

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 Chai-Na-Ta Corp. Additional comments relate to changes made to operations since the year-end and their expected financial impact.

This commentary has been prepared as of March 11, 2010 and should be read in conjunction with the consolidated financial statements as at December 31, 2009 and 2008 and for the three years ended December 31, 2009, 2008 and 2007 and their accompanying notes prepared in accordance with Canadian generally accepted accounting principles. Amounts are expressed in Canadian dollars, unless otherwise specified.

Some of the statements made in this analysis are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives, or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions by their very nature, they involve inherent risks and uncertainties. The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to no significant operational disruptions or environmental liability as a result of a catastrophic event or environmental upset; the competitiveness of ginseng pricing; access to capital at borrowing rates acceptable to the Company; interest rates; exchange rates; and the ability to mitigate certain risks including no counterparties to derivative instruments failing to meet obligations. Actual results in each case could differ materially from those currently anticipated in such statements.

OVERVIEW

Chai-Na-Ta Corp. is one of the world's largest suppliers of North American ginseng and is headquartered in Richmond, British Columbia, Canada, with farming operations in Ontario. The Company completed the termination of its farming operations in British Columbia in 2009 after the last ginseng crops were harvested in 2008. The Company did not plant any additional acres in Ontario in 2009 due to the record low industry-wide price of Ontario roots from the 2008 harvest. The Company's wholly owned subsidiary in Hong Kong is responsible for the marketing and distribution of its products in China, Hong Kong and Southeast Asia. The Company also sells graded root and ginseng-based value-added products in Canada.

The Company recorded net earnings of \$669,000 for the year ended December 31, 2009 mainly due to gains on the disposal of assets of \$611,000, foreign exchange gains of \$470,000 and government supplements of \$995,000.

The Company harvested 127 acres in 2009 and did not plant any additional acres.

SELECTED ANNUAL INFORMATION

The selected financial data of the Company for the years ended December 31, 2009, 2008 and 2007 is derived from its audited consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles.

(Stated in Thousands except per share amounts)	2009	2008	2007
Total revenue	\$ 6,941	\$ 9,232	\$ 7,561
Gross margin (loss)	368	(2,685)	(2,567)
Operating loss	(1,410)	(4,224)	(4,430)
Net earnings (loss)	669	(4,670)	(3,329)
Total assets	17,849	20,890	25,613
Long-term debt – non current	6,499	8,619	6,973
Dividends declared on preferred and common shares	Nil	Nil	Nil
Earnings (loss) per share – basic and diluted	\$ 0.02	\$ (0.13)	\$ (0.10)

Revenue decreased in 2009 as a result of decreases in both the average selling price and the volume of ginseng sold compared to 2008. In 2009, the Company recorded a gross margin of \$432,000 primarily due to the fulfillment of a contract made with a Canadian customer for the supply of ginseng prongs and fibres. The remaining inventory was sold at prices approximating their net realizable value after write-downs were recorded in the previous year.

For 2009, the gross margin, operating loss and net earnings include a write-down on long-term ginseng crops of \$450,000 and a reversal of a \$500,000 write-down on ginseng crops made in the previous year on the crops harvested in 2009 which are now included in inventory. The Company also recorded a write-down of \$64,000 on ginseng fibres from prior harvests. For 2008, the gross, operating and net losses include write-downs on inventory and crop costs of \$2,998,000. For 2007, the gross, operating and net losses include write-downs on inventory and crop costs of \$2,735,000.

Total assets decreased in 2009 and 2008 due to reduced number of acres under cultivation and due to the sale of assets from the British Columbia operation. The non-current long-term debt decreased in 2009 and increased in 2008 due to fluctuations in the exchange rates over the past two years as the Company has a loan facility denominated in foreign currency. The non-current long-term debt also decreased in 2009 due to the repayment of debt and the reclassification of debt to current.

OUTSTANDING SHARE INFORMATION AS AT MARCH 11, 2010

<u>Authorized</u>	<u>Number of Shares</u>
Common Shares	Unlimited
Preferred Shares	21,000,000
<u>Issued and Outstanding</u>	
Common Shares	34,698,157
Preferred Shares	-
<u>Options Outstanding</u>	-

RESULTS OF OPERATIONS

Revenue decreased 25% to \$6,941,000 in 2009 from \$9,232,000 in 2008. The Company's average selling price decreased to \$8.50 per pound compared to \$9.50 per pound in 2008. The Company also saw a decrease of 17% in the volume of sales in 2009 compared to 2008, but this was primarily due to customers not taking delivery of all the inventory they had contracted to purchase from the 2008 harvest. Ginseng prices remained at historic low levels in 2009 but there was a modest recovery of ginseng prices at the end of 2009. The Company expects that there will be a decrease in the number of pounds of root sold in 2010 due to the smaller harvest in 2009 but expects a moderate increase in the average sales price.

Cost of goods sold was 95% of sales revenue in 2009 compared to 129% in 2008. In 2009, the gross margin was primarily due to the fulfillment of a contract made with a Canadian customer for the supply of ginseng prongs and fibres. The remaining ginseng root sales in both years were made after the inventory had been written down to its net realizable value in the previous year resulting in a minimal margin on inventory sales. The impairment in the value of inventory and ginseng crops to their estimated net realizable value are accounted for as a part of cost of goods sold which caused cost of goods sold to be in excess of revenue in 2008.

The Company harvested 446,212 pounds of root in 2009, a decrease of 55% from 988,456 pounds in 2008 when the Company harvested roots from both Ontario and British Columbia. The Company harvested 340,247 pounds in Ontario in 2008 so there was a 31% increase in total yield in Ontario in 2009. In 2009, the Company harvested 127 acres in Ontario resulting in an average yield of 3,513 pounds per acre. In 2008, the Company harvested a total of 350 acres in British Columbia and Ontario, with an average yield of 2,824 pounds per acre including 126 acres in Ontario with an average yield of 2,700 pounds per acre. The higher average yield in 2009 was mainly due to the harvest of 70 acres of five-year-old roots. The Company's production cost decreased to \$10 per pound in 2009 compared to \$12 per pound in 2008 also due to the higher yields per acre.

The Company recorded a write-down on its long-term ginseng crops of \$450,000 for the year ended December 31, 2009 to reduce their carrying value to their net realizable value. The net realizable value of the ginseng crops was estimated based on the estimated yield and quality of the crops upon harvest, accumulated costs, estimated additional costs required to bring the crops to harvest and current and projected selling prices. In 2009, the Company also reversed the \$500,000 write-down recorded during the year ended December 31, 2008 on its ginseng crops harvested in 2009 as the net realizable value of those crops increased primarily due to an increase in the selling price of ginseng at the end of 2009 compared to 2008. The Company also recorded a write-down of \$64,000 on ginseng fibres from prior harvests resulting in a new carrying value of zero as the ability of the Company to sell these specific ginseng fibres is uncertain.

The Company recorded a write-down on its 2008 harvest inventory of \$2,498,000 for the year ended December 31, 2008 to reduce their carrying value to their net realizable value. The net realizable value of the inventory was estimated based on purchase commitments received for inventory on hand. Because of the historic low prices in 2008, a \$500,000 write-down was recorded on the expected 2009 harvest which was subsequently reversed in 2009.

For the year ended December 31, 2007, the Company recorded a write-down of \$1,450,000 on ginseng crops to reduce their carrying value to their net realizable value. The net realizable value of the ginseng crops was estimated based on the estimated yield and quality of the crops upon harvest, accumulated costs, estimated additional costs required to bring the crops to harvest and current and projected selling prices. The Company also recorded a write-down on inventory of \$1,285,000 on inventory that was being held by the Company to fulfill a contract with a Canadian customer for a predetermined minimum quantity at a fixed price. The contract expired and the customer did not order the predetermined minimum quantity. Due to the uncertainty of the Company's ability to receive the contracted amount, a write-down was recorded to reduce the carrying value of the inventory to its estimated net realizable value instead of the predetermined contract price.

Gross margin was 5% of sales revenue in 2009 compared to a gross loss of 29% in 2008 due to the ginseng root sales in both years being made after the inventory had been written down to its net realizable value in the previous year and due to the write-downs on inventory and ginseng crops.

Selling, general and administrative expenses totalled \$1,458,000 in 2009 including \$530,000 in costs related to the wind-up of the operations in British Columbia. The remaining \$928,000 in expenses was a 4% decrease from the \$969,000 in expenses incurred during 2008.

