

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 15, 2011 and should be read in conjunction with the consolidated financial statements as at December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008 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 did not plant new crops in 2009 or 2010 and is planning to cease operations in their current form after completing the harvest in 2011 and the sale of the inventory from that harvest in 2012. The intention to cease operations resulted in the Company offering retention bonuses to certain management and staff to ensure continuity and operational efficiency until the intended closure date. 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 recorded an operating loss of \$53,000 and net earnings of \$759,000 for the year ended December 31, 2010. The net earnings for the year were due to the gross margin received on the sale of 2010 harvest inventory in the fourth quarter of 2010 as well as due to gains on the disposal of assets of \$591,000.

The Company harvested 125 acres in 2010 and had sold 12% of the resulting inventory by December 31, 2010.

SELECTED ANNUAL INFORMATION

The selected financial data of the Company for the years ended December 31, 2010, 2009 and 2008 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)	2010	2009	2008
Total revenue	\$ 8,951	\$ 6,941	\$ 9,232
Gross margin (loss)	1,287	368	(2,685)
Operating loss	(53)	(1,410)	(4,224)
Net earnings (loss)	759	669	(4,670)
Total assets	12,999	17,849	20,890
Long-term debt – non current	2,984	6,499	8,619
Dividends declared on preferred and common shares	Nil	Nil	Nil
Earnings (loss) per share – basic and diluted	\$ 0.02	\$ 0.02	\$ (0.13)

Revenue increased in 2010 primarily as a result of an increase in the sales price on the inventory from both the 2009 harvest, which was completely sold in 2010, and the 2010 harvest, of which 12% was sold in 2010, compared to the sales price received on inventory sold in 2009.

The Company recorded a gross margin of \$1,287,000 for the year ended December 31, 2010, an increase of \$919,000 from December 31, 2009. The increase in gross margin was primarily the result of higher sales price on inventory sold in the fourth quarter from the Company's 2010 harvest. This higher sales price was due to a higher quality root being produced by the Company and due to more favourable market conditions compared to prior years.

For 2010, the gross margin, operating income and net earnings include a write-down on ginseng crops of \$170,000 which are classified as current assets as they are intended to be harvested in 2011. 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. 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.

Total assets decreased in 2010 and 2009 due to a reduction in the number of acres under cultivation and due to the sale of assets from the British Columbia operation. The non-current long-term debt decreased due to the Company repaying a significant portion of its debt in 2010.

OUTSTANDING SHARE INFORMATION AS AT MARCH 15, 2011

<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 increased 29% to \$8,951,000 in 2010 from \$6,941,000 in 2009. The Company's average selling price increased to \$10.25 per pound compared to \$8.50 per pound in 2009 and the Company's volume of sales increased by 8% in 2010 to 858,000 pounds compared to 798,000 pounds in 2009. The 2010 sales included 510,000 pounds of root harvested in 2009 and 2010 and 348,000 pounds of root harvested in 2008 and earlier periods. The 2009 and 2010 harvested root achieved an average selling price of \$13.00 per pound while the 2008 and early harvested root achieved lower selling prices. Since the selling price on 2008 and earlier harvests was lower than 2009 and 2010 harvest, this resulted in a lower average selling price than the Company would have achieved in 2010. The increase in volume was primarily due to customers not taking delivery of the 348,000 pounds of inventory from 2008 and earlier harvests until 2010. The Company expects that the volume of sales will be significantly lower in 2011 as all of the inventory from 2009 and earlier harvests has been sold and all that remains is 480,000 pounds of inventory harvested in 2010. However, the Company expects that total revenue will approximate the current year's amount as there will be a significant increase in the average selling price due to an increase in quality of the Company's product and an overall increase in market demand.

Cost of goods sold was 86% of sales revenue in 2010 compared to 95% of sales revenue in 2009; therefore gross margin was 14% of revenue in 2010 compared to 5% in 2009. In 2010, the gross margin was primarily due to the increased average selling price on inventory sold from the 2010 harvest. 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 Company harvested 545,000 pounds of root in 2010, an increase of 22% from 446,000 pounds in 2009. In 2010, the Company harvested 125 acres for a yield of 4,345 pounds per acre, while in 2009 the Company harvested 127 acres for a yield of 3,513 pounds per acre. The increase in yield is a result of enhanced crop management techniques and because virtually all of the crops harvested in 2010 harvest were five years old.

The Company recorded a write-down on the ginseng crops that will be harvested in 2011 of \$170,000 for the year ended December 31, 2010 due to frost damage which reduced the expected yield and thus reduced 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 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. 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.

Selling, general and administrative expenses decreased to \$957,000 in 2010 compared to \$1,458,000 in 2009. For 2010, this amount included \$151,000 in retention bonuses for management and staff of which \$4,000 was paid and \$147,000 was accrued as at December 31, 2010. For 2009, the selling, general and administrative expenses included \$530,000 in costs related to the wind-up of the farming operations in British Columbia. Therefore, taking into account these non-recurring items, the Company reduced its other selling, general and administrative expenses by 13% to \$806,000 in 2010 from \$928,000 in 2009. The Company expects that its total selling, general and administrative expenses will increase in 2011 due to the accrual of retention bonuses.

