



IMPERIAL GINSENG PRODUCTS LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

Six Months Ended December 31, 2019 and 2018

Unaudited Interim Financial Statements

In accordance with National Instrument 51-102, Part 4, subsection 4.3 (3)(a), the Company discloses that its auditors have not performed a review of these interim consolidated financial statements. The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

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

As at	Note	December 31 2019	(Audited) June 30 2019
ASSETS			
Current			
Cash and cash equivalents		\$ 525,462	\$ 5,112,635
Trade and other receivables		77,797	92,738
Inventories	6	6,386,994	1,902,326
Prepaid expenses		5,110	229,120
Pre-planting costs	7	176,831	549,103
Biological assets	8	4,182,000	8,631,000
Total current assets		11,354,194	16,516,922
Biological assets	8	9,723,000	7,621,000
Investment	9	310,000	310,000
Property and equipment	10	7,395,499	7,550,776
Right-of-use assets	11 (a)	1,296,590	-
Deferred tax assets		83,000	62,000
Total Assets		\$ 30,162,283	\$ 32,060,698
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 1,279,607	\$ 1,961,777
Deposit for planting cost reimbursement	5 (c)	82,065	362,805
Current portion of long-term borrowings	13	246,896	271,224
Current portion of long-term loans	14	551,650	499,032
Current portion of lease liabilities	11 (b)	448,780	-
Total current liabilities		2,608,998	3,094,838
Long-term borrowings	13	1,242,632	1,355,887
Long-term loans	14	417,687	378,565
Lease liabilities	11 (b)	771,389	-
Deferred tax liabilities		2,681,000	3,187,000
Total liabilities		7,721,706	8,016,290
SHAREHOLDERS' EQUITY			
Share capital	15	34,792,623	34,792,623
Contributed surplus		1,344,158	1,344,158
Accumulated other comprehensive income		(19,871)	(19,871)
Deficit		(13,676,333)	(12,072,502)
Total shareholders' equity		22,440,577	24,044,408
Total Liabilities and Shareholders' Equity		\$ 30,162,283	\$ 32,060,698

Nature of operations and going concern (Note 1)

Events after the reporting period (Note 23)

Approved 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 Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

		Three-month ended December 31		Six-month ended December 31	
	Note	2019	2018	2019	2018
Revenue	5 (a)	\$ 13,350	\$ 4,237,301	\$ 558,794	\$ 4,237,301
Cost of sales		11,300	4,160,438	461,184	4,160,438
Gross profit		2,050	76,863	97,610	76,863
Administrative expenses	16	(250,544)	(261,303)	(512,798)	(722,562)
Change in fair value of biological assets	8	(327,426)	(615,299)	(1,402,433)	(1,334,741)
Loss from operations before other items		(575,920)	(799,739)	(1,817,621)	(1,980,440)
Other items					
Finance income		6,507	5,663	23,494	18,080
Finance costs	17	(72,180)	(84,571)	(142,668)	(161,753)
Other income		20,934	61,583	33,396	168,590
Gain (loss) from disposition of property and equipment		-	(3,832)	-	16,764
Loss before income taxes		(620,659)	(820,896)	(1,903,399)	(1,938,759)
Income tax recovery		133,000	521,323	527,000	521,323
Loss and comprehensive loss		\$ (487,659)	\$ (299,573)	\$ (1,376,399)	\$ (1,417,436)
Loss per share, basic and diluted	18	\$ (0.07)	\$ (0.05)	\$ (0.19)	\$ (0.20)