Interest on short-term debt decreased to \$37,000 in 2009 compared to \$144,000 in 2008. The decrease in interest on short-term debt is primarily due to decreases in the short-term borrowings throughout 2009 compared to 2008.

Interest on long-term debt decreased to \$283,000 in 2009 from \$426,000 in 2008. The decrease in interest on long-term debt is primarily due to decreases in the Hong Kong Interbank Offered Rate (“HIBOR”) and London Interbank Offered Rate (“LIBOR”) throughout 2009.

The Company had other non-operating income of \$2,079,000 for the year ended December 31, 2009 which included \$470,000 in foreign exchanges gains, \$611,000 in gains on the disposal of property, plant and equipment, \$995,000 in government supplement payments net of participating fees and miscellaneous non-operating income of \$3,000. For the year ended December 31, 2008, the Company had other non-operating losses of \$446,000 which included \$769,000 in foreign exchanges losses, \$256,000 in gains on the disposal of property, plant and equipment, \$64,000 in government supplement payments net of participating fees and miscellaneous non-operating income of \$3,000.

In 2009, the Company achieved net earnings of \$669,000, or \$0.02 basic and diluted earnings per share compared to the 2008 net loss of \$4,670,000, or \$0.13 basic and diluted loss per share. The net earnings in 2009 were mainly due to gains on the disposal of assets of \$611,000, foreign exchange gains of \$470,000 and government supplements of \$995,000.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2008 through December 31, 2009. This information has been derived from unaudited interim consolidated financial statements that, in the opinion of the Company’s management, have been prepared on a basis consistent with the audited annual consolidated financial statements.

(Stated in Thousands of Canadian Dollars except per share amounts)	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	980	1,265	1,766	2,930	1,672	866	2,466	4,228
Write-downs	(14)	-	-	-	(1,498)	(1,500)	-	-
Operating loss	(354)	(402)	(84)	(570)	(1,664)	(1,807)	(368)	(385)
Net earnings (loss)	15	(136)	1,478	(688)	(2,084)	(1,952)	(168)	(466)
Net earnings (loss) per share:								
Basic and diluted	0.00	(0.00)	0.04	(0.02)	(0.06)	(0.06)	(0.00)	(0.01)

Ginseng crops are harvested in the fall of every year, revenue and earnings tend to be higher in the first two quarters of the following year when the harvested roots are sold.

Significant fluctuations in revenue and earnings in any period are impacted by the quantity and quality of root sold, the selling price of such root, and the relative strength of the Canadian dollar to the currencies used by customers. Write-downs in the various quarters over the past two years on both inventory and ginseng crops result in significant variations in the reported results.

FOURTH QUARTER

For the three months ended December 31, 2009, revenue decreased to \$980,000 from \$1,672,000 for the same period in 2008. The decrease in revenue in the fourth quarter of 2009 was a result of less inventory being ordered by customers for delivery in the fourth quarter of 2009 compared to 2008.

The Company recorded net earnings of \$15,000 for the three months ended December 31, 2009 compared to a net loss of \$2,084,000 for the three months ended December 31, 2008. The net earnings in the fourth quarter of 2009 were primarily a result of the gain on the disposition of the Company's property and facilities in British Columbia. The net loss in the fourth quarter of 2008 was primarily a result of foreign exchange losses on United States dollar and Hong Kong dollar debt which occurred when the United States dollar strengthened against the Canadian dollar in the fourth quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

In 2009, the cash surplus from operations was \$3,647,000 compared to \$303,000 in 2008. The Company's cash as at December 31, 2009 was \$2,488,000 compared to a balance of \$192,000 at December 31, 2008, an increase of \$2,296,000. The increase in cash from operations in 2009 was due to the decrease in crop cost expenditures as the Company only had 392 acres of ginseng crops under cultivation in 2009 compared to 742 acres under cultivation in 2008 including 224 acres in British Columbia.

The working capital position of the Company at December 31, 2009 was a surplus of \$8,948,000 compared to a surplus of \$5,456,000 at December 31, 2008. The increase in working capital is primarily due to the reduction in expenditures on ginseng crops and the proceeds from the disposition of property, plant, and equipment in British Columbia that had been reclassified as assets held for sale in 2008.

At December 31, 2009, the Company had a \$500,000 revolving demand operating loan, with an interest rate of prime plus 3.75% per annum, with a Canadian chartered bank. Based on its positive cash position, the Company could not draw on this facility as of December 31, 2009. The loan availability will reduce to zero effective March 31, 2010. The Company has also fully repaid a \$2,000,000 term loan, with an interest rate of prime plus 1.875% per annum, with the same Canadian chartered bank during the year ended December 31, 2009. The Company incurred interest of \$37,000 (2008 - \$144,000) on these loans for the year which has been included in interest on short-term debt on the statement of operations.

As of December 31, 2009, the Company had received \$3,301,000 in deposits from customers. These deposits are primarily on orders that should be fulfilled in the first half of 2010.

On August 18, 2006, the Company established a four year term loan facility of HK\$54,700,000 from a company formerly under common control of which HK\$3,200,000 was repaid on August 31, 2009. As of September 1, 2009 the Company agreed to an extension of the remaining HK\$51,500,000 loan facility. Under the terms of the extension, the Company will be required to repay HK\$3,300,000 (\$446,000) by August 31, 2010, and HK\$16,700,000 (\$2,254,000) by August 31, 2011. The remaining amount (\$4,245,000) is to be repaid by August 31, 2012 in apportionments of HK\$1,250,000 and US\$3,878,000. The loan is unsecured and bears interest at 1.75% per annum over the HIBOR or LIBOR through February 28, 2010 after which it will bear interest at a flat rate of 6.25% for the duration of the loan. For the year ended December 31, 2009, the Company incurred \$283,000 (2008 - \$425,000, 2007 - \$626,000) of interest which has been included in interest on long-term debt on the statement of operations and deficit.

Capital expenditures of \$145,000 during 2009 were mainly for the purchase of dryers, equipment and a vehicle in Ontario. During the fourth quarter of 2009, the Company sold its land, buildings and all remaining production assets located near Kamloops, British Columbia. This, along with the sale of the other assets of the British Columbia operations sold earlier in the year, resulted in \$2,379,000 in proceeds from the disposition of assets held for sale for the year ended December 31, 2009.

The Company believes that its existing cash resources, together with the cash generated from future sales of inventory and the current borrowings, will be sufficient to meet its working capital and operating requirements for the next twelve months. If the Company cannot generate sufficient cash from its existing resources, it will become necessary to secure additional financing; however there is no assurance that additional financing will be available or available on terms favourable to the Company. If the Company cannot generate sufficient cash and if it cannot secure additional financing, the Company's ability to repay its long-term debt and continue as a going concern will be dependant on the continuing support of its principal shareholder and its creditors.

As at December 31, 2009, the Company had the contractual obligations and commercial commitments outlined in the chart below:

Contractual Obligations (Stated in Canadian Dollars)	Payments Due by Period			
	Total	Less Than One Year	1-3 Years	After 3 Years
Long-term Debt (1)	\$ 8,284,000	\$1,101,000	\$7,183,000	\$ -
Operating Leases (2)	186,000	93,000	93,000	-
Agricultural Land Leases (3)	207,000	129,000	78,000	-
Total Contractual Obligations	\$8,677,000	\$1,323,000	\$7,354,000	\$ -

- (1) Long-term debt includes the loan from a company formerly under common control at an interest rate of 1.75% per annum over the HIBOR or LIBOR through February 28, 2010 after which it will bear interest at a flat rate of 6.25% for the duration of the loan. Long-term debt also includes accrued interest and estimated future interest payments on long-term debt.
- (2) Operating leases comprise of the Company's long-term leases of equipment, office facilities and vehicles.
- (3) Agricultural land leases comprise of the Company's land rentals in Ontario for the cultivation of ginseng.

The following commitments are not included in the Contractual Obligations table:

- The Company is committed to maintaining its ginseng crops from the time of initial planting to the time of harvesting, which usually takes three to four years. The cost of maintaining these crops is financed through the sale of inventory and available bank borrowings; and
- The Company has become involved in a legal proceeding as a result of an automobile accident. The Company believes that existing insurance will be sufficient to cover any claim from this matter. While the outcome of this proceeding cannot be determined at this time, no provision has been recorded as the Company believes that the resolution of this proceeding will not have a material impact on the financial condition, earnings or cash flows of the Company.