The interest on short-term debt was zero in 2010 as all short-term borrowings were repaid in 2009 and no new facilities were required subsequent to 2009.

Interest on long-term debt increased to \$383,000 in 2010 compared to \$283,000 in 2009. The increase in interest on long-term debt is primarily due to its debt facilities converting to a fixed interest rate on March 1, 2010 compared to a variable interest rate, which was

at historically low levels, throughout 2009. Since the Company has repaid the remaining amount of the loan in early 2011, interest on long-term debt in 2011 is expected to be minimal.

The Company had other non-operating income of \$812,000 for the year ended December 31, 2010 which included \$69,000 in foreign exchanges gains, \$591,000 in gains on the disposal of property, plant and equipment, \$138,000 in government supplement payments net of participating fees and miscellaneous non-operating income of \$14,000. For the year ended December 31, 2009, the Company had other non-operating income of \$2,079,000 which included \$470,000 in foreign exchange 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.

In 2010, the Company achieved net earnings of \$759,000, or \$0.02 basic and diluted earnings per share compared to the 2009 net earnings of \$669,000, or \$0.02 basic and diluted loss per share.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2009 through December 31, 2010. 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)	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$3,254	2,892	1,980	825	980	1,265	1,766	2,930
Write-downs	-	-	(170)	-	(14)	-	-	-
Operating income (loss)	617	41	(471)	(240)	(354)	(402)	(84)	(570)
Net earnings (loss)	804	255	(158)	(142)	15	(136)	1,478	(688)
Net earnings (loss) per share:								
Basic and diluted	\$0.02	0.01	(0.00)	(0.00)	0.00	(0.00)	0.04	(0.02)

Ginseng crops are harvested in the fall of every year, revenue and earnings tend to be higher in first two quarters of the following year as the harvested roots are usually sold. However, this has not been the case in 2010 as the majority of the Company's 2009 harvest inventory has been shipped to customers in the third and fourth quarters of 2010 and the Company sold 12% of its 2010 harvest in the fourth quarter of 2010. 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.

FOURTH QUARTER

For the three months ended December 31, 2010, revenue increased to \$3,254,000 from \$980,000 for the same period in 2009. The increase in revenue in the fourth quarter of 2010 was a result of an increase of inventory being ordered by customers for delivery in the fourth quarter of 2010 compared to 2009 and due to the high sales price for the 2010 harvest inventory sold during the quarter.

The Company recorded net earnings of \$804,000 for the three months ended December 31, 2010 compared to \$15,000 for the three months ended December 31, 2009. The net earnings in the fourth quarter of 2010 were due to the higher margins received on the sale of inventory from the 2009 and 2010 harvest while the gain in 2009 was primarily a result of the gain on the disposition of the Company's farming property and facilities in British Columbia.

LIQUIDITY AND CAPITAL RESOURCES

In 2010, the cash provided by operations was \$3,325,000 compared to \$3,647,000 in 2009. The Company's cash as at December 31, 2010 was \$2,659,000 compared to a balance of \$2,488,000 at December 31, 2009, an increase of \$171,000. The slight increase in cash in 2010 was due to the \$645,000 in proceeds from the disposition of property, plant and equipment.

As of December 31, 2010, the Company had received \$1,479,000 in deposits from customers. These deposits are on orders that should be fulfilled in the first half of 2011.

The working capital position of the Company at December 31, 2010 was a surplus of \$8,751,000 compared to a surplus of \$8,948,000 at December 31, 2009, a decrease of \$197,000. This decrease in working capital is due to the repayment of long-term debt of \$3,712,000 in 2010.

On September 1, 2009 the Company agreed to an extension of an existing HK\$51.5 million loan facility from More Growth Finance Limited ("More Growth"). The Company has repaid HK\$21,125,000 (\$2,820,000) and US\$878,000 (\$892,000) during the year ended December 31, 2010 bringing the balance due down to US\$3,000,000 (\$2,984,000) at December 31, 2010. The Company incurred \$383,000 (2009 - \$283,000, 2008 - \$426,000) of interest which has been included in interest on long-term debt on the statement of operations and deficit. The remaining portion of the loan is due on September 1, 2012; however, subsequent to the end of the reporting period, the Company repaid the remaining balance of the loan.

Capital expenditures of \$86,000 during 2010 were for the purchase of equipment for the Ontario farming operations. During the year, the Company sold excess sunshade and equipment in Ontario and received proceeds from their disposition of \$645,000.

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.