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

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

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Opening balance, July 1, 2018	\$ 35,120,605	\$ 1,089,722	\$ -	\$ (7,469,976)	\$ 28,740,351
Changes in the period:					
Net loss	-	-	-	(1,417,436)	(1,417,436)
IFRS 9 transition adjustment	-	-	-	349,999	349,999
Change in fair value of investment		-	(19,871)	-	(19,871)
Stock options exercised	49,120	(22,840)	-	-	26,280
Common Shares repurchased	(393,211)	268,315	-	-	(124,896)
Balance, December 31, 2018	34,776,514	1,335,197	(19,871)	(8,537,413)	27,554,427
Changes in the period:					
Net loss	-	-	-	(3,535,089)	(3,535,089)
Stock options exercised	78,080	(40,960)	-	-	37,120
Common Shares repurchased	(61,971)	49,921	-	-	(12,050)
Balance, June 30, 2019	34,792,623	1,344,158	(19,871)	(12,072,502)	24,044,408
Changes in the period:					
Net loss	-	-	-	(1,376,399)	(1,376,399)
Repurchase of preferred shares (Note 15 (e))		-	-	(227,432)	(227,432)
Balance, December 31, 2019	\$ 34,792,623	\$ 1,344,158	\$ (19,871)	\$ (13,676,333)	\$ 22,440,577

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 six months ended December 31,	Note	2019	2018
Cash provided by (used in) operating activities:			
Net loss		\$ (1,376,399)	\$ (1,417,436)
Adjustments for items not involving cash:			
Depreciation		5,403	39,355
Finance income		(23,495)	(18,080)
Finance costs		142,668	161,753
Gain from disposition of property and equipment		-	(16,764)
Change in fair value of biological assets		1,402,434	1,334,741
Income tax recovery		(527,000)	(521,323)
Income tax refunded		-	741,323
Changes in working capital items:			
Cost of crops harvested		4,500,000	7,038,000
Crop costs, net of depreciation	8	(3,044,377)	(3,709,142)
Trade and other receivables		(7,309)	(183,461)
Inventories		(4,431,307)	(3,353,479)
Prepaid expenses		68,966	54,483
Pre-planting costs		212,054	519,284
Accounts payable and accrued liabilities		(582,172)	(1,105,967)
Deposit for planting cost reimbursement		(273,505)	(277,839)
Net cash used in operating activities		(3,934,039)	(714,552)
Cash provided by (used in) investing activities:			
Acquisition of property and equipment		(197,864)	(1,155,766)
Proceeds from disposition of property and equipment		-	45,010
Return of capital on investment		-	120,129
Net cash used in investing activities		(197,864)	(990,627)
Cash provided by (used in) financing activities:			
Finance income received		45,745	49,353
Finance costs paid		(27,000)	(27,921)
Proceeds from long-term borrowings		-	600,000
Repayment of long-term borrowings		(137,583)	(128,966)
Principal payments of lease liabilities	11 (b)	(7,230)	-
Interest paid on lease liabilities	11 (b)	(1,770)	-
Proceeds from stock options exercised		-	26,280
Shares repurchased for cancellation		-	(124,896)
Repurchase of preferred shares	15 (e)	(327,432)	-
Net cash provided by (used in) financing activities		(455,270)	393,850
Decrease in cash and cash equivalents		(4,587,173)	(1,311,329)
Cash and cash equivalents, beginning of the period		5,112,635	6,005,081
Cash and cash equivalents, end of the period		\$ 525,462	\$ 4,693,752

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

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

1. Nature of operations and going concern

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

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

These condensed interim consolidated financial statements have been prepared on a going concern basis that assumes the Company will continue in operations for the foreseeable future and have adequate funds to meet operating requirements and discharge its liabilities and commitments in the normal course of business as they come due. These condensed interim consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

At December 31, 2019, the Company had a working capital of \$8,745,196, almost all of which was made up of ginseng in the form of dried root inventory and mature crops. As such, being able to realize these assets is crucial to the Company's ability to continue as a going concern. Since early 2019, each subsequent sale has been getting more difficult despite falling prices as uncertainty remains over the deteriorated Canada-China political relationship and a stagnant economy in China, which may now be further impacted by the possibility of Hong Kong completely closing the border to China as a result of the novel coronavirus outbreak. These conditions raise material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern should the Company not be able to sell or generate sufficient funds for its working capital requirements.