RELATED PARTY TRANSACTIONS

The Company pays management fees to Wai Kee Holdings Limited for performing sales, accounting and administrative services for CNT Trading (Hong Kong) Limited, a subsidiary of the Company. Wai Kee is a Hong Kong based publicly traded company which owns 38% of the shares of the Company and has a director in common with the Company. The Company paid management fees of \$114,000 for the year ended December 31, 2009 (2008 - \$103,000, 2007 - \$102,000) of which \$17,000 remains outstanding as at December 31, 2009 (2008 - \$20,000, 2007 - \$14,000) and is included in accounts payable and accrued liabilities on the consolidated balance sheet.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and other disclosures as at the end of, or during, the reporting periods. Actual results may differ from these estimates and from judgments made under different assumptions or conditions.

The following items require the most significant estimates and judgments in the preparation of the Company's financial statements:

Inventory

The Company periodically reviews the carrying value of inventory to determine if write-downs are required to state the inventory at the lower of cost and net realizable value and if previously recognized write-downs are required to be reversed. The determination of net realizable value reflects management's best estimate of the expected selling price of the roots as well as consideration of qualitative factors such as size, shape, colour and taste. The carrying value of inventory also reflects management's expectation that the inventory will eventually be sold. Although management does not believe that additional provisions are required to align the carrying value of certain inventory with its net realizable values, future events may indicate that the inventory is not saleable or that such inventory is not saleable at prices above carrying value.

Ginseng Crops

The Company uses the full absorption costing method to value its ginseng crops and periodically reviews their carrying value for evidence of impairment. Included in the cost of crops are seed, labour, applicable overhead, interest and supplies required to bring them to harvest. The determination of impairment requires complex calculations and significant management estimation with respect to future costs to bring crops to harvest; demand for and the market price of harvested ginseng roots; and expectations as to the yield and quality of ginseng roots harvested. The estimation process is further complicated by the relatively long growing cycle of three to four years and the fact that roots remain underground. Although the Company's assumptions reflect management's best estimates, future events may result in materially different outcomes with respect to the recoverability of ginseng crop costs and the time required bringing the crops to harvest.

Income Taxes

The Company estimates its income taxes in each of the jurisdictions that it operates. The process involves estimating the current income tax exposure, together with assessing temporary differences from different treatment of items for tax and accounting purposes. These differences result in future tax assets and liabilities that are included in the consolidated balance sheet to the extent that a net future income tax asset or liability exists. The valuation of any future income tax assets or liabilities is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. The process of determining if a valuation allowance is necessary includes estimates of the recoverability of inventory and ginseng crops, as detailed above, and an estimate of future interest expense. Future events may result in materially different outcomes than is estimated with respect to the recoverability of both inventory and ginseng crops.

ADOPTION OF NEW ACCOUNTING STANDARDS

On January 1, 2009, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets". This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company has adopted this standard and determined that it does not have a material impact on the Company's consolidated financial statement

On January 20, 2009, the CICA published the Emerging Issues Committee ("EIC") Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Liabilities". The EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. This recommendation is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements ending on or after the date of issuance of the Abstract. The Company has adopted this standard and determined that it does not have a material impact on the Company's consolidated financial statements.

On August 20, 2009, the CICA published amendments to CICA Handbook Section 3025 "Impaired Loans" and Section 3855 "Financial Instruments - Recognition and Measurement". These amendments were made to: add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category; change the categories into which a debt instrument is required or permitted to be classified; change the impairment model for held-to-maturity financial assets and; require the reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These amendments apply to annual financial statements relating to fiscal years beginning after November 1, 2008. The Company has adopted these amended standards and determined that they do not have a material impact on the Company's consolidated financial statements.

The Company has adopted amendments to CICA Handbook Section 3862, "Financial Instruments - Disclosure". This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company has adopted these amended standards and made the applicable disclosures in Note 21 to the consolidated financial statements.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In April 2008, the Canadian Accounting Standards Board confirmed that on January 1, 2011 Canadian General Accepting Accounting Principles ("Canadian GAAP") will be replaced by International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and results of operations. Management has begun the development of its IFRS changeover plan and the status of that plan as at December 31, 2009 is as follows:

Key activities	Milestones and Deadlines	Effort Accomplished and Remaining Effort to Complete
Financial statement presentation: Identification of differences in Canadian GAAP and IFRS accounting policies and choices <ul style="list-style-type: none"> • Selection of entity's continuing IFRS policies • Selection of IFRS 1 accounting policy choices • Financial statement format • Quantification of effects of change in IFRS disclosures and 2010 financial statements including note disclosures 	Ready for commencement of planning for 2011 fiscal year (approximately 2010 Quarter 3)	Significant accounting change identified for the treatment of ginseng crops (biological assets), remaining activities underway
Infrastructure: IFRS expertise identification and development at level of: <ul style="list-style-type: none"> • Head office finance staff • Senior Executive and Board of Directors including Audit Committee 	Ready for commencement of planning for 2010 conversion exercise (approximately 2010 Quarter 2)	CFO training commencement, remaining activities to follow
Infrastructure: Information technology <ul style="list-style-type: none"> • Systematic processing changes • Program updates and changes • One-off calculations (IFRS 1) • Disclosure data gathering • Scope of consolidation package • Budget, plan and forecast monitoring process 	Ready for parallel processing of 2010 general ledgers and planning/monitoring process (approximately 2009 Quarter 4)	Initial study of information technology requirements completed. The organizational information technology is not sufficiently complex to warrant significant systematic changes.
Business Policy Assessment Financial covenants and practices (including securitization program)	Renegotiate covenants and replace securitization by 2010 Quarter 3	No current GAAP-dependant covenants, all future GAAP dependant covenants will be negotiated based on IFRS.
Business Policy Assessment Compensation arrangements	Renegotiate any arrangements by 2010 Quarter 3	Currently no GAAP-dependant compensations arrangements, all future arrangements will be dependant on IFRS
Business Policy Assessment Capital adequacy	Complete capital plan by 2010 Quarter 3	Scoping study is ongoing – no current deficiencies in capital adequacy identified
Business Policy Assessment Customer and supplier contract evaluation	Review customer/supplier contracts and revenue/cost recognition model by 2010 Quarter 3	Identification of revenue and supply contracts underway
Control environment: ICFR <ul style="list-style-type: none"> • Accounting policy determination, documentation and implementation • Independent review of applications • Error processing facilities 	Review and sign off by management by 2010 Quarter 3 and review by Audit Committee by 2010 Quarter 4; CEO/CFO certification process updated by 2010 Quarter 4	All activities underway
Control environment: DC&P <ul style="list-style-type: none"> • Investor day 2011 requirements re: guidance expected earnings • MD&A communications package • Responses to queries 	Publication of material changes in policy and expectations by Investor Day and publication of revised 2010 results and MD&A by 2011 Quarter 1	Investor Day to be determined and remaining activities to be organized

The Company has identified biological assets as a major difference between the current Canadian GAAP standard and the IFRS standard which is contained in International Accounting Standard 41 (“IAS 41”) – Agriculture. IAS 41 identifies biological assets as all living animals or plants that are biologically transformed in to agricultural produce. The Company has determined that its ginseng crops would be considered biological assets. IAS 41 requires measurement of biological assets at fair value less estimated point-of-sale costs from initial recognition of biological assets up to the point of harvest, other than when the fair value cannot be measured reliably. This differs from Canadian GAAP in which ginseng crops are valued at the lower of cost or net realizable value. IAS 41 would require the Company to “write up” its ginseng crops to their fair value less point-of-sale costs if that amount was higher than cost which is not allowed under Canadian GAAP. If the Company were to increase the value of its ginseng crops to their fair value less point-of-sale costs, IAS 41 would require that increase to be recorded as revenue in the current period.

RISKS AND UNCERTAINTIES

The Company’s revenue and earnings are affected by the world price of ginseng root, which is determined by reference to factors including the supply and demand for North American ginseng root, negotiations between buyers and sellers, the quality and aesthetic characteristics of the root and the relative strength of the Canadian dollar to the currencies used by the Company’s customers. A percentage change in the market price of ginseng root tends to have a corresponding impact on the revenue reported by the Company.

The Company identifies Canada as the primary economic environment in which it operates, and uses the Canadian dollar as its functional currency except for its active foreign subsidiary that operates in Hong Kong and which uses the Hong Kong dollar as its functional currency. A major portion of the Company’s long-term debt is denominated in Hong Kong dollars. A minor portion of the Company’s revenue and receivables is denominated in Hong Kong dollars. The Company monitors its exposure to foreign exchange risk and balances its foreign currency holdings to reduce exposure to any one currency by engaging in foreign exchange contracts and by repatriating any excess funds.

