



IMPERIAL GINSENG PRODUCTS LTD.

2006 Annual Report

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ABOUT THE COMPANY

In strategic alliance with its partners in Hong Kong, China and South East Asia, Imperial Ginseng Products Ltd. grows and markets American ginseng.

OUR VISION

To be the world's premier ginseng growing organization and to generate sustainable growth and profitability.

STRATEGIC OBJECTIVES

- Maintain the highest level of integrity and professionalism in all business dealings
- Maximize long-term shareholder value through growth, operating efficiencies and profits
- Lead the industry in horticultural practices
- Create synergy between operating divisions
- Be the lowest cost producer of American ginseng in North America
- Enhance personal and professional development for Imperial's management and employees

FINANCIAL & OPERATING HIGHLIGHTS

YEARS ENDED JUNE 30		2006	2005
Operating Results	Revenue	\$ 4,582,073	\$ 6,621,422
	Gross Profit	\$ 574,647	\$ 304,014
	Net loss	\$ (946,962)	\$ (1,243,068)
Per Share	Net loss – basic	\$ (0.04)	\$ (0.07)
	Net loss - diluted	\$ (0.04)	\$ (0.07)
Assets	Total assets	\$ 9,681,105	\$ 9,203,550
Liabilities	Total liabilities	\$ 1,982,194	\$ 557,678
Equity	Shareholders' equity	\$ 7,698,911	\$ 8,645,872
Ginseng Crop	Acres planted	177	179
	Acres harvested	156	176
	Acres under cultivation	570	549

LETTER TO SHAREHOLDERS

Imperial Ginseng Products Ltd. (the "Company") continued to face significant challenges from adverse factors it could not control in the fiscal year ended June 30, 2006. As discussed in previous letters to shareholders, ginseng world prices have been under continuous downward pressure since the fall of 2003.

In spite of the market challenges, the Company successfully sold its entire ginseng harvest of approximately 348,000 pounds and generated sufficient cash flow to meet its fiscal 2006 operating and fiscal 2007 seeding requirements. The Company reported a net loss of \$0.9 million or \$0.04 per share for the year ended on June 30, 2006, compared to a net loss of \$1.2 million or \$0.07 per share in the prior year.

Operations Overview

In fiscal 2006, the Company harvested 156 acres and produced approximately 348,300 pounds of ginseng. In the prior year, the Company harvested 176 acres and produced approximately 338,000 pounds of ginseng. The yield realized in fiscal 2006 was approximately 2,200 pounds per acre whereas the yield realized in fiscal 2005 was approximately 1,900 pounds per acre. The lower yield realized in fiscal 2005 was a result of harvesting all the gardens previously affected by frost in 2001 and 2002.

The Company seeded approximately 177 acres in fiscal 2006 and 179 acres in fiscal 2005. The seeding in fiscal 2006 brought our total number of acres under cultivation in Ontario to approximately 570.

Despite a slow market and an increasing number of ginseng growers consigning their ginseng, the Company continued to maintain its "payment prior to shipment" practice. The Company granted no payment terms to ginseng buyers nor did the Company ship any root on consignment.

In fiscal 2006, sales revenue from our value-added products division, Imperial Ginseng Distributors Ltd., was \$619,000. This compares to \$865,000 in the prior year. This drop in revenues was mainly due to the closure of one of the Company's two retail stores. Management has received approval from the Board of Directors to discontinue the operations of this division in fiscal 2007 for better use of the Company's resources.

Financial Overview

For the year ended June 30, 2006, the Company reported revenues of \$4.6 million and a net loss of \$0.9 million, or \$0.04 per share, compared to revenues of \$6.6 million and a net loss of \$1.2 million or \$0.07 per share for fiscal 2005. Affected by the downward ginseng prices, the Company realized an average selling price of \$11.94 per pound, a 22% drop from last year's average of \$15.25. Approximately 348,000 pounds were sold in fiscal 2006 as compared to 377,000 pounds for the prior year. The Company's gross margin increased 89% in fiscal 2006 to \$575,000 from \$304,000 in fiscal 2005. The increase in gross margin was a result of a lower average crop cost estimated for the remaining crops.

While the Company continues to strive for cost savings, wherever possible, higher overall costs on fuel, supplies, and labour costs resulted in an increase in the Company's cash crop expenditures to \$3.4 million from \$3.2 million for fiscal 2005. The Company's fiscal 2006 general and administrative expense decreased to \$1.43 million from \$1.57 million for the prior year.

Summary and Looking Forward

Due to an unusually hot and dry weather throughout the summer of 2005, the green seed crop production in Ontario is again significantly below its normal level. A poor green seed crop in the fall of 2005 is expected to affect the number of acres Ontario growers can seed in the fall of 2006. The Company has taken steps to secure additional seed supply. However, in the event that the Company can not secure additional seeds, the Company will cut back its fall 2007 planting. The Company intends to address any such acreage shortfall by planting more acres in 2008. Management does not expect its overall acres under cultivation to significantly deviate from its long range operating plan.

Once again, on behalf of the Board of Directors, I would like to extend our thanks to all our stakeholders for their continued support and our management and staff for their excellent team work in the past year.

Sincerely,



Stephen McCoach, CA
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis reviews the operating results, financial position and liquidity, risks and industry trends affecting the financial results of Imperial Ginseng Products Ltd. ("Imperial" or the "Company"). This discussion and analysis should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2006 and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited consolidated financial statements for the years ended June 30, 2005 and 2004, and the Management Discussion and Analysis for those years.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at www.sedar.com or the Company's website at www.imperialginseng.com.

Description of Business

Imperial Ginseng Products Ltd., one of the world's largest American ginseng growers, is incorporated under the Business Corporation Act (Business Columbia). The Company cultivates and processes ginseng in Ontario, and markets North American Ginseng and Consumer Products in North America and Asia.

The Company's common shares trade on the TSX Venture Exchange under the symbol "IGP", and its Convertible Preference Shares trade on the TSX Venture Exchange under the symbol "IGP.PR.A".

Overall Performance

For the year ended June 30, 2006, the Company's seeding, harvesting and processing activities progressed smoothly and in accordance with its operating plan. Despite increased Chinese American ginseng production and a stronger Canadian dollar exchange rate, the Company sold its entire root inventory harvested in the fall of 2005. However, due to continuing depressed ginseng prices, sales revenue realized was much lower when compared to the prior year.

The demand for Ontario ginseng remains strong, albeit at lower prices. Management also believes that the level of Chinese American ginseng production will decrease as lower root prices also hurt the Chinese ginseng growers, and that the government of China has been enforcing a policy prohibiting the use of good agricultural land to cultivate ginseng. American ginseng acres planted in China reached the peak in 2002 and 2003 and have been declining steadily since then.

Management of the Company predicts that prices for Ontario ginseng root will probably remain relatively flat for the fall 2006 harvest and will slowly improve commencing in the fall of 2007. Management is also confident that when the ginseng root price recovers, the Company will once again return to profitability.

Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the annual audited consolidated financial statements. The annual audited consolidated financial statements are prepared in accordance with Canadian general accounting principals and are measured and reported in Canadian dollars.

(\$ 000 except per share data)	Years ended June 30		
	2006	2005	2004
Total revenues	4,582	6,621	1,501
Net loss from continuing operations	(947)	(1,243)	(416)
Discontinued operations	-	-	4,391
Net gain (loss)	(947)	(1,243)	3,975
Net gain (loss) per share – basic	(0.04)	(0.07)	0.25
Net gain (loss) per share – diluted	(0.04)	(0.07)	0.08
Total assets	9,681	9,204	10,719
Total long-term liabilities	9	49	77
Cash dividends	Nil	Nil	Nil

Total revenues include the sale of root harvested from the Ontario operation as well as revenues of approximately \$0.6 million, \$0.8 million and \$0.4 million for years 2006, 2005 and 2004, respectively, from value-added products.

During 2004, the Ontario operation harvested 29 acres of ginseng and produced 75,000 pounds of ginseng. Approximately 35,000 pounds were sold at selling prices averaging \$30.00 per pound. The balance of root, of approximately 40,000 pounds, was held for sale in fiscal 2005.

In fiscal 2004, fewer acres were harvested in Ontario due to management's decision to complete the final wind down of its British Columbia operation. As sufficient acres were available for harvest from the British Columbia operation to satisfy cash flow requirements, Ontario acres were held for harvest in fiscal 2005. Revenues from the British Columbia operations were classified as discontinued operations.

During fiscal 2005, the Ontario operation harvested 176 acres and produced 337,500 pounds of ginseng. Virtually all this root was sold together with approximately 40,000 pounds of 2004 root inventory at an average selling price of approximately \$15.25 per pound. The increase in acres harvested, the root carried over from the prior year, and the increased volume of root sold accounts for the increase in revenue from 2005 to 2004.

For the current year, approximately 156 acres were harvested and 348,300 pounds of ginseng were processed. All root was sold during the year with an average selling price of \$11.94 per pound for 3-year-old and 4-year-old.

Acres under cultivation totaled 546 on June 30, 2004 for the Ontario operation. This increased to 549 acres and 570 acres for fiscal 2005 and 2006, respectively.

Results of Operations

During the year, the Company planted approximately 177 acres of ginseng as compared to 179 acres planted in the prior year. The Company harvested 156 acres and processed approximately 348,300 pounds of ginseng root. This compares to 176 acres harvested and 337,500 pounds of ginseng root processed in the prior year.

For the year ended June 30, 2006, the Company reported revenues of \$4.58 million and a net loss \$0.96 million or \$0.04 per share. This compares to revenues of \$6.62 million and a net loss of \$1.24 million or \$0.07 per share, respectively, in the prior year. The decrease in revenues was attributed to continuing weaker ginseng prices and a stronger Canadian dollar.

Sales revenues decreased 27% to \$4.44 million from \$6.12 million in 2005. The decrease in revenues was due to lower ginseng root prices realized despite all root harvested was sold. The selling prices for 4-year-old ginseng root realized by the Company ranged from \$11 to \$13.50 with an average selling price of approximately \$11.94, a drop of 22% from an average of \$15.25 for the prior year. Despite lower sales revenues, gross profit for the year was \$575,000 or 89% higher than the prior year's due to a lower average crop cost estimated for the remaining deferred crop costs. The Company has been increasing its acres under cultivation since 2002 and has seen a decrease in average crop cost and drying cost since then due to efficiencies. The current number of acres under cultivation has increased to 570 acres from 353 acres since 2002 whereas the average cost to maintain one acre has dropped 39%.

Interest paid on the loan facility doubled last year's due to a higher utilization of the Company's line of credit accompanied by a higher prime rate as compared to last year. Legal and audit increased 19% to \$55,000 due to additional expenses for legal work required to conform to the new Business Corporation Act (British Columbia). Marketing decreased 27% or \$28,000 to \$156,000 from \$214,000 due to less commission paid on root which was brokered at lower selling prices. During the year, the Company did not incur expenses related to business development as compared to \$60,000 in the prior year. Salaries decreased \$56,000 to \$896,000 mainly due to the

closure of one of the retail stores in January, 2006, as well as less asset management fees allocated which is calculated on book value of the number of outstanding Convertible Preference Shares.

The Company incurred a foreign exchange loss for the year as ginseng sales were paid for in US dollars by its foreign customers during a year of a strengthening Canadian dollar.

Net loss for the year was \$947,000 or \$0.04 per share. This compares to a net loss of \$1.2 million or \$0.07 for the prior year. The decrease in net loss was attributable to a decrease in crop cost and overall expenditures.

At June 30, 2006, cash increased to \$1,590,000 from \$983,000 on June 30, 2005, whereas the line of credit used at June 30, 2006 was \$1.1 million as compared to \$nil on June 30, 2005.

For the year ended June 30, 2006, the Company's cash expenditures relating to maintaining 570 acres of ginseng, including planting 176 acres and harvesting 155 acres, were \$3.4 million. This compares to \$3.2 million spent in the prior year on maintaining 549 acres including 179 acres planted and 176 acres harvested.

The Company's asset retirement obligations are a result of land lease agreements that require the Company to return the land it utilizes under its land lease agreements to the pre-planting state upon harvest of the ginseng grown on the land. Management has determined that under its land lease agreements, there are no material asset retirement obligations and therefore the adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

During the year, certain holders of Convertible Preference Shares exercised their rights to convert their shares to Common shares and, as a result, the Company issued a total of 876,848 Common shares and returned 1,367,608 Convertible Preference Shares to the treasury.

Summary of Quarterly Results

The following tables set forth unaudited interim financial data for the most recent eight quarters. This information is derived from the unaudited interim consolidated financial statements which, in the opinion of the Company's management, have been prepared on a basis consistent with the audited annual consolidated financial statements.

	Total revenues	Income (loss) for the quarter	Earnings (loss) per share Basic	Earnings (loss) per share Fully diluted
June 30, 2006	144,000	473,000	0.03	0.03
March 31, 2006	1,096,000	(812,000)	(0.04)	(0.04)
December 31, 2005	3,074,000	(455,000)	(0.02)	(0.02)
September 30, 2005	268,000	(153,000)	(0.01)	(0.01)
June 30, 2005	501,000	(314,000)	(0.01)	(0.01)
March 31, 2005	2,492,000	(707,000)	(0.04)	(0.04)
December 31, 2004	2,431,000	31,000	-	-
September 30, 2004	1,197,000	(255,000)	(0.02)	(0.02)

Generally, cost of sales is reviewed at the end of the year and adjustments are made in the last quarter. As a result of this year end adjustment, the Company reported an income of \$473,000 for the quarter ending June 30, 2006. This adjustment made at year end would reduce the loss for each quarter if it was made proportionally across each quarter.