As at December 31, 2010, 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)	\$ 3,005,000	\$ 3,005,000	\$ -	\$ -
Operating Leases (2)	110,000	88,000	22,000	-
Agricultural Land Leases (3)	91,000	52,000	39,000	-
Total Contractual Obligations	\$ 3,206,000	\$ 3,145,000	\$ 61,000	\$ -

- (1) Long-term debt includes the loan from More Growth at a rate of 6.25% and also includes accrued interest and estimated future interest payments.
- (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 Company's commitment to agriculture land rentals for 2012 can be alleviated upon completion of the harvest of the ginseng crops in 2011 and after notification has been given to the respective landlords.

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 Company expects that it will harvest all its remaining ginseng crops in 2011. The cost of maintaining these crops is financed through the sale of inventory and available bank borrowings. This commitment is not included in the Contractual Obligations table.

RELATED PARTY TRANSACTIONS

The Company pays management fees to Wai Kee Holdings Limited ("Wai Kee") 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 46% of the shares of the Company and has a director in common

with the Company. The Company paid management fees of \$63,000 for the year ended December 31, 2010 (2009 - \$114,000, 2008 - \$103,000) of which \$10,000 remains outstanding as at December 31, 2010 (2009 - \$17,000, 2008 - \$20,000) 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.

CONVERSION TO NEW ACCOUNTING 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. Management initiated its IFRS changeover plan in 2009 but has now suspended its changeover to IFRS and intends to convert to United States Generally Accepted Accounting Principles (“US GAAP”) instead of IFRS on January 1, 2011. Management believes that the conversion to US GAAP will be much less onerous and costly as the Company already reconciles to US GAAP annually as part of its filings with the United States Securities Exchange Commission.

The Company has identified the following differences between Canadian GAAP and US GAAP which have a material impact on the financial statements of the Company as per Note 20 on the consolidated financial statements.

Under Canadian GAAP, interest relating to expenditures on ginseng crop costs has been capitalized. The interest is included in inventory when the ginseng crops are harvested and cost of goods sold when the inventory is sold. Under US GAAP, the portion of interest relating to expenditures on ginseng crop costs would not be eligible for capitalization to ginseng crop costs. The amount would be expensed as period costs and accordingly, the carrying value of crop costs and inventory under US GAAP would be different. Similarly, interest that had been capitalized under Canadian GAAP and included in cost of sales would not have been reported as cost of sales for the period under US GAAP since such costs would have previously have been expensed as period costs.

Under Canadian GAAP, inventory and ginseng crops are recorded at the lower of cost or estimated net realizable value. Any write-down to estimated net realizable value can be reversed in subsequent periods if there is a change in circumstances which result in an increase in the estimated net realizable value. Under US GAAP, inventory and ginseng crops are also recorded at the lower of cost or estimated net realizable value but there is

no allowance to reverse a write-down to estimated net realizable value as there is under Canadian GAAP.

Under Canadian GAAP, interest and finance charges are presented as operating expenses and are included in the calculation of operating income. Under US GAAP, interest and finance charges would be presented as non-operating expenses and would therefore be excluded from the calculation of operating income.

As a result of these differences, the consolidated balance sheet of the Company as at December 31, 2010 would change under US GAAP as follows:

(Stated in Canadian Dollars)	Canadian GAAP	US GAAP	Increase (Decrease) in Shareholders' Equity
Assets			
Inventory	\$ 4,839,000	\$ 4,835,000	\$ (4,000)
Short-term ginseng crops	3,149,000	3,149,000	-
	<u>\$ 7,988,000</u>	<u>\$ 7,984,000</u>	<u>\$ (4,000)</u>
Shareholders' Equity	\$ 8,014,000	\$ 8,010,000	\$ (4,000)

The statement of operations and deficit for the year ended December 31, 2010 would change under US GAAP as follows:

(Stated in Canadian Dollars)	Canadian GAAP	US GAAP	Increase (Decrease) in Earnings
Cost of goods sold	\$ 7,664,000	\$ 7,162,000	\$ 502,000
Operating income (loss)	\$ (53,000)	\$ 832,000	\$ 885,000
Net earnings	\$ 759,000	\$ 1,261,000	\$ 502,000

There was no change in interest expense during the year ended December 31, 2010 as the Company did not capitalize any interest under Canadian GAAP.

The statement of operations and deficit for the year ended December 31, 2009 would change under US GAAP as follows:

(Stated in Canadian Dollars)	Canadian GAAP	US GAAP	Increase (Decrease) in Earnings
Cost of goods sold	\$ 6,573,000	\$ 7,067,000	\$ (494,000)
Operating loss	\$ (1,410,000)	\$ (1,584,000)	\$ (174,000)
Interest on long-term debt	\$ (283,000)	\$ (286,000)	\$ (3,000)
Net earnings	\$ 669,000	\$ 172,000	\$ (497,000)

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.

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 9 to the consolidated financial statements which comprise of foreign exchange forward contracts.

OUTLOOK

The Company decided not to plant new ginseng crops in 2009 or 2010 and is planning to cease operations in their current form after completing the harvest in 2011 and the sale of the inventory from that harvest in 2012. In the coming year, the Company will focus its attention on maximizing the yield and quality of the crops from its final harvest in Ontario.