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.

The Company’s revenue is derived principally from the sale of ginseng roots to a limited number of customers that are concentrated in Asian markets. In order to manage its credit risk, the Company carefully monitors credit terms, investigates credit history and grants credit to customers with established relationships or acceptable credit ratings. Payments or deposits are usually received before shipments of inventory. Inventory may be held as security until payment is received, when such relationships have not been established. As the Company’s significant customers do not necessarily use the ginseng themselves but instead distribute the ginseng to smaller wholesalers, distributors and retailers, the Company does not believe that it is economically dependent on any one customer or that the loss of any one wholesaler would impact the Company’s ability to market roots through other channels. There can be no assurance, however, that adverse changes in the above noted factors will not materially affect the Company’s business, financial condition, operating results and cash flows.

The Company is exposed to currency exchange risk as a result of its international markets and operations. The majority of the Company's revenue comes from buyers who are located outside of Canada and as a result, the selling price that the Company can achieve in those markets is exposed to changes in exchange rates. The Company has debt denominated in foreign currency and therefore the interest and repayment of debt is exposed to fluctuations in foreign exchange rates. The Company engages in foreign exchange contracts to help mitigate this risk.

FINANCIAL INSTRUMENTS

Financial instruments of the Company are represented by cash, accounts receivable and other assets, bank indebtedness, accounts payable and accrued liabilities and long-term debt. The carrying value of these instruments approximates their fair value due to the short-term maturity of such items or their bearing market related rates of interest. The Company also has financial instruments disclosed in Note 17 to the consolidated financial statements which comprise of foreign exchange contracts.

OUTLOOK

In the short-term, the Company will focus its attention on its farming operations to maximize the yield and quality of roots while it continues to maintain and harvest ginseng crops in Ontario. Due to the historic low prices for the 2008 harvest in both British Columbia and in Ontario, the Company decided not to plant new crops in Ontario in 2009. Despite an improvement in ginseng prices for the 2009 harvest and the improvement in both the yield and quality of its roots, the ability of the Company to achieve operating income and positive cash flows while continuing to plant at a sustainable level is very uncertain. The Company does not intend to continue planting ginseng in Ontario so that it can conserve funds to meet its financial obligations. The Company will continue to closely monitor the economic climate and attempt to identify viable business alternatives to determine the course of its long-term actions.

ADDITIONAL INFORMATION

Additional information with respect to the Company, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Auditors' Report and Consolidated Financial Statements of

CHAI-NA-TA CORP.

(Stated in Canadian dollars)

December 31, 2009, 2008 and 2007



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Auditors' Report

To the Shareholders of Chai-Na-Ta Corp.

We have audited the consolidated balance sheets of Chai-Na-Ta Corp. as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive income, accumulated other comprehensive income, cash flows and crop costs for each of the years in the three year period ended December 31, 2009. 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 December 31, 2009 and 2008 and the results of its operations, its cash flows and its crop costs for each of the years in the three year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

On March 9, 2010, we reported separately to the Board of Directors of Chai-Na-Ta Corp. on our audits, conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), on financial statements for the same period, prepared in accordance with Canadian generally accepted accounting principles, but which includes Note 23 providing a reconciliation of accounting principles generally accepted in Canada and the United States of America as it relates to the Company.

(Signed) Deloitte & Touche LLP

Chartered Accountants
March 9, 2010

CHAI-NA-TA CORP.

Consolidated Balance Sheets

(Stated in thousands of Canadian Dollars)

<i>As at December 31</i>	2009	2008
ASSETS		
Current assets		
Cash	\$ 2,488	\$ 192
Accounts receivable and other assets	13	710
Inventory (Note 12)	6,668	7,928
Ginseng crops (Notes 4 and 12)	3,898	2,722
Prepaid expenses	87	64
	13,154	11,616
Ginseng crops (Notes 4 and 12)	2,154	4,764
Prepaid expenses	28	49
Assets held for sale (Note 5)	-	1,783
Property, plant and equipment (Note 6)	2,513	2,678
	\$ 17,849	\$ 20,890
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 7)	\$ -	\$ 3,060
Accounts payable and accrued liabilities	459	604
Customer deposits (Note 8)	3,301	2,454
Current portion of long-term debt (Note 9)	446	42
	4,206	6,160
Long-term debt (Note 9)	6,499	8,619
Total liabilities	10,705	14,779
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	38,246	38,246
Contributed surplus (Note 10)	338	338
Accumulated other comprehensive income	806	442
Deficit	(32,246)	(32,915)
	(31,440)	(32,473)
Total equity	7,144	6,111
	\$ 17,849	\$ 20,890

Going concern (Note 1)

Commitments, contingencies and guarantees (Note 16)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

“DEREK ZEN”

Derek Zen
Chairman

“WILMAN WONG”

Wilman Wong
Chief Executive Officer

CHAI-NA-TA CORP.**Consolidated Statements of Operations and Deficit****(Stated in thousands of Canadian Dollars except per share amounts)**

<i>Years ended December 31</i>	2009	2008	2007
Revenue	\$ 6,941	\$ 9,232	\$ 7,561
Cost of goods sold			
Cost of inventory sold	6,452	8,826	7,323
Shipping and handling fees	107	93	70
Write-down of inventory and ginseng crops (Note 12)	14	2,998	2,735
	6,573	11,917	10,128
Gross margin (loss)	368	(2,685)	(2,567)
Selling, general and administrative expenses (Note 13)	1,458	969	1,068
Interest on short-term debt (Note 7)	37	144	160
Interest on long-term debt (Note 9)	283	426	635
	1,778	1,539	1,863
Operating loss	(1,410)	(4,224)	(4,430)
Other income (loss) (Note 14)	2,079	(446)	1,101
NET EARNINGS (LOSS)	669	(4,670)	(3,329)
Deficit, beginning of year	(32,915)	(28,245)	(24,916)
DEFICIT, END OF YEAR	\$ (32,246)	\$ (32,915)	\$ (28,245)
Basic and diluted earnings (loss) per share (Note 3(i))	\$ 0.02	\$ (0.13)	\$ (0.10)
Weighted average number of common shares used to calculate basic and diluted earnings (loss) per share (in thousands)	34,698	34,698	34,698

See accompanying notes to the consolidated financial statements

CHAI-NA-TA CORP.**Consolidated Statements of Comprehensive Income****(Stated in thousands of Canadian Dollars)**

<i>Years ended December 31</i>	2009	2008	2007
Net earnings (loss)	\$ 669	\$ (4,670)	\$ (3,329)
Other comprehensive income (loss): Adjustments as a result of foreign exchange translation of self-sustaining subsidiaries	364	(460)	312
Comprehensive income (loss)	\$ 1,033	\$ (5,130)	\$ (3,017)

CHAI-NA-TA CORP.**Consolidated Statements of Accumulated Other Comprehensive Income****(Stated in thousands of Canadian Dollars)**

<i>Years ended December 31</i>	2009	2008	2007
Balance, beginning of year	\$ 442	\$ 902	\$ 590
Other comprehensive income (loss)	364	(460)	312
Balance, end of year	\$ 806	\$ 442	\$ 902

See accompanying notes to the consolidated financial statements

CHAI-NA-TA CORP.
Consolidated Statements of Cash Flows
(Stated in thousands of Canadian Dollars)

<i>Years ended December 31</i>	2009	2008	2007
Net inflow (outflow) of cash related to the following activities:			
Operating Activities			
Net earnings (loss)	\$ 669	\$ (4,670)	\$ (3,329)
Items included in net earnings (loss) not affecting cash (Note 19(a))	4,909	12,081	8,701
Changes in non-cash operating assets and liabilities (Note 19(b))	970	(1,014)	1,409
Crop cost expenditures	(2,901)	(6,094)	(6,277)
	3,647	303	504
Financing Activities			
Bank indebtedness	(3,060)	(450)	(800)
Repayment of long-term debt	(527)	(155)	(299)
	(3,587)	(605)	(1,099)
Investing Activities			
Purchase of property, plant and equipment	(145)	(94)	(61)
Proceeds from disposition of property, plant and equipment	7	300	488
Cash outlays included in assets held for sale	-	(27)	(5)
Proceeds from disposition of assets held for sale	2,379	-	-
	2,241	179	422
Effect of exchange rate changes on cash	(5)	8	(4)
Net increase (decrease) in cash	2,296	(115)	(177)
Cash, beginning of year	192	307	484
Cash, end of year	\$ 2,488	\$ 192	\$ 307
Supplemental information:			
Other cash flows:			
Interest paid	\$ 176	\$ 1,289	\$ 254
Non-cash investing and financing activities:			
Property, plant and equipment purchases financed through equipment purchase loan agreements	\$ -	\$ 45	\$ -