Ginseng is normally harvested during the months of September and October and the processed root is generally available for sale starting from November. Sales would probably be the highest during the months of November, December and January, but the buying patterns change each year. In addition, the quality and quantity of root available for sale may impact the selling patterns with regard to timing of the sales and price of the root.

Liquidity

At June 30, 2006, the Company has a working capital of \$2.27 million as compared to \$4.24 million at June 30, 2005. Current ratio decreased to 2:2 from 9:1, whereas debt to equity ratio increased to 0.3:1 from 0.06:1.

In addition to cash generated from operations, Canadian Imperial Ginseng Ontario, a subsidiary of the Company, has available with a Canadian chartered bank a \$1,500,000 line of credit, subject to certain borrowing limits, which bears interest at prime plus 1% per annum and is collateralized by general security agreements, a charge over all inventory and crops, certain leasehold improvements and an assignment of life insurance on a director of the Company. On June 30, 2006, \$1,100,000 (2005 - \$nil) was drawn on this facility which was within the borrowing limit.

Management believes that the Company will not have any working capital deficiencies, nor will the Company be unable to maintain the current level of ginseng operations in fiscal 2007.

Contractual Obligations

The following table summarizes the Company's obligations for future land lease payments as at June 30, 2006, as well as the expected timing of payments.

	Total
2007	\$ 409,418
2008	377,800
2009	302,096
2010	204,996
2011	118,140
Thereafter	74,992
	\$ 1,487,442

Capital Resources

Net capital expenditures for the year totaled \$244,000 and were related primarily to investments in farm machinery, shade-housing and irrigation, and ginseng processing equipment.

Transactions with Related Parties

Management Companies

During 1999, the Company engaged Qwest Bancorp Ltd. ("Qwest"), a company with directors in common, to structure, package, and market and administers the conversion of term debt obligations to, and the new sales of, convertible Class "A" Preferred Shares. Qwest was compensated for such services by a one-time service charge of 6% of the face value of Convertible Bonds or Preferred Shares issued either by way of term debt converted to Preferred Shares or through the issue of Preferred Shares by way of private placements and an annual asset management service charge of 2.5% on the book value of the outstanding Convertible Bonds or Preferred Shares. This annual asset management fee was re-negotiated and reduced to 2% commencing October 1, 2003, and further re-negotiated and reduced to 1.7% commencing July 1, 2004.

This fee compensated Qwest for services provided to the Company to restructure its term debt obligations, the restructuring of which resulted in the issuance of Class "A" Preference Shares of the Company. Qwest also provided the subsequent maintenance of the shareholder registry, and share transfer and communication services for the Class "A" Preference Shares.

For the year ended June 30, 2006, the Company was charged \$473,090 for these services. This compares to \$507,799 charged for the prior year. At June 30, 2006, \$349,000 of this is included in accounts payable.

The Company also contracts out its administrative and office support services to Trilogy Bancorp Ltd. ("Trilogy"), a management company with directors in common. For the year ended June 30, 2006, the Company incurred fees of \$126,500 (2005 - \$126,000) for services rendered by Trilogy.

Marketing Agreements

The Company entered into marketing agreements with Golden Phoenix Ventures Inc. and Golden Sunshine International Ltd., companies controlled by a director of the Company (the "Marketing Companies"). Pursuant to these agreements, the Marketing Companies market the Company's ginseng crops on a best effort basis in return for

a fee. The Marketing Companies render all marketing, selling and certain shipping services and pay all marketing, promotion and selling expenses related to the marketing and sale of the Company's ginseng root. For the year ended June 30, 2006, the Company paid \$117,909 (2005 - \$171,766) for these services.

Fourth Quarter

Generally, the Company reviews the net realizable value of its inventory, the carrying value of the ginseng crop costs and investments and the net recoverable value of the property and equipment when circumstances and events change. Upon such reviews, the Company adjusted down the cost of sales by approximately \$800,000 in the fourth quarter on analysis of management's systematic and rational cost allocation of ginseng crop costs for 1, 2, 3 and 4-year-old ginseng. The Company also wrote off \$7,000 in obsolete value-added products.

Proposed Transaction

In September 2006, the Board of Directors approved management's proposal to discontinue the value-added products retail operation for better utilization of the Company's resources. The Company will proceed to wind-up Imperial Ginseng Distributors Ltd., a subsidiary of the Company, during fiscal 2007.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the recognized amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory consists of ginseng root and products available for sale and is valued at the lower of cost (determined on a weighted average basis) and net realizable value.

Ginseng crop costs

Ginseng crop costs are recorded at the lower of cost (determined using the full absorption cost method, including direct costs incurred for the acquisition, planting and maintenance of the ginseng crops) and net realizable value. Direct costs include stratified seeds, labour, supplies, and direct overhead. Ginseng crop costs are charged to cost of sales based on a proportionate allocation of costs incurred during the period from planting to harvest for the related acres harvested. Management reviews the underlying value of deferred costs on an ongoing basis by reference to estimated future cash flows with any excess charged to income as determinable. Costs accumulated on the acres expected to be harvested during the next fiscal year have been classified as a current asset.

Property and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and are depreciated on a straight line basis commencing when the assets are put into use over the estimated useful life of the assets. Management reviews the net recoverable value of property, plant, and equipment on an ongoing basis by reference to estimated undiscounted future cash flows with any excess charged to income as determinable.

Changes in Accounting Policies including Initial Adoption

On July 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3870 – "Stock Based Compensation and Other Stock Based Payments". Section 3870 establishes standards for the recognition, measurement and disclosure of stock based compensation and other stock based payments made in exchange for goods and services. The effect of adopting the new recommendations for the fair value of stock options granted since January 1, 2002 have been reflected as at July 1, 2004 as an adjustment of \$287,988 to both operating deficit on the statement of deficit and to contributed surplus. Previously, compensation expense relating to the fair value of stock options was disclosed on a pro-forma basis, as allowed, in a note to the financial statements.

There was no compensation expense related to stock options for year ended June 30, 2006.

Effective January 1, 2007, the Company will be required to adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506. This Section establishes criteria for changing accounting policies, together with

treatment and disclosure of changes in accounting policies and estimates and correction of errors. The Company is assessing the impact of the adoption of section 1506 on the consolidated financial statements of the Company.

Effective January 1, 2007, the Company will be required to adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530. This Section establishes standards for reporting and display of comprehensive income. It does not address issues of recognition or measurement for comprehensive income and its components. The adoption of section 1530 is not expected to have a material impact on the consolidated financial statements of the Company.

Effective January 1, 2007, the Company will be required to adopt CICA Handbook Section 3051 which replaces Section 3050. This Section establishes standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. The adoption of section 3051 is not expected to have a material impact on the consolidated financial statements of the Company.

Effective January 1, 2007, the Company will be required to adopt CICA Handbook Section 3251 which replaces Section 3250. This Section establishes standards for the presentation of equity and changes in equity during the reporting period. The adoption of section 3251 is not expected to have a material impact on the consolidated financial statements of the Company.