ADDITIONAL INFORMATION

Additional information with respect to the Company is available on the SEDAR website at www.sedar.com

*Report of Independent Registered Chartered Accountants
and
Consolidated Financial Statements of:*

CHAI-NA-TA CORP.

**(Stated in Canadian dollars)
December 31, 2010, 2009 and 2008**



Deloitte & Touche LLP
2800 – 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 604-685-0395
www.deloitte.ca

Independent Auditors' Report

To the Shareholders of Chai-Na-Ta Corp.

We have audited the accompanying consolidated financial statements of Chai-Na-Ta Corp. and its subsidiaries (the "Company") which comprise the consolidated balance sheets as at December 31, 2010 and 2009, 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, 2010, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chai-Na-Ta Corp. and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Other Matters

On March 29, 2011, we reported separately to the Shareholders 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 replaces Note 20 “Supplemental discussion of differences between Canadian GAAP and US GAAP” with a footnote providing a reconciliation of accounting principles generally accepted in Canada to those of the United States of America as it relates to Chai-Na-Ta Corp.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, BC
March 29, 2011

CHAI-NA-TA CORP.
Consolidated Balance Sheets
(Stated in thousands of Canadian Dollars)

<i>As at December 31</i>	Note	2010	2009
ASSETS			
Current assets			
Cash		\$ 2,659	\$ 2,488
Accounts receivable		27	13
Inventory	10	4,839	6,668
Ginseng crops	4,10	3,149	3,898
Prepaid expenses		78	87
		10,752	13,154
Ginseng crops	4,10	-	2,154
Prepaid expenses		15	28
Property, plant and equipment	5	2,232	2,513
		\$ 12,999	\$ 17,849
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 522	\$ 459
Customer deposits	6	1,479	3,301
Current portion of long-term debt	7	-	446
		2,001	4,206
Long-term debt	7	2,984	6,499
Total liabilities		4,985	10,705
SHAREHOLDERS' EQUITY			
Share capital	8	38,246	38,246
Contributed surplus	8	338	338
Accumulated other comprehensive income		917	806
Deficit		(31,487)	(32,246)
		(30,570)	(31,440)
Total equity		8,014	7,144
		\$ 12,999	\$ 17,849

Going concern (Note 2)

Commitments, contingencies and guarantees (Note 14)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

/s/ DEREK ZEN

Derek Zen
Chairman

/s/ 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>	Note	2010	2009	2008
Revenue		\$ 8,951	\$ 6,941	\$ 9,232
Cost of goods sold				
Cost of inventory sold		7,433	6,452	8,826
Shipping and handling fees		61	107	93
Write-down of inventory and ginseng crops	10	170	14	2,998
		7,664	6,573	11,917
Gross margin (loss)		1,287	368	(2,685)
Selling, general and administrative expenses	11	957	1,458	969
Interest on short-term debt		-	37	144
Interest on long-term debt	7	383	283	426
		1,340	1,778	1,539
Operating loss		(53)	(1,410)	(4,224)
Other income (loss)	12	812	2,079	(446)
NET EARNINGS (LOSS)		759	669	(4,670)
Deficit, beginning of year		(32,246)	(32,915)	(28,245)
DEFICIT, END OF YEAR		\$ (31,487)	\$ (32,246)	\$ (32,915)
Basic and diluted earnings (loss) per share	3(i)	\$ 0.02	\$ 0.02	\$ (0.13)
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>	2010	2009	2008
Net earnings (loss)	\$ 759	\$ 669	\$ (4,670)
Other comprehensive income (loss)	111	364	(460)
Comprehensive income (loss)	\$ 870	\$ 1,033	\$ (5,130)

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

<i>Years ended December 31</i>	2010	2009	2008
Balance, beginning of year	\$ 806	\$ 442	\$ 902
Other comprehensive income (loss):			
Adjustments as a result of foreign exchange translation of self-sustaining subsidiaries	111	364	(460)
Balance, end of year	\$ 917	\$ 806	\$ 442