2. Basis of preparation

(a) Statement of compliance

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (IFRS) and IFRS interpretations issued by the International Accounting Standards Board (IASB).

These condensed interim consolidated financial statements were prepared using the same accounting policies and methods of application as those used in the most recently prepared audited annual consolidated financial statements, and those in effect for the year ended June 30, 2020. These condensed interim consolidated financial statements do not contain all disclosures required by IFRS for annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended June 30, 2019.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 13, 2020.

(b) Basis of presentation and measurement

These condensed interim 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 condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

3. Changes in significant accounting policies and disclosures

The accounting policies applied in these condensed interim consolidated financial statements are the same as those disclosed in Note 3 of the Company's audited annual consolidated financial statements for the year ended June 30, 2019, except as described below.

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

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

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

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

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

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

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

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

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

3. Changes in significant accounting policies and disclosures (continued)

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

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

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

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

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

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

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

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

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

4. Changes in critical accounting estimates and judgments

In preparing these condensed interim consolidated financial statements, the Company applied the same critical accounting estimates and judgments disclosed in Note 4 of its audited consolidated financial statements for the year ended June 30, 2019. Following the adoption of IFRS 16 on July 1, 2019, management was required to make estimates and judgments as described below.

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

The ability of the Company to continue as a going concern involves management judgment as to whether the Company is able to realize its assets and discharge its liabilities and commitments in the normal course of business when they come due for the foreseeable future (Note 1).

5. Related party balances and transactions

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

(a) Distributor services

The Company has a distribution agreement with an entity controlled by a director of the Company (the "Distributor") under which the Distributor buys all the Company's ginseng harvested in a given year at agreed market prices in return for an exclusive right to distribute the Company's ginseng in Asia and North America. As the ginseng is sold directly to the Distributor at agreed prices, the Company does not pay any selling expenses to the Distributor for the distribution of ginseng. During the six-month period ended December 31, 2019, the Company had sales transactions totaling \$558,794 with the Distributor (December 31, 2018 - \$4,237,301). No amount was outstanding from the Distributor at December 31, 2019 (June 30, 2019 - \$nil).

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

5. Related party balances and transactions (continued)

(b) Management company transactions

The Company had an administrative agreement with Trilogy Bancorp Ltd. ("Trilogy"), a company owned and controlled by certain directors of the Company. Under the administrative agreement, Trilogy provided accounting, office and administrative services to the Company for a monthly fee of \$10,500. For the six months ended December 31, 2019, the Company was charged \$63,000 (December 31, 2018 - \$63,000) in administrative fee. No administrative fee was outstanding to Trilogy at December 31, 2019 (June 30, 2019 - \$nil). The administrative agreement with Trilogy was cancelled effective December 31, 2019.

(c) Ginseng farming agreement

The Company and Ponderosa Ginseng Farms Corp. ("Ponderosa"), a private company having a director in common with the Company, have a ginseng farming agreement (the "Farming Agreement") under which the Company plants and maintains certain number of acres of ginseng in Ontario for the benefit of Ponderosa each year (the "Ponderosa Acres"). Pursuant to the Farming Agreement, Ponderosa reimburses the Company the actual farming and root processing expenses (the "Actual Costs"), which are estimated and prepaid annually (the "Prepayment") prior to the beginning of the Company's fiscal year. In return, the Company earns a planting fee equal to 15% of the Actual Costs from Ponderosa. Subsequent to the completion of a farming year, the Company will calculate the Actual Costs and settle the account with Ponderosa accordingly.

In 2017, Ponderosa notified the Company to terminate planting new acres but continue with farming the existing Ponderosa Acres until they are gradually harvested out, expected to be by the fall of 2020. During the six months ended December 31, 2019, the Company harvested 16 Ponderosa Acres (December 31, 2018 – 16 acres). At December 31, 2019, the Company was maintaining 13 Ponderosa Acres.