Effective January 1, 2007, the Company will be required to adopt the changes to CICA Handbook Section 3855 and to adopt Section 3861 which replaces Section 3250. Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The adoption of section 3855 is not expected to have a material impact on the consolidated financial statements of the Company.

Effective January 1, 2007, the Company will be required to adopt the changes to CICA Handbook Section 3865. This Section establishes standards for when and how hedge accounting may be applied. The adoption of section 3865 is not expected to have a material impact on the consolidated financial statements of the Company.

Financial Instruments

Financial instruments of the Company are comprised of cash and cash equivalents, accounts receivable, investment, bank indebtedness, accounts payable and accrued liabilities and obligations under capital leases. The estimated fair values of financial instruments were considered by management to be not materially different from their carrying value due to their short-term to maturity or capacity for prompt liquidation.

Interest rate risk

Interest on the Company's line of credit is based on variable rates. This exposes the Company to the risk of changing interest rates that may have an effect on its earnings in future periods. The Company does not use derivative instruments to mitigate this risk.

Exchange rate risk

The Company is exposed to currency exchange risk as a result of its sales to international markets and foreign currency denominated GIC's. The Company does not use derivative instruments to mitigate this risk.

Credit risk

Management does not believe that the Company had significant concentrations of credit risk. The Company's sales are primarily completed subsequent to the fall harvest of ginseng. Depending on the timing of transactions, accounts receivable at any time may represent amounts due from a few customers who may not be residents in Canada. The Company has a policy of minimizing risk by assessing the credit worthiness of ultimate customers and requiring advance cash payments prior to the delivery of major sales.

Outstanding Share Data

	2006		2005	
Common shares (a)	\$	27,896,095	\$	26,696,384
Class "A" Preference shares		61,893		61,893
Class "A" Preference shares (b) - unpaid dividends and royalties		562,929		577,520
Convertible Preference shares (c)		23,805,844		25,005,555
	\$	52,326,761	\$	52,341,351

(a) Common Shares:

	Number of shares		Amount
Balance, June 30, 2004	12,923,171	\$	22,994,778
Share for services	4,945,455		544,000
Preference share conversions	2,856,649		3,701,606
Share issue costs	-		(544,000)
Balance, June 30, 2005	20,725,275		26,696,384
Preference share conversions	876,848		1,199,711
Balance, June 30, 2006	21,602,123	\$	27,896,095

(b) Class "A" Preference Shares – Unpaid dividends and royalties:

	Amount
Balance, June 30, 2004	\$ 698,435
Unpaid cumulative dividends on preference shares	8,570
Unpaid royalties on Royalty Participation Units	(129,485)
Balance, June 30, 2005	577,520
Unpaid cumulative dividends on preference shares	8,570
Unpaid royalties on Royalty Participation Units	(23,161)
Balance, June 30, 2006	\$ 562,929

(c) Convertible Preference Shares:

	Number of shares		Amount
Balance, June 30, 2004	32,105,113	\$	28,707,161
Preference shares converted to common shares	(3,600,085)		(3,701,606)
Balance, June 30, 2005	28,505,028		25,005,555
Preference shares converted to common shares	(1,367,608)		(1,199,711)
Balance, June 30, 2006	27,137,420	\$	23,805,844

Convertible Securities on June 30, 2006:

	Number of Shares	Conversion Rate/Price	Number of Common Shares Issuable
Class "A" Preference Shares	71,422	\$2.80 - \$3.03	15,028
Convertible Preference Shares	27,137,420	\$1.75	15,507,097

Stock Options Outstanding on June 30, 2006:

Number Outstanding	Exercise Price Per Share	Expiry Date	Remaining Contractual Life
945,000	\$0.06	May 22, 2008	1.9 years
725,000	\$0.30	May 26, 2009	2.9 years

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, but are not limited to, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was carried out by the Chief Executive Officer and Chief Financial Officer. Based on their evaluation, it was concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is communicated to the management as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or, to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the date we carried out this evaluation.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Imperial Ginseng Products Ltd. is responsible for the preparation and integrity of the financial statements of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles using management's estimates and judgments when necessary. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated balance sheets, consolidated statements of operations, deficit, cash flows and crop costs.

Imperial Ginseng Products Ltd. maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of maintaining our system of internal accounting controls should not exceed the benefits to be derived from the system. The system is supported by written policies and guidelines, and is continuously reviewed.

BDO Dunwoody LLP, independent auditors, is retained to audit the financial statements of Imperial Ginseng Products Ltd. The audit is conducted in accordance with Canadian generally accepted auditing standards and provides an independent assessment that helps assure fair representation of the Company's financial statements. The auditors' opinion on the financial statements is published separately in this Annual Report.

The Board of Directors, through its Audit Committee, exercises an oversight role in the Company's financial affairs and statements. The Committee meets with management and the independent auditors as required. These meetings include discussions of internal accounting control and the quality of management and financial reporting. The Finance Department of the Company and the independent auditors have full and free access to the Audit Committee.

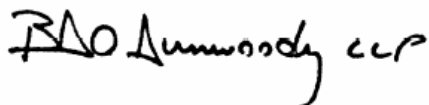
AUDITORS' REPORT

To the Shareholders of Imperial Ginseng Products Ltd.

We have audited the consolidated balance sheets of Imperial Ginseng Products Ltd. as at June 30, 2006 and 2005 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, British Columbia

August 31, 2006

Imperial Ginseng Products Ltd.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)

June 30,	2006	2005
		(Restated) Note 2(n)
ASSETS		
Current Assets:		
Cash and cash equivalents (note 2 (s))	\$ 1,590,010	\$ 982,866
Accounts receivable	31,024	384,423
Inventory (note 4)	52,158	97,930
Ginseng crop costs (schedule)	2,550,000	3,200,000
Prepaid expenses	19,639	78,931
	4,242,831	4,744,150
Ginseng crop costs (schedule)	4,403,165	3,517,189
Property and equipment (note 5)	1,035,108	942,210
Investment (note 6)	1	1
	\$ 9,681,105	\$ 9,203,550
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 7)	\$ 1,100,000	\$ -
Accounts payable and accrued liabilities (note 3 (a))	833,646	480,532
Current portion of obligations under capital leases (note 8)	39,942	28,598
	1,973,588	509,130
Obligations under capital leases (note 8)	8,606	48,548
	1,982,194	557,678
Shareholders' Equity:		
Share capital (note 10)	52,326,761	52,341,351
Contributed surplus	661,736	661,736
Deficit	(45,289,586)	(44,357,215)
	7,698,911	8,645,872
	\$ 9,681,105	\$ 9,203,550

See accompanying notes to consolidated financial statements.
Commitments (note 12)
Subsequent event (note 14)

On Behalf of the Board



Stephen McCoach
Director



Hugh Cartwright
Director

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

June 30,	2006		2005	
REVENUE	\$	4,582,073	\$	6,621,422
Cost of sales		4,007,426		6,317,408
Gross profit		574,647		304,014
EXPENSES:				
Amortization and depreciation		1,708		3,077
Interest on bank indebtedness		61,733		28,857
Interest on capital leases		3,406		6,020
Legal and audit		55,238		46,486
Marketing (note 3 (c))		155,590		213,748
Office supplies and services		84,079		103,819
Other		-		35,500
Rent		174,918		179,191
Salaries		875,928		931,595
Travel		22,105		24,208
		1,434,705		1,572,501
Interest and other income		81,517		66,349
Foreign exchange loss		(153,422)		-
		(71,905)		66,349
Net loss before under-noted		(931,963)		(1,202,138)
Write-down of assets (note 13)		(7,370)		(40,930)
Loss from sale of property and equipment		(7,629)		-
		(14,999)		(40,930)
Net loss	\$	(946,962)	\$	(1,243,068)
Basic and diluted loss per share (note 2 (l))	\$	(0.04)	\$	(0.07)

See accompanying notes to consolidated financial statements.