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>	2010	2009	2008
Net inflow (outflow) of cash related to the following activities:			
<u>Operating Activities</u>			
Net earnings (loss)	\$ 759	\$ 669	\$ (4,670)
Items included in net earnings (loss) not affecting cash:			
Cost of ginseng crops sold	7,367	5,906	8,548
Write-down of inventory and crop costs	170	14	2,998
Gain on the disposal of property, plant and equipment	(591)	(611)	(256)
Non-cash realized foreign exchange (gains) losses	(117)	(410)	782
Depreciation and amortization expense	8	10	9
Changes in non-cash operating assets and liabilities:			
Accounts receivable	(14)	302	(259)
Inventory	29	(16)	(9)
Prepaid expenses	22	(3)	(68)
Accounts payable and accrued liabilities	50	(161)	(744)
Customer deposits	(1,822)	848	66
Ginseng crop expenditures	(2,536)	(2,901)	(6,094)
	3,325	3,647	303
<u>Financing Activities</u>			
Bank indebtedness	-	(3,060)	(450)
Repayment of long-term debt	(3,712)	(527)	(155)
	(3,712)	(3,587)	(605)
<u>Investing Activities</u>			
Purchase of property, plant and equipment	(86)	(145)	(94)
Proceeds from the disposition of property, plant and equipment	645	2,386	273
	559	2,241	179
Effect of exchange rate changes on cash	(1)	(5)	8
Net increase (decrease) in cash	171	2,296	(115)
Cash, beginning of year	2,488	192	307
Cash, end of year	\$ 2,659	\$ 2,488	\$ 192
Supplemental information:			
Other cash flows:			
Interest paid	\$ 548	\$ 176	\$ 1,289
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>	Note	2010	2009	2008
Depreciation		\$ 305	\$ 307	\$ 592
Farm equipment operating costs		226	234	556
Interest on long-term debt		-	3	5
Land rental costs		130	202	368
Mulch and fertilizer		647	881	1,499
Office and insurance costs		52	86	166
Plant science		4	6	7
Salaries and wages		1,229	1,272	2,858
Seed		-	43	68
Small tools and supplies		14	19	36
Warehouse and dryer operations		234	196	534
		2,841	3,249	6,689
Balance, beginning of year		6,052	7,486	11,395
		8,893	10,735	18,084
Less:				
Cost of crop harvested		5,574	4,630	10,233
Cost of seeds sold and available for sale		-	103	-
Crop costs reallocated to assets held for sale		-	-	(135)
Write-down of ginseng crops	10	170	(50)	500
Balance, end of year		3,149	6,052	7,486
Less: current portion		3,149	3,898	2,722
		\$ -	\$ 2,154	\$ 4,764

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, 2010, 2009 and 2008

1. NATURE OF OPERATIONS

The Company operates North American ginseng farms in Ontario, 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 46% (2009, 2008 - 38%) of the shares of the Company.

2. GOING CONCERN

The Company did not plant new crops in 2009 or 2010 and is expecting to cease operations in their current form after completing the harvest in 2011 and the sale of the inventory from that harvest in 2012. 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. For the year ended December 31, 2010, the Company had an operating loss of \$53,000 and net earnings of \$759,000 and has an accumulated deficit of \$31,487,000 as at December 31, 2010 along with positive working capital of \$8,751,000 and net cash inflows for the year of \$171,000. Management anticipates there will be positive cash inflows from operations for 2011 and 2012.

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"). Management will convert to United States generally accepted accounting principles ("US GAAP") effective January 1, 2011. The accounting standards that will materially affect the Company's reported financial position and results of operations along with a description of the material differences between Canadian GAAP and US GAAP are disclosed in Note 20.

These consolidated financial statements reflect the following significant Canadian GAAP 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, 2010, 2009 and 2008

(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, 2010, 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 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, 2010, 2009 and 2008

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 18.

(d) Cash

Cash consists of cash on hand and deposits in banks.

(e) Inventory

Inventory is valued at the lower of average cost and 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, 2010, 2009 and 2008

(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. All property, plant and equipment are classified as assets held for use as at December 31, 2010.

(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 2010, 2009 and 2008 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, 2010, 2009 and 2008

	Net Earnings (Loss) (numerator)	Thousands of Shares (denominator)	Earnings (Loss) Per Share
<u>2010</u>			
Basic and Diluted	\$ 759	34,698	\$ 0.02
<u>2009</u>			
Basic and Diluted	\$ 669	34,698	\$ 0.02
<u>2008</u>			
Basic and Diluted	\$ (4,670)	34,698	\$ (0.13)

The Company had no stock options outstanding as at December 31, 2010, 2009 or 2008.

(j) Stock-based compensation plans

The Company has established a policy for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The policy 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, 2010.

(l) Use of estimates

The presentation of financial statements in accordance 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, valuation allowance on 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, 2010, 2009 and 2008

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 are classified as current assets. At December 31, 2010, total area under cultivation and management is 140 acres. A breakdown of acreage by year planted is as follows:

Year planted	Number of acres
2006	31
2008	109
	140

5. PROPERTY, PLANT AND EQUIPMENT

	2010		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 171	\$ -	\$ 171
Buildings	1,220	378	842
Dryers and related works	602	213	389
Computer equipment and software	82	77	5
Furniture and fixtures	203	191	12
Machinery and equipment	3,151	2,545	606
Sunshade	1,414	1,296	118
Vehicles	201	136	65
Pavement	47	23	24
	\$ 7,091	\$ 4,859	\$ 2,232

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, 2010, 2009 and 2008

	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
	<u>\$ 8,531</u>	<u>\$ 6,018</u>	<u>\$ 2,513</u>

6. CUSTOMER DEPOSITS

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

7. LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
Term loan	\$ 2,984	\$ 6,945
Less: current portion	-	446
	<u>\$ 2,984</u>	<u>\$ 6,499</u>

On September 1, 2009, the Company agreed to a three year extension of the remaining HK\$51,500,000 (equivalent to \$6,561,000 at December 31, 2010) loan facility from a company formerly under common control. The loan is denominated in the amounts of HK\$21,125,000 (equivalent to \$2,704,000 at December 31, 2010) and US\$3,878,000 (equivalent to \$3,857,000 at December 31, 2010) and is unsecured and bears interest at 6.25%. The Company repaid HK\$21,125,000 (\$2,820,000) and US\$878,000 (\$892,000) during the year ended December 31, 2010 bringing the balance down to US\$3,000,000 (\$2,984,000) at December 31, 2010. The Company incurred \$383,000 (2009 - \$283,000, 2008 - \$426,000) of interest which has been included in interest on long-term debt on the statement of operations and deficit.