For the six months ended December 31, 2019, the Company incurred Actual Costs of \$222,639 (December 31, 2018 - \$298,096). Total planting fee income realized in the period was \$33,396 (December 31, 2018 - \$44,714). At December 31, 2019, the balance of Prepayment was \$82,065 (June 30, 2019 - \$362,805).

Pursuant to the Farming Agreement, the Company will undertake the selling of ginseng root harvested from the Ponderosa Acres and will pay to Ponderosa the full amount of proceeds from each completed sale within 30 days of receipt by the Company. During the six-month period ended December 31, 2019, the Company made sales of \$98,939 for Ponderosa (December 31, 2018 - \$750,241). No amounts were outstanding to Ponderosa at December 31, 2019 (June 30, 2018 - \$nil).

(d) Key management personnel compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors, executive officers and the President of CIGO. Short-term benefits for key management personnel compensation consist of salaries, bonuses and medical benefits. Termination benefits include retiring allowance and/or severance as a result of the Company terminating an employment contract. The Company does not provide any post-employment benefits or other long-term employee benefits. Short-term benefits for the president of CIGO are included in crop expenses.

For the six-month period ended December 31, 2019, key management personnel compensation consisted solely of short-term benefits of \$354,707. Key management personnel compensation for the six months ended December 31, 2018 consisted of short-term benefits of \$423,317 and termination benefits of \$198,888 for a total compensation of \$622,205.

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements
For the Six Months Ended December 31, 2019 and 2018
(Unaudited – Expressed in Canadian Dollars)

6. Inventories

As at	December 31 2019	(Audited) June 30 2019
Ginseng root	\$ 5,952,888	\$ 1,341,158
Ginseng seed	310,113	339,778
Chemicals	123,993	221,390
	\$ 6,386,994	\$ 1,902,326

7. Pre-planting costs

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

	Land rental	Chemicals	Total
As at June 30, 2018	\$ 161,907	\$ 467,369	\$ 629,276
Transferred to crop expenses	(120,880)	(421,614)	(542,494)
Expenses incurred in the year	119,191	343,130	462,321
As at June 30, 2019	160,218	388,885	549,103
Transferred to right-of-use assets	(160,218)	-	(160,218)
As at July 1, 2019	-	388,885	388,885
Transferred to crop expenses	-	(219,169)	(219,169)
Expenses incurred in the period	-	7,115	7,115
Balance, December 31, 2019	\$ -	\$ 176,831	\$ 176,831

8. Biological assets

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

As at	December 31 2019	(Audited) June 30 2019
Balance, beginning of the period	\$ 16,252,000	\$ 23,802,000
Crop expenses incurred in the period	3,555,433	6,548,685
Change in fair value due to growth, yield and price forecasts	(1,402,433)	(5,585,685)
Less: fair value of harvested crops transferred to inventories	(4,500,000)	(8,513,000)
Balance, end of the period	\$ 13,905,000	\$ 16,252,000
Consist of:		
Current portion	\$ 4,182,000	\$ 8,631,000
Non-current portion	9,723,000	7,621,000

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

8. Biological assets (continued)

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	December 31 2019	(Audited) June 30 2018
Immature ginseng crops	\$ 6,958,000	\$ 4,946,000
Near maturity ginseng crops	2,765,000	2,675,000
Mature ginseng crops	4,182,000	8,631,000
	\$ 13,905,000	\$ 16,252,000

Crop expenses include all costs associated with planting, maintaining and harvesting the ginseng crops. Crop expenses are deferred in biological assets until the crops are harvested. The components of crop expenses for the six-month periods ended December 31, 2019 and 2018 are as follows:

For the six-month periods ended December 31,	2019	2018
Direct labour	\$ 1,308,475	\$ 1,389,106
Fertilizers	268,368	396,300
Fuel and utilities	72,320	80,510
Land rental	-	310,581
Short-term leases (Note 11 (d))	58,294	-
Mulch	343,731	393,303
Office and program fees	6,660	8,172
Operating and maintenance	169,301	152,453
Pesticides	744,236	763,343
Seed	72,992	215,374
Crop costs before depreciation	3,044,377	3,709,142
Depreciation – property and equipment	287,142	280,599
Depreciation – right-of-use assets (Note 11 (a))	223,914	-
	\$ 3,555,433	\$ 3,989,741

9. Investment

The Company owns approximately 9.8% of Ponderosa. Investment in Ponderosa is categorized as fair value through other comprehensive income. Since Ponderosa is a privately-owned ginseng farm, the Company estimates the fair value of its investment in Ponderosa primarily based on industry knowledge as reliable market information is not available, and uses its own judgment and assumptions to determine the probability of possible outcomes of which the expected future cash flows are discounted at a rate estimated by the Company after considering various risk factors.

Ponderosa is expected to be wound up in 2021 (Note 5 (c)). During the year ended June 30, 2019, the Company received the first liquidating distribution of \$120,129 from Ponderosa.

Imperial Ginseng Products Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Six Months Ended December 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

10. Property and equipment

	Land	Buildings	Leasehold improvements	Farming equipment	Office and laboratory equipment	Processing equipment	Shadehousing and irrigation	Total
Cost								
Balance, June 30, 2018	\$ 1,967,675	\$ 1,362,725	\$ 30,128	\$ 2,653,451	\$ 63,934	\$ 882,900	\$ 3,683,577	\$ 10,644,390
Acquired	-	405,064	-	178,932	3,864	5,721	1,106,594	1,700,175
Disposals	-	-	-	(131,679)	(9,667)	(28,175)	(456,184)	(625,705)
Balance, June 30, 2019	1,967,675	1,767,789	30,128	2,700,704	58,131	860,446	4,333,987	11,718,860
Acquired	-	127,700	-	4,439	-	18,752	46,973	197,864
Balance, Dec 31, 2019	\$ 1,967,675	\$ 1,895,489	\$ 30,128	\$ 2,705,143	\$ 58,131	\$ 879,197	\$ 4,380,960	\$ 1,1916,724
Accumulated depreciation								
Balance, June 30, 2018	\$ -	\$ 348,386	\$ 16,947	\$ 1,650,888	\$ 38,790	\$ 333,820	\$ 1,737,423	\$ 4,126,254
Depreciation	-	72,845	7,532	256,120	11,036	56,931	234,737	639,201
Disposals	-	-	-	(130,187)	(9,667)	(28,175)	(429,342)	(597,371)
Balance, June 30, 2019	-	421,231	24,479	1,776,821	40,159	362,576	1,542,818	4,168,084
Depreciation	-	46,230	2,823	115,674	4,662	60,595	123,156	353,141
Balance, Dec 31, 2019	\$ -	\$ 467,461	\$ 27,302	\$ 1,892,495	\$ 44,821	\$ 423,171	\$ 1,665,974	\$ 4,521,225
Carrying amounts								
At June 30, 2019	\$ 1,967,675	\$ 1,346,558	\$ 5,649	\$ 923,883	\$ 17,972	\$ 497,870	\$ 2,791,169	\$ 7,550,776
At Dec 31, 2019	1,967,675	1,428,028	2,826	812,648	13,310	456,026	2,714,986	7,395,499

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11. Leases

The Company enters into lease agreements for the land used for cultivating ginseng. Lease term generally ranges from five to seven years with an option to extend for one additional year or terminate before the end of the lease term.