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

June 30,	2006	2005
Deficit, beginning of the year, as previously reported	\$ (44,357,215)	\$ (42,947,074)
Net loss	(946,962)	(1,243,068)
Change in accounting policy for stock based compensation (note 2 (m))	-	(287,988)
Class "A" Preference share dividends (note 10 (b) and (e))	(8,570)	(8,570)
Royalty amount (note 10 (c) and (e))	23,161	129,485
Deficit, end of the year	\$ (45,289,586)	\$ (44,357,215)

See accompanying notes to consolidated financial statements.

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

June 30,	2006	2005
Cash flows from operations:		
Net loss from continuing operations	\$ (946,962)	\$ (1,243,068)
Adjustments to reconcile net loss to cash provided by (used in) operating activities		
Depreciation and amortization	34,578	56,787
Write-down of assets	7,370	40,930
Cost of ginseng crops sold	3,213,933	4,500,000
Loss from sale of property and equipment	7,629	-
Changes in non-cash working capital:		
Ginseng crop costs, net of deferred depreciation and amortization of \$87,020 (2005 - \$267,438)	(3,362,889)	(3,236,505)
Decrease in accounts receivable	353,399	128,385
Decrease in inventory	38,402	912,196
Decrease (increase) in prepaid expenses	59,292	(17,196)
Increase (decrease) in accounts payable	353,114	(250,500)
Cash (used in) provided by operating activities	(242,134)	891,029
Cash flows from discontinued operations:		
Net cash provided by discontinued operations	-	399
Cash flows from financing activities:		
Proceeds from line of credit, net	1,100,000	-
Reduction of capital lease obligations	(28,598)	(21,586)
Cash provided by (used in) financing activities	1,071,402	(21,586)
Cash flows from investing activities:		
Purchase of property and equipment	(222,124)	(139,868)
Net increase in cash	607,144	729,974
Cash and cash equivalents at beginning of year	982,866	252,892
Cash and cash equivalents at end of year	\$ 1,590,010	\$ 982,866
Non-cash investing and financing activities not included in cash flows:		
Convertible Preference Shares converted to common shares (note 10 (a))	\$ 1,199,711	\$ 3,701,606
Dividends and royalty accrued on Class "A" Preference Shares	14,591	120,915
Supplemental cash flow information:		
Interest paid	\$ 65,397	\$ 34,878

See accompanying notes to consolidated financial statements.

Imperial Ginseng Products Ltd.
Consolidated Schedules of Ginseng Crop Costs
(Expressed in Canadian Dollars)

June 30,	2006	2005
		(Restated) Note 2(n)
Capital tax	\$ 7,008	\$ 26,256
Depreciation	87,020	308,367
Direct labour	1,558,613	1,514,169
Equipment rental	40,025	63,028
Fertilizers and pesticides	654,980	593,210
Fuel	93,672	68,083
Hardware, supplies and small tools	34,010	42,146
Insurance	10,573	6,038
Land rental and improvements	375,898	357,263
Mulch	267,392	287,104
Office supplies and services	41,674	47,690
Other	28,710	27,410
Rent	10,080	10,080
Repairs and maintenance	85,566	102,675
Seeds	122,030	27,000
Telephone and utilities	16,968	13,035
Travel and automobile	15,690	10,389
	3,449,909	3,503,943
Balance, beginning of the year	6,717,189	7,713,246
Less: Charged to cost of sales	(3,213,933)	(4,500,000)
Net crop costs, end of the year	\$ 6,953,165	\$ 6,717,189
Comprised of:		
Current portion expected to be harvested and marketed within one year	\$ 2,550,000	\$ 3,200,000
Balance expected to be harvested after one year	4,403,165	3,517,189
	\$ 6,953,165	\$ 6,717,189

See accompanying notes to consolidated financial statements.

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

Years ended June 30, 2006 and 2005

1. Operations and Ability to Continue as a Going Concern:

Imperial Ginseng Products Ltd. (the "Company") is incorporated under the Business Corporations Act (British Columbia). The Company cultivates and processes ginseng in Ontario, and markets North American ginseng products throughout North America and Asia. The revenue of the Company is almost entirely derived from ginseng root and value-added product sales. Future profitable operations are dependent upon ginseng prices strengthening over current levels, the timing of which is uncertain.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As at June 30, 2006, the Company had an accumulated deficit of \$45,289,586. The Company is closely monitoring cash resources and has received debt financing from a Canadian chartered bank. The Company's ability to continue as a going concern is dependant on achieving ongoing profitable operations and the continued financial support of its shareholders and creditors. These consolidated financial statements do not include any adjustments to the amounts and reclassification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada.

These consolidated financial statements include the accounts of the Company and its subsidiaries (all of which are wholly-owned): Canadian Imperial Ginseng Farms Ltd., Canadian Imperial Ginseng Ontario Ltd. ("CIG Ontario"), Columbia Ginseng Capital Corp., Imperial Ginseng Distributors Ltd., and Columbia Ginseng Financial Corp.

(b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the recognized amounts of revenues and expenses during the reporting period. The assets which required management to make significant estimates and assumptions in determining carrying values include ginseng crop costs and all other non-current assets. Actual results could differ from those estimates

(c) Foreign currency translation:

Transactions recorded in foreign currencies have been translated into Canadian dollars as follows: monetary items at the rate prevailing at the balance sheet date; non monetary items, revenue and expenses at the rates of exchange prevailing on the dates of the transactions. Gains or losses arising on translation are included in the consolidated statements of operations. The majority of the Company's sales are denominated in Canadian Dollars.

(d) Inventory:

Inventory consists of ginseng root and products available for sale and is valued at the lower of cost (determined on a weighted average basis) and net realizable value.

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

Years ended June 30, 2006 and 2005

2. Significant accounting policies (continued):

(e) Ginseng crop costs:

Ginseng crop costs are recorded at the lower of cost (determined using the full absorption cost method, including direct costs incurred for the acquisition, planting and maintenance of the ginseng crops) and net realizable value. Direct costs include stratified seed, labour, supplies, and direct overhead. Ginseng crop costs are charged to cost of sales based on a proportionate allocation of costs incurred during the period from planting to harvest for the related acres harvested. Management reviews the underlying value of deferred costs on an ongoing basis by reference to estimated future cash flows with any excess charged to income as determinable. Costs accumulated on the acres expected to be harvested during the next fiscal year have been classified as a current asset.