The remaining portion of the loan is due on September 1, 2012; however, subsequent to the end of the reporting period, the Company repaid the remaining balance of the loan.

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, 2010, 2009 and 2008

8. 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.

Outstanding shares are as follows:

	<u>Thousands of shares</u>	<u>Amount</u>
<u>Common shares</u>		
Balance at December 31, 2009 and 2010	34,698	\$ 38,246
<u>Contributed Surplus</u>		
Balance at December 31, 2009 and 2010		\$ 338

9. 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 were no options to purchase shares outstanding as at December 31, 2008, 2009 and 2010.

There were no options granted or modified during the three years ended December 31, 2010.

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, 2010, 2009 and 2008

10. WRITE-DOWN OF INVENTORY AND GINSENG CROPS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Write-down of ginseng inventory	\$ -	\$ 64	\$ 2,498
Reversal of prior year write-down of ginseng crops	-	(500)	-
Write-down of ginseng crops	170	450	500
	\$ 170	\$ 14	\$ 2,998

For the year ended December 31, 2010, the Company recorded a write-down on the ginseng crops that are expected to be part of the 2011 harvest. This write-down was recorded due to frost at one of the Company's farm locations which harmed the ginseng crops and reduced the expected yield from that location which in turn reduced the net realizable value of those ginseng crops.

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. At December 31, 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-off of \$64,000 on ginseng fibres from prior harvests as the ability of the Company to sell these specific ginseng fibres was 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 intended 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.

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, 2010, 2009 and 2008

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Retention bonus	\$ 151	\$ -	\$ -
Wind-up expenses of terminated operations	-	530	-
Other selling, general and administrative expenses	806	928	969
	<u>\$ 957</u>	<u>\$ 1,458</u>	<u>\$ 969</u>

During 2010, the Company agreed to pay retention bonuses totaling \$485,000 to corporate and farm management and staff to ensure the stability of the operation through the expected final harvest in 2011 and the sale of the Company's assets in 2012. These retention bonuses are contingent on the satisfactory completion of the job duties of each employee up to their termination date. During 2010, \$151,000 of expenses was incurred with \$4,000 being paid and \$147,000 accrued and included in accounts payable and accrued liabilities. The remaining balance will be recorded over the remaining service period for the employees and will be adjusted for changes in employees on a prospective basis.

For 2009, 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.

12. OTHER INCOME (LOSS)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Foreign exchange gain (loss)	\$ 69	\$ 470	\$ (769)
Gain on disposal of property, plant and equipment	591	611	256
Government supplements	138	995	64
Other non-operating income	14	3	3
	<u>\$ 812</u>	<u>\$ 2,079</u>	<u>\$ (446)</u>

Foreign exchange gain (loss) for the year ended December 31, 2010 includes a \$64,000 loss on foreign exchange forward contracts (2009 - \$357,000 loss, 2008 - \$451,000 gain).

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. The substantial amount received in 2009 was from the 2007 program year and the additional amount received in 2010 was due to an amendment filed for that same program year. The Company considers these payments non-recurring and are recorded as received.

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, 2010, 2009 and 2008

13. FUTURE INCOME TAXES

Temporary differences and loss carryforwards that give rise to future income tax assets and liabilities as at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Future income tax assets (liabilities)		
Property, plant and equipment	\$ (135)	\$ (41)
Tax loss carryforwards	4,865	5,041
	<u>4,730</u>	<u>5,000</u>
Less: valuation allowance	4,730	5,000
Future income tax assets	<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 income taxes has been calculated as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Canadian statutory tax rate	31.00%	33.00%	33.50%
Income taxes payable (recoverable) at the Canadian statutory rates	\$ 235	\$ 221	\$ (1,541)
Adjustments:			
Foreign tax rate differential	10	(10)	34
Change in future income tax rates	35	1,477	80
Other	(10)	22	(57)
Valuation allowance	(270)	(1,710)	1,484
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Company's foreign subsidiaries have tax losses available for carry forward of approximately \$809,000 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 \$18,779,000 which can be applied to reduce future taxable income and expire at various times over the next four to twenty years.

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, 2010, 2009 and 2008

14. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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:

2011	\$	88
2012		22
		<hr/>
	\$	110

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

2011	\$	52
2012		39
		<hr/>
	\$	91

The Company's commitment to agriculture land rentals for 2012 can be alleviated upon completion of the harvest of the ginseng crops in 2011 and after notification has been given to the respective landlords.