See accompanying notes to the consolidated financial statements

CHAI-NA-TA CORP.
Consolidated Statements of Crop Costs
(Stated in thousands of Canadian Dollars)

<i>Years ended December 31</i>	2009	2008	2007
Depreciation	\$ 307	\$ 592	\$ 888
Farm equipment operating costs	234	556	532
Interest on long-term debt	3	5	6
Land rental costs	202	368	548
Mulch and fertilizer	881	1,499	1,470
Office and insurance costs	86	166	168
Plant science	6	7	11
Salaries and wages	1,272	2,858	2,948
Seed	43	68	107
Small tools and supplies	19	36	45
Warehouse and dryer operations	196	534	452
	3,249	6,689	7,175
Balance, beginning of year	7,486	11,395	14,519
	10,735	18,084	21,694
Less:			
Cost of crop harvested	4,630	10,233	8,603
Cost of seeds sold and available for sale	103	-	111
Crop costs reallocated to assets held for sale	-	(135)	135
Write-down of ginseng crops (Note 12)	(50)	500	1,450
Balance, end of year	6,052	7,486	11,395
Less: current portion	3,898	2,722	5,678
	\$ 2,154	\$ 4,764	\$ 5,717

See accompanying notes to the consolidated financial statements

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

1. GOING CONCERN

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. The Company has experienced an operating loss of \$1,410,000 for the year ended December 31, 2009 due to the low selling price of ginseng and has an accumulated deficit of \$32,246,000 as at December 31, 2009. The Company is closely monitoring cash resources and has received significant financing from a company formerly under common control.

The Company's ability to continue as a going concern is dependant on achieving ongoing profitable operations and the continued financial support of its 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. NATURE OF OPERATIONS

The Company operates North American ginseng farms in Canada, on which ginseng root is planted, cultivated and harvested. The Company sells ginseng in its primary markets of Hong Kong and China, and to a lesser extent Canada and the United States of America, through its wholly-owned subsidiaries. The Company also sells ginseng-based value-added products in Canada although they do not represent a significant percentage of sales.

The Company is publicly traded with no single shareholder holding a majority of the Company's common shares. The largest shareholder of the Company is Wai Kee Holdings Limited ("Wai Kee"), a publicly traded Hong Kong based company, which owns 38% of the shares of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements, expressed in thousands of Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect the following significant accounting policies:

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and balances have been eliminated.

At December 31, 2009, the Company's effective ownership interests in these companies were as follows:

Subsidiaries

Chai-Na-Ta Farms Ltd.	100%
Chai-Na-Ta International Ltd. (Inactive)	100%
Chai-Na-Ta (Asia) Ltd. (Inactive)	100%
CNT Nominees Limited (Inactive)	100%
CNT Nutraceuticals Ltd.	100%
CNT Trading (Asia) Limited (Inactive)	100%
CNT Trading (Hong Kong) Limited	100%
Unique Formulations, Inc. (Inactive)	100%

The Company's foreign subsidiaries are considered to be self-sustaining foreign operations. Accordingly, assets and liabilities are translated at exchange rates in effect at the balance sheet date while revenues and expenses are translated at average exchange rates prevailing during the year. The resulting translation adjustment is included in accumulated other comprehensive income until there is a reduction in the net investment.

(b) Revenue recognition

Sales of goods are recognized when persuasive evidence of an arrangement exists, delivery has occurred, title and risk have passed to the customer, the sales price is fixed and determinable, and collectibility is reasonably assured.

The above conditions are generally satisfied when the goods are delivered to the end customers or to the wholesale distributor. In instances when the above criteria are not satisfied, revenue is deferred until all conditions required for recognition of revenue are met.

(c) Financial instruments

The Company has designated its cash, bank indebtedness and foreign exchange forward contracts as held-for-trading, which are measured at fair market value with changes in fair value recorded in earnings. Accounts receivable are classified as loans and receivable which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other liabilities, which are measured at amortized cost.

The Company has adopted the changes made by CICA to Section 3862, "Financial Instruments: Disclosures", whereby an entity is required to classify and disclose the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The required disclosures are included in Note 21.

(d) Cash

Cash consists of cash on hand and deposits in banks.

(e) Inventory

Inventory is valued at the lower of average cost and estimated net realizable value. The determination of net realizable value reflects management's best estimate of the expected selling price of the roots as well as consideration of qualitative factors such as size, shape, colour and taste. The carrying value of inventory also reflects management's expectation that the inventory will eventually be sold. Inventory written down to its estimated net realizable value can subsequently be written up to the lesser of its new estimated net realizable value or original cost.

(f) Ginseng crops

The Company uses the full absorption costing method to value its ginseng crops. Included in crop costs are seeds, labour, applicable overhead, interest and supplies as per the consolidated statement of crop costs. Common costs are allocated in each period based on the total number of acres under cultivation during the period.

The carrying value of ginseng crops is reviewed on a regular basis for any impairment in value, using management's best estimate as to expected future market values, yields and costs to harvest. Ginseng crops which include an impairment in value can subsequently have that impairment reversed upon a change in the factors used in management's estimate of value.

Crop costs related to the acreage harvested and sold have been charged to cost of sales.

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

(g) Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the following periods except as noted below:

Buildings	20 years
Dryers and related works	20 years
Computer equipment and software	4 years
Furniture and fixtures	10 years
Machinery and equipment	10 years
Sunshade	10 years
Vehicles	8 years
Pavement	12.5 years

Property, plant and equipment are reviewed on a regular basis for impairment upon the occurrence of events or changes in circumstances which indicate that the net book value of the assets may not be recoverable based on estimated undiscounted future cash flows generated by their use. To the extent not recoverable, impaired assets are written down to their fair value.

(h) Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities, and for losses and other deductions carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply in the years in which such temporary differences or losses and other deductions carried forward are expected to be recovered or settled. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered likely.

(i) Earnings (loss) per common share

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution of common shares by including other common share equivalents in the weighted average number of common shares outstanding for a period, if dilutive. Common share equivalents consist of convertible preferred shares and the incremental number of shares issuable upon the exercise of stock options.

A reconciliation of net loss per common share and the weighted average shares used in the earnings per share calculations for fiscal 2009, 2008 and 2007 is as follows:

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

	Net Earnings (Loss) (numerator)	Thousands of Shares (denominator)	Earnings (Loss) Per Share
2009			
Basic and Diluted	\$ 669	34,698	\$ 0.02
2008			
Basic and Diluted	\$ (4,670)	34,698	\$ (0.13)
2007			
Basic and Diluted	\$ (3,329)	34,698	\$ (0.10)

The Company had no stock options outstanding as at December 31, 2009 or 2008. The 343,400 stock options to purchase shares as at December 31, 2007, were not included in the computation of diluted loss per share because their effect would have been anti-dilutive.

(j) *Stock-based compensation plans*

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. This section establishes standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method.

(k) *Foreign exchange forward contracts*

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with future debt repayments denominated in foreign currencies. Realized and unrealized gains and losses resulting from changes in the market value of these contracts are recorded as other income unless they meet specified criteria to qualify as a hedging instrument under Canadian GAAP. The Company has not had any contracts that meet the criteria for hedging instruments during the three years ended December 31, 2009.

(l) *Use of estimates*

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and other disclosures as at the end of or during the reporting periods. Significant estimates are used for, but not limited to, the accounting for doubtful accounts, net realizable value of inventory, crop costs, depreciation on property, plant and equipment, future income taxes, accrued liabilities and contingencies. Actual results may differ from these estimates.

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

(m) Accounting changes

On January 1, 2009, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets". This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard has not had a significant impact on the Company's consolidated financial statements.

On January 20, 2009, the CICA published the Emerging Issues Committee ("EIC") Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Liabilities". The EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. This recommendation is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements ending on or after the date of issuance of the Abstract. The Company has adopted this standard and determined that it does not have a material impact on the Company's consolidated financial statements.