(f) Property and equipment:

Property and equipment are stated at cost less accumulated amortization and are amortized on a straight line basis commencing when the assets are put into use over the following periods:

Buildings	10 years
Farming equipment	5 years
Office and laboratory equipment	5 years
Processing equipment	Unit of production
Shadehousing and irrigation	10 years

Management reviews the net recoverable value of property and equipment on an ongoing basis by reference to estimated undiscounted future cash flows with any excess charged to income as determinable.

(g) Investments:

Long-term investments, other than investments in subsidiaries or enterprises under significant influence, are carried at cost. Management reviews the carrying value of investments and if there is an other than temporary decline in value, these investments are written down to provide for the loss.

(h) Revenue recognition:

Sales revenue is recognized when all risks and benefits of ownership of ginseng products and crops have been transferred to customers under executed sales agreements.

(i) Foreign revenues:

The Company's sales revenue included \$3,963,043 (2005 - \$3,909,122) of sales that were made to entities located outside of Canada, one of which was a significant customer.

(j) Allowance for doubtful accounts:

The Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowance amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their fair value due to their short-term nature. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the financial statements based on collection experience and actual returns and allowances.

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

Years ended June 30, 2006 and 2005

2. Significant accounting policies (continued):

(k) Income taxes:

Income taxes are accounted for under the asset and liability method. Future income tax assets and liabilities are recognized for the future tax consequences attributable to (i) differences between the financial statement carrying amounts of existing assets, liabilities and their respective tax bases and (ii) operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and the losses and tax credits utilized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is recognized to the extent that the recoverability of the future income tax is not considered likely.

(l) Net loss per share:

Net loss per share is calculated using the treasury stock method. Under this method, all options whose average price is less than or equal to the average share price for the year are assumed to be exercised and all convertible securities are converted at the average share price during the period. 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.

The following table summarizes the calculation of basic and diluted loss per share for the years ended June 30:

	2006	2005
Net loss	\$ (946,962)	\$ (1,243,068)
Preference share dividends and royalty amount	14,591	120,915
	\$ (932,371)	\$ (1,122,153)
Weighted average number of shares outstanding	21,144,762	16,736,610
Basic and diluted loss per share	\$ (0.04)	\$ (0.07)

(m) Stock-based compensation:

The Company has a stock-based compensation plan which is disclosed in Note 10. The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to stock-based compensation and other stock-based payments which require the use of a fair value based method in accounting for stock-based compensation.

As the stock options vest on the date of the grant, the fair market value of such stock-based compensation has been recognized on the consolidated statement of operations on the date of the grant. The effect of adopting the new recommendations for the fair value of stock options granted since July 1, 2002 has been reflected as at July 1, 2004 as an adjustment of \$287,988 to both the opening deficit on the consolidated statement of deficit and to the contributed surplus.

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

Years ended June 30, 2006 and 2005

2. Significant accounting policies (continued):

(n) Comparative figures:

Certain comparative figures have been restated to conform to the presentation adopted in the current year.

The Company reviewed its 2005 allocation of current and non-current ginseng crop costs and discovered that a clerical error was made in 2005 and a restatement was necessary for comparative purposes. The 2005 current ginseng crop cost previously stated at \$4,000,000 was reduced to \$3,200,000 due to the correction of the error and 2005 non-current ginseng crop costs were increased from \$2,817,189 to \$3,517,189. This restatement does not impact earnings or cash flows.

(o) 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, business climate and future non-discounted cash flows expected to result from the use of the related assets or to be realized on sale. The Company's policy is to write down assets to their fair value in the year when it is determined likely that the carrying amount of the asset will not be recovered.

(p) Advertising costs:

The Company expenses all advertising costs as incurred and includes this expense as a component of marketing expenses.

(q) Shipping and handling costs:

The Company expenses all shipping and handling costs as incurred and includes this expense as a component of cost of sales.

(r) Asset Retirement Obligations

The Company has adopted the provisions of CICA Handbook Section 3110 "Asset Retirement Obligations" which requires the Company to record the fair value of an asset retirement obligation as a liability in the period which it incurs a legal obligation associated with the retirement of long-lived tangible assets that result from the acquisition, construction and development of the assets. Management has determined that under its land lease agreements, there are no material asset retirement obligations and therefore the adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

(s) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a term to maturity of three months or less at the date of purchase.

3. Related party balances and transactions:

(a) Accounts payable

Included in accounts payable is \$349,076 (2005 - \$56,523) due to management companies with directors in common ("Management Companies"). The amount is due on demand, unsecured and non-interest bearing.

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

Years ended June 30, 2006 and 2005

3. Related party balances and transactions (continued):

(b) Management Company transactions

Management service fees are based on 1.7% per calendar year of the total book value of preferred shares or bonds issued and outstanding. The agreement with the Management Companies expires on January 25, 2009. The fees for asset management services charged by Management Companies were allocated to the general and administrative costs as follows:

	2006		2005
Salaries	\$ 354,818	\$	380,850
Rent	80,425		86,326
Office supplies and services	37,847		40,623
	\$ 473,090	\$	507,799

The Company was charged for services by Management Companies as follows:

	2006		2005
Salaries	\$ 94,500	\$	94,500
Rent	21,420		21,420
Office supplies and services	10,080		10,080
Asset management services	473,090		507,799
	\$ 599,090	\$	633,799

During 2004, the Company entered into a Corporate Finance and Listing Services Agreement with one of the Management Companies to alter its capital structure to exchange its Class "A" Preference Shares and accrued dividends into new Convertible Preference Shares and list these new Convertible Preference Shares on the TSX Venture Exchange.

In exchange for the successful issuance and listing of the new Convertible Preference Shares, the Management Company was compensated with a one time fee equal to 2% of the total Class "A" Preference Shares outstanding plus accrued dividends. This fee was net of all applicable legal, accounting, and taxation fees paid by the Company and was payable in common shares, valued at \$0.11 per share, of the Company. The value of this fee was approximately \$544,000. In February, 2005, the Management Company was paid 4,945,455 Common Shares of the Company (Note 10 (a)) in settlement of assets owing.

(c) Marketing Services

The Company has ginseng marketing agreements with companies controlled by a director of the Company (the "Marketing Companies"). Pursuant to these agreements, the Marketing Companies market the Company's ginseng crops on a best effort basis in return for a fee. The Marketing Companies render all marketing, selling and certain shipping services and pay all expenses related to the sale of the Company's ginseng root.

During the year, substantially all of the Company's sales were made through the Marketing Companies and the fees paid were \$117,909 (2005 - \$171,766).

(d) Transactions with related parties

Transactions with related parties, unless otherwise disclosed, are recorded at exchange value, being the value agreed to between the parties.