The Company has paid rental costs on operating leases and land rentals of \$205,000, \$302,000 and \$476,000 for the years ended December 31, 2010, 2009 and 2008, respectively, of which \$170,000, \$265,000 and \$441,000 was capitalized to crop costs for the respective years.

15. FOREIGN EXCHANGE FORWARD CONTRACTS

As at December 31, 2010, the Company had entered into a forward contract with a Canadian bank to purchase US\$1,400,000 on March 28, 2011 to partially fix the rate of exchange on the term loan described in Note 7. If the spot Canadian/US dollar exchange rate is less than or equal to \$1.0150 on the contract date, the exchange rate of the purchase will be \$1.0150. If the exchange rate is greater than or equal to \$1.0650 on the contract date, the exchange rate of the purchase will be \$1.0650. If the exchange rate is between \$1.0150 and \$1.0650 on the contract date, the contract will expire and a purchase obligation will not take place. At December 31, 2010, the closing exchange rate of \$0.9946 resulted in a liability of \$29,000 for the Company on the contract which is included in accounts payable and accrued liabilities.

As at December 31, 2010, the Company had entered into a forward contract with a Canadian bank to purchase US\$250,000 on January 14, 2011 at a rate of \$0.9961 to partially fix the rate of exchange on a term loan payment on the loan described in Note 7. At December 31, 2010, the closing exchange rate of \$0.9946 resulted in a foreign exchange loss of less than \$1,000 for the Company on the contract which is included in accounts payable and accrued liabilities.

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, 2010, 2009 and 2008

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 7. If the spot Canadian/US dollar exchange rate was less than or equal to \$1.0625 on the contract date, the exchange rate of the purchase would have been \$1.0625. If the exchange rate was greater than or equal to \$1.0775 on the contract date, the exchange rate of the purchase would have been \$1.0775. If the exchange rate was between \$1.0625 and \$1.0775 on the contract date, the contract would expire and a purchase obligation would 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 was included in accounts payable and accrued liabilities.

16. SEGMENTED REPORTING

The Company operates in one industry segment and two geographic regions. The geographic region that the external revenue is derived from is determined by the residency of the customer. Intersegment revenue is determined by the residency of the subsidiary selling the product. Information by geographic region is summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
External revenue from operations located in:			
Canada	\$ 3,841	\$ 1,473	\$ 1,196
Hong Kong and People's Republic of China	5,110	5,468	8,036
Total external revenue	\$ 8,951	\$ 6,941	\$ 9,232
Intersegment revenue from operations located in:			
Canada	\$ 4,580	\$ 4,454	\$ 7,002
Hong Kong and People's Republic of China	-	556	277
Total intersegment revenue	\$ 4,580	\$ 5,010	\$ 7,279
Net earnings (loss) from operations located in:			
Canada	\$ 839	\$ 605	\$ (4,022)
Hong Kong and People's Republic of China	(80)	64	(648)
Total net earnings (loss)	\$ 759	\$ 669	\$ (4,670)

All of the Company's long-lived assets, which comprise of all assets not classified as current, were in Canada as at December 31, 2010, 2009 and 2008.

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, 2010, 2009 and 2008

Major Customers

Major customers include all customers with whom the Company has derived revenue greater than 10% of its total revenue within the reporting period.

For the year ended December 31, 2010, consolidated revenue included sales to four customers. Two of these customers accounted for \$2,103,000 and \$1,444,000, respectively, from the Hong Kong and People's Republic of China geographic region, one customer accounted for \$1,647,000 from the Canadian geographic region, and a fourth customer accounted for a total of \$2,730,000 of which \$1,843,000 was from the Canadian geographic region and \$887,000 was from the Hong Kong and People's Republic of China geographic region.

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 Hong Kong and People's Republic of China geographic region.

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 Hong Kong and People's Republic of China geographic region.

17. CAPITAL DISCLOSURES

The Company's current objective in managing capital is to 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.

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, 2010, 2009 and 2008

18. 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, 2010

<u>Held for trading</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash	\$ 2,659	\$ 2,659	\$ -	\$ -
Financial liabilities				
Foreign exchange forward contracts	\$ 29	\$ -	\$ 29	\$ -

As at December 31, 2009

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

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 2010.

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 17. The Company's financial obligations are due 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, 2010, 2009 and 2008

	<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	\$ 65	\$ 65	\$ -	\$ -	\$ -
Accrued liabilities	310	83	158	69	-
Interest on long-term debt	16	-	16	-	-
Long-term debt	2,984	1,492	1,492	-	-
	<u>\$ 3,375</u>	<u>\$ 1,640</u>	<u>\$ 1,666</u>	<u>\$ 69</u>	<u>\$ -</u>

Interest accrued at December 31, 2010 is included in accrued liabilities while estimated future interest payments are included in interest on long-term debt.

Interest rate risk

At December 31, 2010, the Company has no debt facilities at variable interest rates so therefore the Company is not exposed to significant interest rate risk.