On August 20, 2009, the CICA published amendments to CICA Handbook Section 3025 "Impaired Loans" and Section 3855 "Financial Instruments - Recognition and Measurement". These amendments were made to: add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category; change the categories into which a debt instrument is required or permitted to be classified; change the impairment model for held-to-maturity financial assets and; require the reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These amendments apply to annual financial statements relating to fiscal years beginning after November 1, 2008. The Company has adopted these amended standards and determined that they do not have a material impact on the Company's consolidated financial statements.

The Company has adopted amendments to CICA Handbook Section 3862, "Financial Instruments - Disclosure". This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company has adopted these amended standards and the additional disclosures are included in Note 21.

(n) Future changes in accounting policies

In April 2008, the Canadian Accounting Standards Board confirmed that on January 1, 2011 Canadian GAAP will be replaced by International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and result of operations.

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

4. GINSENG CROPS

Ginseng plants reach maturity and can be harvested at the end of their third year of growth. However, the Company may allow crops to mature longer to allow for higher yields and additional seed harvests. Costs accumulated relating to the expected harvest in the next year have been classified as current assets. At December 31, 2009, total area under cultivation and management is 266 acres. A breakdown of acreage by year planted is as follows:

<u>Year planted</u>	<u>Number of acres</u>
2005	124
2006	33
2008	109
	<hr/>
	266
	<hr/>

5. ASSETS HELD FOR SALE

		<u>2009</u>	<u>2008</u>
Land, building and related assets	(a) \$	-	\$ 1,162
Machinery, equipment, sunshade and vehicles	(b)	-	621
		<hr/>	<hr/>
	\$	-	\$ 1,783

(a) *Land, building and related assets*

Since March 2007, the Company had made available for sale its property located near Kamloops, British Columbia and has reclassified the net book value of the land, buildings, pavement, dryers and related production assets. This facility had been used as the head office for the farms operations in British Columbia. In October 2009, the Company sold the land, building and all related production assets located near Kamloops, British Columbia. These assets were sold for an amount greater than their net book value thus resulting in a gain on disposal of \$281,000.

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

(b) *Machinery, equipment, sunshade and vehicles*

After the completion of the final harvest in British Columbia in December 2008, the Company made available for sale all of its remaining operating assets including machinery, equipment, sunshade, and vehicles. These assets were sold during 2009 for an aggregate amount greater than their net book value thus resulting in a gain on disposal of \$322,000.

6. PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 171	\$ -	\$ 171
Buildings	1,220	317	903
Dryers and related works	602	183	419
Computer equipment and software	82	73	9
Furniture and fixtures	203	188	15
Machinery and equipment	3,134	2,417	717
Sunshade	2,852	2,694	158
Vehicles	220	127	93
Pavement	47	19	28
	\$ 8,531	\$ 6,018	\$ 2,513

	2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 171	\$ -	\$ 171
Buildings	1,216	256	960
Dryers and related works	534	156	378
Computer equipment and software	109	105	4
Furniture and fixtures	203	184	19
Machinery and equipment	2,882	2,053	829
Sunshade	2,751	2,552	199
Vehicles	192	106	86
Pavement	47	15	32
	\$ 8,105	\$ 5,427	\$ 2,678

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

7. BANK INDEBTEDNESS

		<u>2009</u>	<u>2008</u>
Bank operating loan	(a)	\$ -	\$ 1,060
Bank term loan	(b)	-	2,000
		<u>\$ -</u>	<u>\$ 3,060</u>

(a) Bank operating loan

At December 31, 2009, the Company had a \$500,000 revolving demand operating loan with a Canadian chartered bank at a rate of prime plus 3.75% per annum. Based on its positive cash position, the Company could not draw on this facility as of December 31, 2009. The loan availability will reduce to zero effective March 31, 2010. During the year, the Company incurred \$11,000 (2008 - \$111,000) of interest which has been included in interest on short-term debt on the statement of operations and deficit.

(b) Term loan

On September 4, 2008, the Company secured a \$2,000,000 non-revolving term loan from a Canadian chartered bank with an interest rate of prime plus 1.875% per annum which was fully repaid by the due date of May 31, 2009. The loan was secured by the Company's property located near Kamloops, British Columbia. During the year, the Company incurred \$26,000 (2008 - \$33,000) of interest on this debt which has been included in interest on short-term debt on the statements of operations and deficit.

8. CUSTOMER DEPOSITS

Customer deposits represent deposits received from customers to secure inventory purchase commitments prior to the actual delivery of inventory.

9. LONG-TERM DEBT

		<u>2009</u>	<u>2008</u>
Term loan	(a)	\$ 6,945	\$ 8,587
Equipment purchase loans	(b)	-	74
		<u>6,945</u>	<u>8,661</u>
Less: current portion		<u>446</u>	<u>42</u>
		<u>\$ 6,499</u>	<u>\$ 8,619</u>

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

(a) *Term loan*

On August 18, 2006, the Company established a four year term loan facility of HK\$54,700,000 from a company formerly under common control of which HK\$3,200,000 was repaid on August 31, 2009. As of September 1, 2009 the Company agreed to a three year extension of the remaining HK\$51,500,000 loan facility. The loan is unsecured and bears interest at 1.75% per annum over the HIBOR (Hong Kong Interbank Offered Rate) or LIBOR (London Interbank Offered Rate) through February 28, 2010 after which it will bear interest at a flat rate of 6.25% for the duration of the loan. For the year ended December 31, 2009, the company incurred \$283,000 (2008 - \$425,000, 2007 - \$626,000) of interest which has been included in interest on long-term debt on the statement of operations and deficit.

The term loan is scheduled to be repaid over the next three years as follows (all amounts in thousands of dollars of the respective currencies):

Year	Schedule repayments		Canadian dollar equivalents
	HK\$	US\$	
2010	\$ 3,300	\$ -	\$ 446
2011	16,700	-	2,254
2012	1,250	3,878	4,245
	\$ 21,250	\$ 3,878	\$ 6,945

(b) *Equipment purchase loans*

The Company had entered into various equipment purchase loan agreements all of which have been fully repaid as at December 31, 2009. For the year ended December 31, 2009, the Company incurred \$3,000 (2008 - \$5,000; 2007 - \$6,000) of interest which has been included in interest on long-term debt on the statement of crop costs and \$NIL (2008 - \$1,000, 2007 - \$1,000) of interest which has been included in interest on long-term debt on the statements of crop costs.

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital consists of an unlimited number of common shares without nominal or par value and 21 million Series 1 non-voting, non-cumulative preferred shares, convertible into common shares on a 1:1 basis. Any issued and outstanding preferred shares will automatically be converted into common shares in 2010. There are currently no outstanding preferred shares.

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)
For the years ended December 31, 2009, 2008 and 2007

Outstanding shares are as follows:

	<u>Thousands of shares</u>	<u>Amount</u>
<u>Common shares</u>		
Balance at December 31, 2008 and 2009	34,698	\$ 38,246

Contributed Surplus

Balance at December 31, 2008 and 2009	\$ 338
---------------------------------------	--------

11. STOCK OPTIONS

The Company maintains a stock option plan and grants options to officers, directors and employees of the Company at market prices. A total of 785,000 shares were reserved for issue under the plan. The options vest at the date of grant and expire five years thereafter.

There are no options to purchase shares outstanding as at December 31, 2009.

Information regarding the Company's stock options for each of the periods is summarized as follows:

	<u>Number of shares</u>	<u>Exercise price range (\$/share)</u>
Outstanding as at December 31, 2007	343,400	\$ 0.73
Expired	(343,400)	0.73
Outstanding and exercisable as at December 31, 2008 and 2009	-	\$ -

There were no options granted or modified during the three years ended December 31, 2009.

CHAI-NA-TA CORP.

Notes to the Consolidated Financial Statements

(Stated in Canadian Dollars except tabular amounts in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

12. WRITE-DOWN OF INVENTORY AND GINSENG CROPS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Write-down of ginseng inventory	\$ 64	\$ 2,498	\$ 1,285
Reversal of prior year write-down of ginseng crops	(500)	-	-
Write-down of ginseng crops	450	500	1,450
	<u>\$ 14</u>	<u>\$ 2,998</u>	<u>\$ 2,735</u>

For the year ended December 31, 2009, the Company recorded a reversal of the \$500,000 write-down on its ginseng crops that were harvested during the last quarter of 2009. The net realizable value of the ginseng crops harvested in 2009 was higher than had been estimated at December 31, 2008 and therefore the Company reversed the entire write-down that had been recorded. The net realizable value as at December 31, 2009 was determined through sales contracts with buyers that had been agreed to during the final quarter of 2009. The Company recorded a write-down of \$450,000 on its long-term ginseng crops which it intends to harvest at the end of 2011. The net realizable value of the long-term ginseng crops was estimated based on current sales prices and estimated future yields, quality and costs to bring the crops to harvest. The Company also recorded a write-down of \$64,000 on ginseng fibres from prior harvests resulting in a new carrying value of zero as the ability of the Company to sell these specific ginseng fibres is uncertain.