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

Years ended June 30, 2006 and 2005

4. Inventory:

Inventory consists of consumer products totaling \$52,158 (2005 - \$97,930).

5. Property and equipment:

	Cost	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
Buildings	\$ 119,078	\$ 17,996	\$ 101,082	\$ 2,908
Farming equipment	911,238	837,432	73,806	115,221
Equipment under capital lease	130,625	82,218	48,407	67,068
Office and laboratory equipment	71,680	71,004	676	8,916
Processing equipment	415,297	261,798	153,499	158,368
Shadehousing and irrigation	2,556,557	1,898,919	657,638	589,729
	\$ 4,204,475	\$ 3,169,367	\$ 1,035,108	\$ 942,210

6. Investment:

The Company has a 1% (2005 - 3.5%) investment in Ponderosa Ginseng Farms Corp. ("Ponderosa"), a 100-acre ginseng farm located in British Columbia. In October 2005, a restructuring arrangement in Ponderosa was agreed to whereby the Company's preferred shares were exchanged for common shares in Ponderosa. This exchange diluted the Company's holdings in Ponderosa. The Company's investment in Ponderosa has been written down to a nominal value due to a decline in the value of this investment that management has concluded is other than temporary.

7. Bank indebtedness:

CIG Ontario, a subsidiary of the Company, has available with a Canadian chartered bank a \$1,500,000 line of credit, subject to certain borrowing limits, which bears interest at prime plus 1% per annum and is collateralized by general security agreements, a charge over all inventory and crops, certain leasehold improvements and an assignment of life insurance on a director of the Company. On June 30, 2006, \$1,100,000 (2005 - \$nil) was drawn on this facility which was within the borrowing limit.

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

Years ended June 30, 2006 and 2005

8. Obligations under capital leases:

Future minimum payments under capital leases are as follows:

	2006
2007	\$ 41,439
2008	7,944
2009	662
Thereafter	-
Total future minimum lease payments	50,045
Less interest portion at effective rate of 9.97%	(1,497)
Principal balance	48,548
Less current portion	(39,942)
	\$ 8,606

9. Financial instruments:

Financial instruments of the Company are comprised of cash and cash equivalents, accounts receivable, investments, bank indebtedness, accounts payable and accrued liabilities and obligations under capital leases. Except as indicated below, on June 30, 2006 and 2005 the estimated fair values of financial instruments were considered by management to be not materially different from their carrying value due to their short-term to maturity or capacity for prompt liquidation.

The fair value of the Company's investment in Ponderosa (note 6) was estimated based on Ponderosa's net asset values.

Interest rate risk

Interest on the Company's line of credit is based on variable rates. This exposes the Company to the risk of changing interest rates that may have an effect on its earnings in future periods. The Company does not use derivative instruments to mitigate this risk.

Exchange rate risk

The Company is exposed to currency exchange risk as a result of its sales to international markets and foreign currency denominated GIC's. The Company does not use derivative instruments to mitigate this risk.

Credit risk

Management does not believe that, on June 30, 2006 and 2005, the Company had significant concentrations of credit risk. The Company's sales primarily are completed subsequent to the fall harvest of ginseng. Depending on the timing of transactions, accounts receivable at any time may represent amounts due from a few customers who may not be resident in Canada. The Company has a policy of minimizing risk by assessing the credit worthiness of ultimate customers and requiring advance cash payments to be lodged prior to the delivery of major sales.

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

Years ended June 30, 2006 and 2005

10. Share capital:

Authorized:	
Unlimited	Common Shares without par value (2005 – 100,000,000)
Unlimited	Class “A” Preference Shares with a par value of \$1 each (2005 – 100,000,000)
Unlimited	Convertible Preference Shares with no par value (2005 – 100,000,000)

	2006	2005
Issued and outstanding:		
Common shares (a)	\$ 27,896,095	\$ 26,696,384
Class “A” Preference shares (b)	61,893	61,893
Convertible Preference shares (d)	23,805,844	25,005,555
Unpaid dividends and royalties (e)	562,929	577,520
	\$ 52,326,761	\$ 52,341,351

(a) Common shares issued:

	Number of shares	Amount
Balance, June 30, 2004	12,923,171	\$ 22,994,778
Share for services (note 3 (b))	4,945,455	544,000
Preference share conversions	2,856,649	3,701,606
Share issue costs (note 3 (b))	-	(544,000)
Balance, June 30, 2005	20,725,275	26,696,384
Preference share conversions	876,848	1,199,711
Balance, June 30, 2006	21,602,123	\$ 27,896,095

(b) Class “A” Preference shares issued:

	Number of shares	Amount
Balance, June 30, 2006 and 2005	71,422	\$ 61,893

The Class “A” Preference Shares are non-voting and are entitled to receive cumulative dividends at 12% per annum. The preference shareholders have the right to convert their preference shares to common shares of the Company at a price between \$2.80 and \$3.03 per common share. For each year after January 31, 2006, the conversion price will increase by \$0.25 per share. In addition, the preference shareholders have the option, subject to certain restrictions and penalties, to retract in each year a maximum of 25% of the balance of preference shares originally issued. The Company may, at its sole option, honor retraction requests through the issuance of common shares.

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

Years ended June 30, 2006 and 2005

10. Share capital (continued):

(c) Royalty Participation Units:

One Royalty Participation Unit was issued, at nominal cost, with each Class "A" Preference Share. The Royalty Participation Units provide for a royalty amount calculated as 0.05% per 1,000 Royalty Participation Units of the gross cash receipts from the sale of the ginseng root from one average acre of the harvests from each of the 1999, 2000, 2001, and 2002 plantings for Preference Shares issued before May 1, 2001. The 1999, 2000 and 2001 plantings were harvested in the fall of 2003, 2004 and 2005, and the 2002 plantings are anticipated to be harvested in the fall of 2006 as four-year-old ginseng. For Preference Shares issued after May 1, 2001, the royalty amount is based on the sale of ginseng root from one average acre of the harvests from each of the 2000, 2001, 2002 and 2003 plantings with the crops harvested as four-year-old ginseng in the fall of 2004, 2005, 2006, and 2007, respectively.

(d) Convertible Preference Shares:

	Number of shares		Amount
Balance, June 30, 2004	32,105,113	\$	28,707,161
Preference shares converted to common shares	(3,600,085)		(3,701,606)
Balance, June 30, 2005	28,505,028		25,005,555
Preference shares converted to common shares	(1,367,608)		(1,199,711)
Balance, June 30, 2006	27,137,420	\$	23,805,844

The Convertible Preference Shares are non-voting, convertible shares issued with a non-cumulative dividend rate of 12%. The Convertible Preference Shares are convertible into common shares of the Company at a price of \$1.50 increasing by \$0.25 on January 31, 2006 and by an additional \$0.25 on January 31 of each subsequent year thereafter.