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, 2010, there was \$NIL in accounts receivable related to major customers (December 31, 2009 - \$NIL related to major customers). As at December 31, 2010, the amount of past due accounts receivable was \$4,000. There was no impairment allowance recorded for possible non-collection of this amount as the amount was collected by the Company in the first week of 2011.

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 7. 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.

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, 2010, 2009 and 2008

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 Hong Kong dollars to 1.00 United States dollars which is a fixed rate determined by the Hong Kong Monetary Authority):

(in thousands of United States dollars)	<u>2010</u>	<u>2009</u>
Cash	\$ 800	\$ 19
Accounts receivable	-	1
Foreign exchange contracts	1,650	1,400
Accounts payable and accrued liabilities	(4)	(208)
Long-term debt	<u>(3,000)</u>	<u>(6,603)</u>
Net exposure	\$ (554)	\$ (5,391)

The Canadian dollar equivalent of the net exposure, using December 31, 2010 exchange rates, as at December 31, 2010 would be a net liability of \$551,000 and as at December 31, 2009 would be a net liability of \$5,362,000.

Based on the above net exposure as at December 31, 2010, an increase in the spot Canadian/US dollar exchange rate of \$0.10 would result in a foreign exchange loss of \$55,000 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 \$195,000 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 an increase to comprehensive income of \$140,000 while a decrease of \$0.10 would result in a corresponding decrease to comprehensive income.

19. 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. The Company paid management fees of \$63,000 for the year ended December 31, 2010 (2009 - \$114,000, 2008 - \$103,000) of which \$10,000 remains outstanding as at December 31, 2010 (2009 - \$17,000, 2008 - \$20,000) and is included in accounts payable and accrued liabilities. This related party transaction is measured at the exchange value.

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, 2010, 2009 and 2008

20. SUPPLEMENTAL DISCUSSION OF DIFFERENCES BETWEEN CANADIAN GAAP AND US GAAP

The Company has identified the following differences between Canadian GAAP and US GAAP which have a material impact on the financial statements of the Company.

Under Canadian GAAP, interest relating to expenditures on ginseng crop costs has been capitalized. The interest is included in inventory when the ginseng crops are harvested and cost of goods sold when the inventory is sold. Under US GAAP, the portion of interest relating to expenditures on ginseng crop costs would not be eligible for capitalization to ginseng crop costs. The amount would be expensed as period costs and accordingly, the carrying value of crop costs and inventory under US GAAP would be different. Similarly, interest that had been capitalized under Canadian GAAP and included in cost of sales would not have been reported as cost of sales for the period under US GAAP since such costs would have previously have been expensed as period costs.

Under Canadian GAAP, inventory and ginseng crops are recorded at the lower of cost or estimated net realizable value. Any write-down to estimated net realizable value can be reversed in subsequent periods if there is a change in circumstances which result in an increase in the estimated net realizable value. Under US GAAP, inventory and ginseng crops are also recorded at the lower of cost or estimated net realizable value but there is no allowance to reverse a write-down to estimated net realizable value as there is under Canadian GAAP.

Under Canadian GAAP, interest and finance charges are presented as operating expenses and are included in the calculation of operating income. Under US GAAP, interest and finance charges would be presented as non-operating expenses and would therefore be excluded from the calculation of operating income.

As a result of these differences, the consolidated balance sheet of the Company as at December 31, 2010 would change under US GAAP as follows:

	Canadian GAAP	US GAAP	Increase (Decrease) in Shareholders' Equity
	<u> </u>	<u> </u>	<u> </u>
Assets			
Inventory	\$ 4,839	\$ 4,835	\$ (4)
Short-term ginseng crops	3,149	3,149	-
	<u>\$ 7,988</u>	<u>\$ 7,984</u>	<u>\$ (4)</u>
Shareholders' Equity	<u>\$ 8,014</u>	<u>\$ 8,010</u>	<u>\$ (4)</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, 2010, 2009 and 2008

The statement of operations and deficit for the year ended December 31, 2010 would change under US GAAP as follows:

	Canadian GAAP	US GAAP	Increase (Decrease) in Earnings
Cost of goods sold	\$ 7,664	\$ 7,162	\$ 502
Operating income (loss)	\$ (53)	\$ 832	\$ 885
Net earnings	\$ 759	\$ 1,261	\$ 502

There was no change in interest expense during the year ended December 31, 2010 as the Company did not capitalize any interest under Canadian GAAP.

The statement of operations and deficit for the year ended December 31, 2009 would change under US GAAP as follows:

(Stated in Canadian Dollars)	Canadian GAAP	US GAAP	Increase (Decrease) in Earnings
Cost of goods sold	\$ 6,573	\$ 7,067	\$ (494)
Operating loss	\$ (1,410)	\$ (1,584)	\$ (174)
Interest on long-term debt	\$ (283)	\$ (286)	\$ (3)
Net earnings	\$ 669	\$ 172	\$ (497)