deductible items	100	17,000
Other	(200)	(4,000)
<b>Income tax expense (recovery)</b>	<b>\$ 665,120</b>	<b>\$ (1,230,000)</b>

(c) Unrecognized deferred tax assets

Deferred tax assets are recognized to the extent that it is more likely than not that some portion or all of the tax benefits will be utilized. The ultimate recognition of deferred tax assets is dependent on the Company's ability to generate future taxable income.

At June 30, 2022, deferred tax benefits of \$161,000 for post-employment benefits had not been recognized as it was not probable that future taxable income would be available against which the tax benefits could be utilized when the post-employment benefits are paid and become deductible.

At June 30, 2021, deferred tax benefits of \$270,000 for unused tax losses were not recognized as it was not probable that future taxable profits would be available against which these losses could be utilized. The provision was reversed as the tax losses had been fully utilized as at June 30, 2022.

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**17. Income taxes (continued)**

(d) 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 (Note 17 (c)).

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, 2022 and 2021:

<b>As at June 30,</b>	<b>2022</b>	<b>2021</b>
Under the British Columbia tax jurisdiction:		
Property and equipment	\$ 8,000	\$ 19,000
Others	42,000	-
Deferred tax assets	\$ 50,000	\$ 19,000
Under the Ontario tax jurisdiction:		
Biological assets	\$ (215,000)	\$ (492,000)
Non-capital loss carry-forwards	-	761,000
Property and equipment	349,000	318,000
Cumulative eligible capital	168,000	180,000
Others	(48,000)	(21,000)
Deferred tax assets	\$ 254,000	\$ 746,000
<b>Total recognized deferred tax assets</b>	<b>\$ 304,000</b>	<b>\$ 765,000</b>

(e) The following table summarizes the movements of deferred tax account under its tax jurisdiction during the years ended June 30, 2022 and 2021:

<b>For the years ended June 30,</b>	<b>2022</b>	<b>2021</b>
Under the British Columbia tax jurisdiction:		
Deferred tax assets, beginning of the year	\$ 19,000	\$ 106,000
Recognized in net income	31,000	(87,000)
Deferred tax assets, end of the year	\$ 50,000	\$ 19,000
Under the Ontario tax jurisdiction:		
Deferred tax assets (liabilities), beginning of the year	\$ 746,000	\$ (571,000)
Recognized in net income	(492,000)	1,317,000
Deferred tax assets, end of the year	\$ 254,000	\$ 746,000

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

For the years ended June 30,	2022	2021
Net income	\$ 2,317,559	\$ (4,482,205)
Weighted average number of shares outstanding	7,391,747	7,335,657
Basic earnings (loss) per share	\$ 0.31	\$ (0.61)
Weighted average number of shares outstanding	7,391,747	7,335,657
Effect of common share equivalents	175,785	-
	7,567,532	7,335,657
Diluted earnings (loss) per share	\$ 0.31	\$ (0.61)

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.

**19. 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.

**20. 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, 2022 and 2021, 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, 2022 totaled \$10,613,287 (2021 - \$4,218,707), representing the maximum exposure to credit risk of these financial assets.

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

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations when they come due. At June 30, 2022, the Company had a working capital surplus of approximately \$11.28 million, a majority of which was cash on hand. The Company believes that its exposure to liquidity risk is minimal.

The Company's contractual obligations include accounts payable and accrued liabilities and post-employment benefit obligation. Contractual obligations for post-employment benefit due in 2022 and 2023 as at June 30, 2021 have been deferred to 2023 and 2024 when the Company decided to carry some of the crops for one more year (Note 1). The following table is a summary of contractual obligations and payments related to financial liabilities due as at June 30, 2022 and 2021. The amounts disclosed are contractual undiscounted cash flows.

<b>As at June 30,</b>	<b>2022</b>	<b>2021</b>
Contractual obligations due in 2022		
Payables and accrued liabilities	\$ -	\$ 385,056
Post-employment benefit obligation	-	870,000
	-	1,255,056
Contractual obligations due in 2023		
Payables and accrued liabilities	501,421	122,000
Post-employment benefit obligation	870,000	1,348,200
	1,371,421	1,470,200
Contractual obligations due in 2024		
Payables and accrued liabilities	155,000	-
Post-employment benefit obligation	1,348,200	-
	1,503,200	-
	\$ 2,874,621	\$ 2,725,256

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.

**21. 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, 2022. At June 30, 2022, the Company's capital consists solely of shareholders' equity of \$14,339,292 (2021 - \$12,012,544).

## Imperial Ginseng Products Ltd.

### Notes to the Consolidated Financial Statements

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#### 22. Commitments

The Company is committed under an office lease which expires in September 2022. Future minimum lease payments as at June 30, 2022 and 2021 are as follows:

For the years ended June 30,	2022	2021
2022	\$ -	\$ 60,000
2023	15,000	15,000
	\$ 15,000	\$ 75,000

#### 23. 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.

#### 24. Event after the reporting period

In October 2022, the Company entered into an agreement for the sale of its property in Milldale, Ontario for \$2.60 million. The transaction is expected to complete in April 2023.