(a) Right-of-use assets

As at	December 31 2019
Amount recognized at July 1, 2019 (Note 3)	\$ 1,520,504
Depreciation (Note 8)	(223,914)
	\$ 1,296,590

(b) Lease liabilities

As at	December 31 2019
Amount recognized at July 1, 2019 (Note 3)	\$ 1,205,241
Interest accretion (Note 17)	23,928
Payments in the period	(9,000)
	\$ 1,220,169
Consist of:	
Current portion	\$ 448,780
Non-current portion	771,389

(c) Contractual undiscounted cash flows

As at	December 31 2019
Within 1 year	\$ 448,780
After 1 year but within 5 years	831,848
Total undiscounted lease payments	\$ 1,280,628

(d) Short-term lease expenses

For the six-month period ended December 31, 2019, the Company included payments for short-term leases of \$58,294 in crop costs within biological assets (Note 8) on the consolidated statements of financial position, and \$19,885 in administrative expenses (Note 16) on the consolidated statements of loss. Short-term leases in biological assets were solely land leases for crops to be harvested in the current year, and in administrative expense an office lease expiring in May 2020.

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12. Credit facilities

The credit facilities made available to CIGO by a Canadian chartered bank (the “Bank”) include a revolving term facility (Note 13 (b)) and a revolving demand facility of \$1,000,000 at annual interest rate of Bank’s prime rate plus 0.5% (the “Credit Facility”). The Credit Facility is renewed annually and collateralized by general security agreements and a charge over all ginseng inventories and crops. No financial covenants are imposed on the Company with respect to the Credit Facility. At December 31, 2019, \$Nil was drawn on the revolving demand facility (June 30, 2019 - \$Nil).

13. Long-term borrowings

As at	December 31 2019	(Audited) June 30 2019
Current portion of principal:		
Mortgages (a)	\$ 58,796	\$ 57,813
Revolving term facility (b)	150,035	169,626
Other collateral loans (c)	38,065	43,785
	246,896	271,224
Non-current portion of principal:		
Mortgages (a)	725,936	755,580
Revolving term facility (b)	427,016	494,585
Other collateral loans (c)	89,680	105,722
	1,242,632	1,355,887
	\$ 1,489,528	\$ 1,627,111

(a) Mortgages

- (i) In 2016, the Company acquired a mortgage of \$500,000 for the purchase of a farm property in Tillsonburg, Ontario. The mortgage is amortized over 20 years, has a term of five years maturing in 2021 and bears an annual interest rate of 2.71%, compounded semi-annually with monthly blended principal and interest payment of \$2,698 during the term. At December 31, 2019, the principal balance was \$367,946 (June 30, 2019 - \$379,089).
- (ii) In 2014, the Company acquired a mortgage of \$825,000 for the purchase of a farm property near Walsingham, Ontario. The mortgage is amortized over 25 years, has a term of five years maturing in 2024 and bears an annual interest rate of 3.80%, compounded semi-annually with monthly blended principal and interest payment of \$4,263 during the term. At December 31, 2019, the principal balance was \$416,786 (June 30, 2019 - \$434,304).

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

Imperial Ginseng Products Ltd.

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13. Long-term borrowings (continued)

(a) Mortgages (continued)

As at	December 31 2019	(Audited) June 30 2019
Within 1 year	\$ 83,527	\$ 83,542
After 1 year but within 5 years	769,063	566,773
More than 5 years	-	244,053
Total principal and interest payment	\$ 852,590	\$ 894,368

(b) Revolving term facility

The Bank has made available to the Company a \$1,200,000 revolving term facility for the purchase of equipment by way of a series of variable interest rate term loans at the Bank's prime rate plus 0.25% and fixed rate term loans for which the interest rate is to be determined at the time of borrowing. The loans are repayable in monthly blended payments of principal and interest for a maximum term of one year for variable interest rate loans and seven years for fixed rate term loans.