(e) Unpaid dividends and royalties:

	Amount
Balance, June 30, 2004	\$ 698,435
Unpaid cumulative dividends on preference shares	8,570
Unpaid royalties on Royalty Participation Units	(129,485)
Balance, June 30, 2005	577,520
Unpaid cumulative dividends on preference shares	8,570
Unpaid royalties on Royalty Participation Units	(23,161)
Balance, June 30, 2006	\$ 562,929

The cumulative dividends on the Company's Class "A" Preference Shares that are unpaid at year-end have been accrued as a component of shareholders' equity as the Company can pay these dividends at its sole discretion with common shares.

The unpaid royalty amount related to the Royalty Participation Units has also been accrued as a component of shareholders' equity as the Company can pay these royalties at its sole discretion with common shares.

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

Years ended June 30, 2006 and 2005

10. Share capital (continued):

(f) Stock options:

The Company's stock option plan, implemented on November 1, 2002, authorizes the issuance of up to 2,482,164 common shares. The aggregate number of common shares reserved for issuance to any person within any 12-month period may not exceed 5% of the number of outstanding common shares. The exercise price of the options will be determined by the fair market value of the shares at the closing price on the date prior to the date of the grant, all of which vest immediately.

On June 30, 2006, the following incentive stock options were outstanding and exercisable to directors and employees:

Number Outstanding	Exercise Price Per Share	Expiry Date	Remaining Contractual Life
945,000	\$0.06	May 22, 2008	1.9 years
725,000	\$0.30	May 26, 2009	2.9 years

A summary of stock option activity for the two years ended June 30, 2006 is as follows:

	Number of shares	Exercise Price	Expiry
Options outstanding June 30, 2004	2,307,000		
Forfeited	(50,000)	\$0.06	April 1, 2005
Forfeited	(50,000)	\$0.30	April 1, 2005
Options outstanding June 30, 2005	2,207,000		
Forfeited	(215,000)	\$0.06	February 28, 2006
Forfeited	(322,000)	\$0.30	February 28, 2006
Options outstanding June 30, 2006	1,670,000		

There were no stock options granted or modified during the year ended June 30, 2005 and 2006.

11. Future income taxes:

- (a) The provision for income taxes differs from the amount that would have been expected by applying Canadian corporate income tax to the loss before taxes. The principal reasons for this difference are as follows:

	2006	2005
Net loss from continuing operations	\$ (946,962)	\$ (1,243,068)
Statutory income tax rate	35%	35.6%
Computed "expected" income tax recovery	\$ (331,437)	\$ (442,781)
Tax provision effect arising from potential benefit of losses and other net tax assets not recognized	331,437	442,781
Income tax	\$ -	\$ -

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

Years ended June 30, 2006 and 2005

11. Future income taxes (continued):

(b) Future income taxes include the following tax assets (liabilities):

	2006	2005
Deferred crop cost	\$ (2,743,800)	\$ (2,708,300)
Property and equipment	937,000	893,800
Capital leases	12,300	27,500
Share issue costs	209,300	367,400
Farming and non-capital loss carry-forwards	8,080,100	8,756,000
Valuation allowance	(6,494,900)	(7,336,400)
	\$ -	\$ -

The Company's future tax assets include approximately \$209,300 (2005 - \$367,400) related to deductions for share issue costs in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize this benefit as an adjustment to share capital as opposed to income tax expense in the Statement of Operations.

The potential future tax benefits that may be derived from farming and non-capital losses and expenditures have been offset by a valuation allowance because it is uncertain that sufficient taxable income will be earned to realize the benefits before their expiration.

(c) The Company's farming and non-capital operating losses expire as follows:

	Farming Losses	Other Operating Losses	Total
2007	\$ 7,088,000	\$ 256,000	\$ 7,344,000
2008	1,833,000	-	1,833,000
2009	4,583,000	-	4,583,000
2010	1,098,000	-	1,098,000
2011	795,000	-	795,000
2012	1,151,000	-	1,151,000
2013	1,044,000	-	1,044,000
2014	3,309,000	-	3,309,000
2015	284,000	182,000	466,000
2026	1,127,000	336,000	1,463,000
	\$ 22,312,000	\$ 774,000	\$ 23,086,000

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

Years ended June 30, 2006 and 2005

12. Commitments:

Future minimum payments under land leases are as follows:

		Total
2007	\$	409,418
2008		377,800
2009		302,096
2010		204,996
2011		118,140
Thereafter		74,992
Total future minimum lease payments	\$	1,487,442

13. Write-down of assets:

During the year ended June 30, 2006, the Company wrote off \$7,370 of obsolete assets.

During the year ended June 30, 2005, assets in the amount of \$40,930 damaged due to snow were written off.

14. Subsequent event:

In September 2006, the Board of Directors approved management's proposal to discontinue the value-added products retail operation for better utilization of the Company's resources. The Company will proceed to wind-up Imperial Ginseng Distributors Ltd., a subsidiary of the Company, in fiscal 2007.

CORPORATE INFORMATION

+ *	DIRECTORS Stephen P. McCoach Director, Co-Chairman and Chief Executive Officer	AUDITORS BDO Dunwoody LLP. Chartered Accountants Vancouver, British Columbia	HEAD OFFICE Imperial Ginseng Products Ltd. 1601 – 650 West Georgia St. Vancouver, British Columbia V6B 4N7 Telephone: (604) 689-8863 Facsimile: (604) 689-8892
*	Hugh R. Cartwright Director, Co-Chairman and President	BARRISTERS AND SOLICITORS Fasken Martineau DuMoulin LLP Vancouver, British Columbia	
*	James S. Chang Director	STOCK EXCHANGE LISTING TSX Venture Exchange	FARM OFFICE Harley, Ontario
+ *	Maurice Levesque Director	Trading Symbol: Common Shares: IGP Convertible Preference Shares: IGP.PR.A	RETAIL STORE 1274 McGill Road Kamloops, British Columbia V3C 6N6 Telephone: (250) 851-8656
	Joseph A. Rogers Director		
+ *	Dr. Aik Ping Eng Director	BANKER Royal Bank of Canada Vancouver, British Columbia	EMAIL info@imperialginseng.com
	OFFICERS Stephen P. McCoach Co-Chairman, Corporate Secretary and Chief Executive Officer	INVESTOR RELATIONS For additional information about the Company, please contact our head office: Telephone: (604) 689-8863 Facsimile: (604) 689-8892 Email: info@imperialgineng.com	WEBSITE www.imperialginseng.com
	Hugh R. Cartwright Co-Chairman and President		
	Lynda L. Metcalfe Chief Financial Officer	TRANSFER AGENT Pacific Corporate Trust Vancouver, British Columbia	
	Rob Geier Vice-President, Operations Ontario and President, Canadian Imperial Ginseng Ontario Ltd.		
*	Member of Executive Committee		
+	Member of Audit Committee		

ANNUAL GENERAL MEETING

The annual general meeting of common shareholders will be held on:

December 13, 2006 at 10:00 am

Suite 2100, 1075 West Georgia Street, Vancouver, British Columbia