For the year ended December 31, 2008, the Company recorded a write-down of inventory of \$2,498,000 on its ginseng crops harvested in 2008 to reduce the carrying value of the inventory to its estimated net realizable value. This amount includes a \$1,500,000 write-down in the third quarter of 2008 and an additional \$998,000 write-down that was recognized upon the completion of the 2008 harvest. The Company also recorded a write-down of \$500,000 on its current ginseng crops which it intends to harvest at the end of 2009. The net realizable value of the inventory was estimated based on purchase commitments received for inventory on hand.

For the year ended December 31, 2007, the Company recorded a write-down of \$1,450,000 on ginseng crops to reduce their carrying value to their net realizable value. The net realizable value of the ginseng crops was estimated based on the estimated yield and quality of the crops upon harvest, accumulated costs, estimated additional costs required to bring the crops to harvest and current and projected selling prices. During the three months ended June 30, 2007, the Company recorded a write-down on inventory of \$1,285,000. This inventory was being held by the Company to fulfill a contract with a Canadian customer for a predetermined minimum quantity at a fixed price. The contract expired and the customer did not order the predetermined minimum quantity. Due to the uncertainty of the Company's ability to receive the contracted amount, a write-down was recorded to reduce the carrying value of the inventory to its estimated net realizable value instead of the predetermined contract price.

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13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2009</u>		<u>2008</u>		<u>2007</u>
Selling, general and administrative expenses	\$ 928	\$	969	\$	1,068
Wind-up expenses of terminated operations	530		-		-
	<u>\$ 1,458</u>	\$	<u>969</u>	\$	<u>1,068</u>

The wind-up expenses of terminated operations include all expenditures associated with closing the ginseng farm operations in British Columbia after the final harvest was completed in 2008.

14. OTHER INCOME (LOSS)

	<u>2009</u>		<u>2008</u>		<u>2007</u>
Foreign exchange gain (loss)	\$ 470	\$	(769)	\$	638
Gain on disposal of property, plant and equipment	611		256		474
Government supplements	995		64		-
Other non-operating income (expenses)	3		3		(11)
	<u>\$ 2,079</u>	\$	<u>(446)</u>	\$	<u>1,101</u>

The gain on disposal of property, plant and equipment includes gains on the disposal of items that were previously reclassified as assets held for sale.

Government supplements include funds received from Agriculture Canada as compensation for cost of production increases and reduced margins of the Company's farming operations in prior years, net of program participation fees and related costs.

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15. FUTURE INCOME TAXES

Temporary differences and loss carry forwards that give rise to future income tax assets and liabilities as at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Future income tax assets (liabilities)		
Property, plant and equipment	\$ (41)	\$ 71
Tax loss carryforwards	<u>5,041</u>	<u>6,639</u>
	<u>5,000</u>	<u>6,710</u>
Less: valuation allowance	<u>5,000</u>	<u>6,710</u>
<u>Future income tax assets</u>	<u>\$ -</u>	<u>\$ -</u>

The majority of the above differences relate to the Company's farming operations, which are taxable on a cash basis under Canadian tax law and allow for taxable adjustments of inventory and ginseng crops at the discretion of the Company.

The provision for (recovery of) income taxes has been calculated as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Canadian statutory tax rate	33.00%	33.00%	33.50%
Income taxes payable (recoverable) at the Canadian statutory rates	\$ 221	\$ (1,541)	\$ (1,065)
Adjustments:			
Foreign tax rate differential	(10)	34	30
Change in future income tax rates	1,477	80	200
Other	22	(57)	163
Valuation allowance	(1,710)	1,484	672
<u>Provision for (recovery of) income taxes</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Company's foreign subsidiaries have tax losses available for carry forward of approximately \$925,000 to reduce future taxable income, subject to the approval of the tax authorities, which can be carried forward indefinitely. The Company and domestic subsidiaries have tax losses available for carry forward of approximately \$17,498,000 which can be applied to reduce future taxable income and expire at various times over the next four to twenty years.

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16. COMMITMENTS, CONTINGENCIES AND GUARANTEES

(a) Operating leases and land rentals

The Company has entered into operating leases for vehicles, farming equipment and offices expiring at various times to 2012. Total future minimum payments required under these leases are as follows:

2010	\$	76
2011		62
2012		15
	\$	<u>153</u>

The Company is committed to agricultural land rentals for the next three years as follows:

2010	\$	105
2011		39
2012		39
	\$	<u>183</u>

The Company has incurred rental costs on operating leases and land rentals of \$302,000, \$476,000 and \$635,000 for the years ended December 31, 2009, 2008 and 2007, respectively, of which \$265,000, \$441,000 and, \$591,000 was capitalized to crop costs for the respective years.

(b) Other commitments, contingencies and guarantees

The Company has become involved in a legal proceeding as a result of an automobile accident. The Company believes that existing insurance will be sufficient to cover any claim from this matter. While the outcome of this proceeding cannot be determined at this time, no provision has been recorded as the Company believes that the resolution of these proceedings will not have a material impact on the financial condition, earnings or cash flows of the Company.

17. FOREIGN EXCHANGE FORWARD CONTRACTS

As at December 31, 2009, the Company had entered into a forward contract with a Canadian bank to purchase US\$1,400,000 on March 22, 2010 to partially fix the rate of exchange on the term loan described in Note 9(a). If the spot Canadian/US dollar exchange rate is less than or equal to \$1.0625 on the contract date, the exchange rate of the purchase will be \$1.0625. If the exchange rate is greater than or equal to \$1.0775 on the contract date, the exchange rate of the purchase will be \$1.0775. If the exchange rate is between \$1.0625 and \$1.0775 on the contract date, the contract will expire and a purchase obligation will not take place. At December 31, 2009, the closing exchange rate of \$1.0510 resulted in a liability of \$16,000 for the Company on the contract which is included in accounts payable and accrued liabilities on the balance sheet.

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As at December 31, 2008, the Company had entered into a forward contract with a Canadian bank to purchase US\$2,500,000 on March 19, 2009 to partially fix the rate of exchange on the term loan described in Note 9(a). If the spot Canadian/US dollar exchange rate is less than or equal to \$1.0460 on the contract date, the exchange rate of the purchase will be \$1.0460. If the exchange rate is greater than or equal to \$1.0600 on the contract date, the exchange rate of the purchase will be \$1.0600. If the exchange rate is between \$1.0460 and \$1.0600 on the contract date, the contract will expire and a purchase obligation will not take place. At December 31, 2008, the closing exchange rate of \$1.2180 resulted in a fair market value of this contract of \$395,000 which was included in accounts receivable and other assets on the balance sheet.

18. SEGMENTED REPORTING

The Company operates in one industry segment and two geographic regions. The geographic region that the revenue is derived from is determined by the residency of the customer. Long-lived assets consist of non-current ginseng crops and property, plant and equipment. Major customers include all customers with whom the Company has derived revenue greater than 10% of its total revenue within the reporting period. Information by geographic region is summarized as follows:

Year ended December 31, 2009	Canada	Far East	Consolidated
Revenue - external	\$ 1,473	\$ 5,468	\$ 6,941
Revenue - intercompany between regions	4,454	556	
Total revenue	\$ 5,927	\$ 6,024	
Net earnings	\$ 605	\$ 64	\$ 669
Long-lived assets	\$ 4,667	\$ -	\$ 4,667

Major Customers

For the year ended December 31, 2009, consolidated revenue included sales to three customers, which accounted for \$1,040,000 from the Canadian geographic region and \$2,328,000 and \$2,013,000, respectively, from the Far East geographic region.

Year ended December 31, 2008	Canada	Far East	Consolidated
Revenue - external	\$ 1,196	\$ 8,036	\$ 9,232
Revenue - intercompany between regions	7,002	277	
Total revenue	\$ 8,198	\$ 8,313	
Net loss	\$ (4,022)	\$ (648)	\$ (4,670)
Long-lived assets	\$ 7,491	\$ -	\$ 7,491

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Major Customers

For the year ended December 31, 2008, consolidated revenue included sales to three customers, which accounted for \$3,049,000, \$2,825,000 and \$2,192,000, respectively, from the Far East geographic region.