At December 31, 2019, the Company had several fixed rate term loans at annual interest rates between 2.28% and 4.25% maturing from 2020 to 2024. Minimum principal and interest payments over the term of the loans are as follows:

As at	December 31 2019	(Audited) June 30 2019
Within 1 year	\$ 170,822	\$ 193,373
After 1 year but within 5 years	460,041	518,503
More than 5 years	-	18,800
Total principal and interest payment	\$ 630,863	\$ 730,676

(c) Other collateral loans

The Company financed certain equipment and vehicle purchases via collateral loans at interest rates ranging from 0% to 3.49% maturing from 2020 to 2025. Each loan is secured by the equipment against which it is borrowed. No financial covenants are imposed on the Company with respect to these loans. The carrying values of borrowings approximate their fair values at the reporting date. Minimum principal and interest payments over the term of the loans are as follows:

As at	December 31 2019	(Audited) June 30 2019
Within 1 year	\$ 39,784	\$ 45,985
After 1 year but within 5 years	91,061	99,318
More than 5 years	-	8,534
Total principal and interest payment	\$ 130,845	\$ 153,837

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14. Long-term loans

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

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

As at	December 31 2019	(Audited) June 30 2019
Within 1 year	\$ 551,650	\$ 551,650
After 1 year but within 5 years	509,575	509,575
Total principal and interest payment	\$ 1,061,225	\$ 1,061,225

The Loans are measured at amortized cost and accreted to their face value over the term at effective interest rate of 22%. At December 31, 2019 and June 30, 2019, the carrying amount of the Loans was as follows:

As at	December 31 2019	(Audited) June 30 2019
Balance, beginning of the period	\$ 877,597	\$ 1,256,422
Accretion	91,740	214,400
Payment in the period	-	(593,225)
Balance, end of the period	\$ 969,337	\$ 877,597
Consist of:		
Current portion	\$ 551,650	\$ 499,032
Non-current portion	417,687	378,565

15. Share capital

- (a) Authorized
- Unlimited number of common shares without par value
 - Unlimited number of convertible preference shares without par value

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15. Share capital (continued)

(b) Issued and outstanding

	Number of Common Shares	Amount
Balance, June 30, 2018	7,241,847	\$ 35,120,605
Shares issued upon exercise of stock options	180,000	127,200
Shares repurchased and cancelled under NCIB	(95,300)	(455,182)
Balance, December 31, 2019 and June 30, 2019	7,326,547	\$ 34,792,623

(c) Stock options

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

No stock options were exercised during the six months ended December 31, 2019 (December 31, 2018 – 52,000 stock options exercised). A continuity schedule of stock options outstanding and exercisable is as follows:

	Number of options	Weighted average exercise price
Outstanding and exercisable, June 30, 2018	682,000	\$ 0.72
Exercised	(180,000)	0.35
Outstanding and exercisable, December 31, 2019 and June 30, 2019	502,000	\$ 0.85

At December 31, 2019, the weighted-average remaining contractual life of the outstanding and exercisable stock options was 2.40 years. These stock options will expire on May 26, 2022.

(d) Normal course issuer bid (“NCIB”)

In September 2019, TSXV approved the renewal of the NCIB under which the Company is entitled to repurchase for cancellation up to 366,000 Common Shares over a twelve-month period commencing October 1, 2019 and ending September 30, 2020. All Common Shares purchases are made through the facilities of the TSXV and are done at market prices. As purchases are made, the Company reduces share capital for the average book value of the common shares repurchased, and charges contributed surplus for the difference between the price paid and the average book value. No Common Shares were repurchased during the six-month period ended December 31, 2019 (December 31, 2018 – 82,200 Common Shares repurchased at an average price of \$1.52 per share).

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15. Share capital (continued)

(e) Repurchase of preferred shares

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

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

16. Administrative expenses

For the six-month periods ended December 31,	2019	2018
Filing and transfer agent	\$ 6,121	\$ 6,655
Insurance	9,765	9,450
Investor relations	5,093	6,075
Marketing and promotion	-	12,646
Office	26,491	28,707
Professional fees	80,589	30,467
Rent	-	23,883
Salaries	357,743	590,523
Short-term leases (Note 11 (d))	19,885	-
Travel	7,111	14,156
	\$ 512,798	\$ 722,562

17. Finance costs

For the six-month periods ended December 31,	2019	2018
Interest on long-term borrowings	\$ 27,000	\$ 30,411
Interest accretion on long-term loans	91,740	131,342
Interest accretion on lease liabilities (Note 11 (b))	23,928	-
	\$ 142,668	\$ 161,753

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18. Basic and diluted loss per share

For the six-month periods ended December 31,	2019	2018
Net loss	\$ (1,376,399)	\$ (1,417,436)
Weighted average number of shares outstanding	7,326,547	7,252,022
Loss per share, basic and diluted	\$ (0.19)	\$ (0.20)

For the six-month period ended December 31, 2019, the outstanding stock options at period end were not considered dilutive as their weighted average exercise price of \$0.85 per Common Shares was above the average market price of \$0.52 for the period.

For the six-month period ended December 31, 2018, potentially dilutive Common Shares relating to the outstanding stock options at period end, totaling 322,030, 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.

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

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

20. Financial risk management

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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20. 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 December 31, 2019 and June 30, 2019, 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 December 31, 2019 totaled \$525,462 (June 30, 2019 - \$5,112,635), representing the maximum exposure to credit risk of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations when they come due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. This process assumes ginseng sales occur in a normal manner over the selling season, which, given the current political and novel coronavirus situation, may or may not happen. The Company also ensures that there is sufficient working capital for its ongoing operating expenditures through an arrangement with credit facilities. At December 31, 2019, the Company had a working capital surplus of approximately \$8,745,000 (June 30, 2019 - \$13,422,000), of which \$5,953,000 was ginseng root inventory. Liquidity risk is therefore highly dependent on the sale, and its timing, of the ginseng root inventory.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through the floating interest rate of its revolving demand facility, which may have an effect on its earnings and cash flows in future periods. The Company does not use derivative instruments to mitigate this risk. Under the credit facility agreement, the revolving demand facility is subject to a mutually agreed premium added to the prime rate. As the Company did not have an amount outstanding on the revolving demand facility on December 31, 2019, a change in the interest rate would not have any impact on the Company. The Company's long-term borrowings and long-term loans are not subject to interest rate risk as they are fixed interest rate loans.

21. Capital management

The Company's main objective in managing its capital is to safeguard its ability to continue as a going concern. The Company considers its capital structure to include the revolving demand facility, long-term loans, long-term borrowings and shareholders' equity. In respect of the Credit Facility, other collateral loans and long-term loans, the Company is not subject to any financial covenant. There have been no changes in the Company's approach to capital management since June 30, 2019. The Company's capital includes the following:

As at	December 31 2019	(Audited) June 30 2019
Long-term borrowings	\$ 1,489,528	\$ 1,627,111
Long-term loans	969,337	877,597
Shareholders' equity	22,440,577	24,044,408
	\$ 24,899,442	\$ 26,549,116

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22. Segmented reporting

The Company operates principally in one single industry segment, being cultivating and selling ginseng. All the assets of the Company are located in Canada. All sales transactions are made with the Distributor located in Canada (Note 5 (a)). During the six-month period ended December 31, 2019, sales transactions with the Distributor amounted to \$558,794 (December 31, 2018 - \$4,237,301).

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

23. Events after the reporting period

(a) Acquisition of 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.

(b) Business Management Agreement

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

Under the Knightswood Agreement, the Company will not commit its management or resources and is under no obligation to advance funds to or cover the expenses of Knightswood. The Operator is solely responsible for managing the business operations and financial affairs, making decisions and setting out policies of Knightswood. In return, the Operator is entitled to all the cash surplus in Knightswood after paying a fixed annual fee of \$50,000 to the Company for holding the shares of Knightswood (the "Fixed Fee"). Other than the Fixed Fee, the Company does not have any right to any variable financial returns from the activities of Knightswood. 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 and, as such, the financial results and position of Knightswood will not be consolidated with the financial statements 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 a consideration of \$10.