Year ended December 31, 2007	Canada	Far East	Consolidated
Revenue - external	\$ 3,453	\$ 4,108	\$ 7,561
Revenue - intercompany between regions	5,283	-	
Total revenue	\$ 8,736	\$ 4,108	
Net earnings (loss)	\$ (3,382)	\$ 53	\$ (3,329)
Long-lived assets	\$ 9,512	\$ -	\$ 9,512

Major Customers

For the year ended December 31, 2007, consolidated revenue included sales to two customers, which accounted for \$1,819,000 from the Canadian geographic region and \$3,633,000 from the Far East geographic region.

19. OTHER INFORMATION

(a) Items included in net loss not affecting cash

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Depreciation and amortization	\$ 10	\$ 9	\$ 16
Cost of ginseng crops sold	5,906	8,548	7,309
Write-down of inventory and crop costs net of reversals	14	2,998	2,735
Non-cash realized foreign exchange (gains) losses	(410)	782	(885)
Gain on disposal of property, plant and equipment	(611)	(256)	(474)
	\$ 4,909	\$ 12,081	\$ 8,701

(b) Changes in non-cash operating assets and liabilities

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Accounts receivable and other assets	\$ 302	\$ (259)	\$ 123
Inventory	(16)	(9)	4
Prepaid expenses	(3)	(68)	6
Accounts payable and accrued liabilities	(161)	(744)	281
Customer deposits	848	66	995
	\$ 970	\$ (1,014)	\$ 1,409

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20. CAPITAL DISCLOSURES

The Company's current objective in managing capital is to safeguard the entity's ability to continue as a going concern so that in the long-term the Company can provide maximum returns for shareholders and benefits for other stakeholders. The Company includes shareholders' equity, lease financing, term loans, bank financing, and equipment loan purchases in its definition of capital. The Company met its objective in managing capital by using funds from the sale of inventory and assets held for sale to repay debt while maintaining sufficient capital to fund operations. The Company is not subject to any externally imposed financial covenants.

21. FINANCIAL INSTRUMENTS

Financial instruments of the Company are represented by cash, accounts receivable and other assets, bank indebtedness, accounts payable and accrued liabilities, long-term debt and foreign exchange forward contracts. The carrying value of these instruments, other than long-term debt, approximates their fair value due to the short-term maturity of such items or their bearing market related rates of interest. The fair value of the long-term debt is not readily determinable due to the lender being a company formerly under common control.

Hierarchy of Financial Instruments

The following fair value hierarchy reflects the significance of the inputs used in making measurements of the Company's financial instruments:

As at December 31, 2009

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash	\$ 2,488	\$ 2,488	\$ -	\$ -
Foreign exchange forward contracts	-	-	-	-
	<u>\$ 2,488</u>	<u>\$ 2,488</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities				
Bank indebtedness	\$ -	\$ -	\$ -	\$ -
Foreign exchange forward contracts	16	-	16	-
	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ -</u>

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As at December 31, 2008

Financial assets	Total	Level 1	Level 2	Level 3
Cash	\$ 192	\$ 192	\$ -	\$ -
Foreign exchange forward contracts	395	-	395	-
	<u>\$ 587</u>	<u>\$ 192</u>	<u>\$ 395</u>	<u>\$ -</u>
Financial liabilities				
Bank indebtedness	\$ 3,060	\$ 3,060	\$ -	\$ -
Foreign exchange forward contracts	-	-	-	-
	<u>\$ 3,060</u>	<u>\$ 3,060</u>	<u>\$ -</u>	<u>\$ -</u>

Level 1 includes financial instruments for which quoted prices in active markets exist for identical assets or liabilities. Level 2 includes financial instruments for which fair value inputs other than quoted prices are observable for the asset or liability, either directly or indirectly. Level 3 includes financial instruments for which fair value inputs are not based on observable market data. There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during 2009.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 20. The Company's financial obligations are due as follows:

	<u>Total</u>	<u>Within 1 Month</u>	<u>Between 1 and 3 Months</u>	<u>Between 3 and 12 Months</u>	<u>Between 1 to 3 Years</u>
Accounts payable	\$ 46	\$ 46	\$ -	\$ -	\$ -
Accrued liabilities	414	23	127	264	-
Interest on long-term debt	1,139	-	-	413	726
Long-term debt	6,945	-	-	446	6,499
	<u>\$ 8,544</u>	<u>\$ 69</u>	<u>\$ 127</u>	<u>\$ 1,123</u>	<u>\$ 7,225</u>

Interest accrued at December 31, 2009 is included in accrued liabilities while estimated future interest payments are included in interest on long-term debt.

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Interest rate risk

Interest on the Company's line of credit and term loans were based on variable rates as described in Notes 7 and 9, respectively. At December 31, 2009, the Company has no outstanding balance on its operating loan and after March 1, 2010, the term loan will be based on a fixed rate. Therefore the Company is no longer exposed to significant interest rate risk as at December 31, 2009.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk on accounts receivable from customers and on cash and foreign exchange forward contracts.

A majority of the Company's sales are made to a small number of customers that are concentrated in Asian markets. To manage its credit risk, the Company carefully monitors credit terms, investigates credit history and only grants credit to customers with established relationships or acceptable credit ratings. Letters of credit may be used, or inventory may be held as security until payment is received, when such relationships have not been established. As at December 31, 2009, there was \$NIL in accounts receivable related to major customers (December 31, 2008 - \$NIL related to major customers). As at December 31, 2009, the amount of non-current accounts receivable was \$13,000. There was no impairment allowance recorded for possible non-collection of this amount as the Company considers the amount very likely to be fully collected.

The credit risk on the Company's cash and foreign exchange forward contracts are substantially minimized as they are placed in, or contracted with, large financial institutions. While the Company is exposed to credit losses due to the financial collapse by those who are custodians to the Company's cash and those that are counter parties to the foreign exchange forward contracts, the Company considers this risk quite remote.

Currency Risk

The Company is exposed to currency exchange risk as a result of its international markets and operations and due to the term loan detailed in Note 9(a). The Company periodically enters into foreign exchange forward purchase contracts to manage foreign exchange risk associated with anticipated future debt and interest payments denominated in foreign currencies.

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The Company is exposed to currency risk through the following assets and liabilities denominated in United States dollars (all assets and liabilities denominated in Hong Kong dollars have been translated to United States dollars at the rate of 7.80 to 1.00 which is a fixed rate determined by the Hong Kong Monetary Authority):

(in thousands of United States dollars)	<u>2009</u>	<u>2008</u>
Cash	\$ 19	\$ 28
Accounts receivable	1	-
Foreign exchange contracts	1,400	2,500
Accounts payable and accrued liabilities	(208)	(50)
Long-term debt	(6,603)	(7,013)
Net exposure	\$ (5,391)	\$ (4,535)

Based on the above net exposure as at December 31, 2009, an increase in the spot Canadian/US dollar exchange rate of \$0.10 would result in a foreign exchange loss of \$539,000 while a decrease of \$0.10 would result in a corresponding foreign exchange gain.

The Company also has foreign exchange exposure related to the foreign exchange adjustment of the deficit of self-sustaining foreign operations which is included in accumulated other comprehensive income. As a result, an increase in the spot Canadian/US dollar exchange rate of \$0.10 would result in other comprehensive income of \$201,000 while a decrease of \$0.10 would result in a corresponding other comprehensive loss. Cumulatively, an increase in the spot Canadian/US dollar exchange rate of \$0.10 would result in a decrease to comprehensive income of \$338,000 while a decrease of \$0.10 would result in a corresponding increase to comprehensive income.

22. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company pays management fees to Wai Kee for performing sales, accounting and administrative services for CNT Trading (Hong Kong) Limited. Wai Kee is a Hong Kong based publicly traded company which owns 38% of the shares of the Company and has a director in common with the Company. The Company paid management fees of \$114,000 for the year ended December 31, 2009 (2008 - \$103,000, 2007 - \$102,000) of which \$17,000 remains outstanding as at December 31, 2009 (2008 - \$20,000, 2007 - \$14,000) and is included in accounts payable and accrued liabilities on the consolidated balance sheet. This related party transaction is measured at the exchange value.