



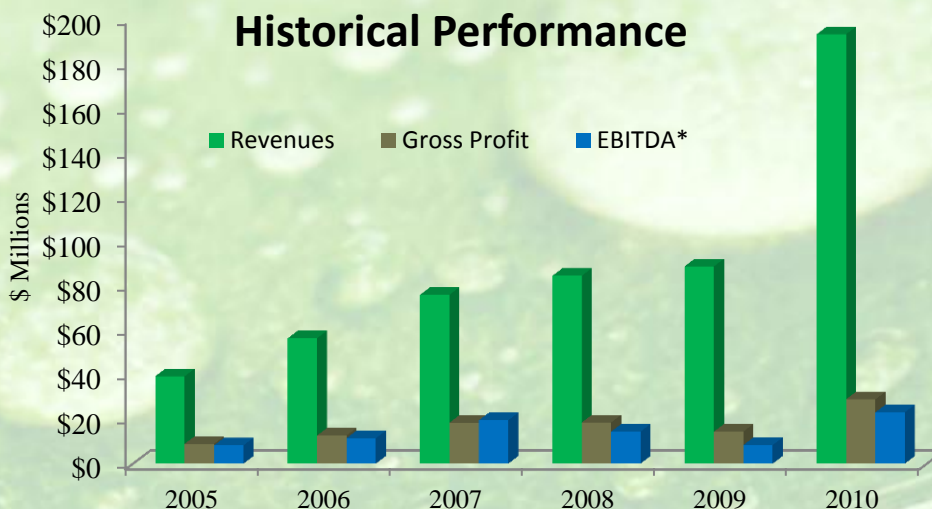
Asia Bio-Chem Group

2010 Annual Report

Asia bio-Chem is in the business of supplying China's food industry.

Our products are used in the production of a wide variety of goods including soft drinks, beer, confectionary, baked products and feed for the livestock industry.

Over the past year the Company has successfully commissioned its new Daqing plant which started operations in early 2010. With the addition of this new facility coupled with strong product prices, the Company was able to achieve 118% growth in revenues and 428% growth in earnings compared with the previous year.



* Earnings before interest, tax, depreciation, amortization and before non-cash stock based compensation expense

With the successful completion of the Daqing plant, the Company has announced a product expansion into downstream markets. This expansion will take advantage of the Company's expertise in quality production and transportation while growing revenues and enhancing margins.

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Message to Shareholders

Dear Shareholders

2010 was a year of growth and great accomplishment for our Company.

Firstly, we have successfully completed the commissioning of Daqing plant, and improved our logistics with the implementation of an intermodal loading system. We are very pleased to report that Daqing ended 2010 at over 90% capacity.

Secondly, we have completed the upgrade and relocation of our Changtu plant. The purpose of this project was to improve efficiencies and upgrade our production process to satisfy the latest production standards of the international food and beverage industry. The relocation allows us to benefit from a government incentive program and provides a larger portion of land for future expansion.

Turning to our growth plans, we have exciting initiatives at both of our facilities. At Daqing we have undertaken an expansion into downstream products. We believe that this expansion will have a positive impact on margins by addressing a growing market for crystallized glucose and related downstream products. The relatively modest capital requirements of this downstream project allow us to use a limited amount of equity provided thru our recent prospectus offering.

Meanwhile, at our Changtu facility, our relocation of this plant in the fourth quarter of 2010 has secured an important new location which will accommodate future growth in this area. The new location has been designed to accommodate the addition of another 600,000 tonnes of capacity thru a second-phase expansion.

Our accomplishments in 2010 have not been without challenges. But from where we sit today, we have become one of the largest players in the Chinese starch industry, we have created an extensive and efficient transportation system, we employ the most modern production processes and we have a clear path to continued growth of our business and increased return to our shareholders.

We thank you for your continued support of our Company.

Zhiping Wang
President & CEO

Corporate Overview

Asia Bio-Chem Group Co. Ltd. (“Asia Bio-Chem” or the “Company”), through its wholly-owned subsidiaries is a leading manufacturer of corn starch and related by-products in China. The Company produces cornstarch, corn germ, gluten and fibre per year for the Chinese domestic market.

The Company’s primary product, cornstarch, is used in the manufacturing of hundreds of food products including MSG, fructose, maltose, glucose, dextrin, citric acid and lysine. Cornstarch is also used to produce sugar alcohols such as sorbitol and mannitol and is used to produce a wide variety of modified starch products for the pharmaceutical and fine chemical industries. Corn germ is used by the Company’s customers to produce corn oil used for cooking or in producing margarine. The gluten and fiber products manufactured by the Company are used by livestock farmers as animal feed.

Asia Bio-Chem’s manufacturing operations are located in the northeast region of China.

The Company’s newly relocated ChangTu facility is 130 km north of Shenyang (Capital of Liaoning) and has a processing capacity of 300,000 tonnes of corn per year.

The recently completed Daqing facility is located in Zhaoyuan County which is 160 km south west of Harbin, the capital city of Helongjiang province.



ChangtuPlant

The Daqing is one of the largest and most modern wet milling plants in China with a total processing capacity of 600,000 tonnes of corn per annum.



Daqing Plant

Both of these facilities are situated in a regions of concentrated corn farming. The company uses both truck and rail to ship its products to the port of Yingkou on the Yellow sea which provides a cost effective means of shipping our products to customers in the south of China.

Corporate Strategy

Asia Bio-Chem has developed a strategy centered around our geographic presence in the Northeast region of China. By locating our production facilities in this rural region of China we are able to take advantage of the abundance and relatively less expensive corn from this region. In addition, the lack of competition in this area has led to significant government incentives oriented around rural development initiatives.

The primary reason we are able to enjoy these advantages is that this location is not near any large urban markets and, as such, the cost of transportation has meant that few of our competitors have located in this region. With higher corn and product prices coupled with improvements in infrastructure the relative cost of transportation has become less of a factor to getting our product to market.

Further, given our proximity to modern ports in the Yellow sea, we are able to transport our products to the Pearl River Delta and the markets in the south of China. Given the low cost of sea transportation, we are able to bypass the more competitive markets in central China and focus in the south where the climate is too warm for corn and therefore few corn processors.



Asia Bio-Chem has spent much of 2010 putting in place its rail transportation system from the Daqing plant and refining the land to sea logistics. Our company has implemented an intermodal transportation systems from the Daqing plant which has enabled us to achieve continuous loading at the plant while speeding up the transfer at the port to the containership.

Starch

for the Sweetener and Processed Food Industry

The primary use of corn starch in China is in the production of sweeteners. Corn-based sweeteners such as fructose are used in many beverage products while sugar alcohols such as sorbitol and mannitol and is used to produce a wide variety of modified starch products for the pharmaceutical and fine chemical industries.

China produces approximately 9 million tonnes of corn based sweeteners per year representing approximately 40% of all sweeteners used in China.

Corn starch also has a number of unique characteristics which provides a very wide range of applications in the food industry as well as other industrial applications. The first property, thickening, gives many food products such as puddings, gravies, sauces and pie fillings their desired consistency. The second useful physicochemical property is the ability of the starch paste to disperse and suspend other ingredients or particulate matter. In many foods, fats and proteins are suspended and/or emulsified in starch pastes. In the manufacturing of paper and adhesives, clay particles are suspended in thick starch pastes.

The third useful property, gel formation, provides the body typical of starch-based puddings, salad dressings and some types of adhesives. The fourth useful physicochemical property of starch paste is its ability to produce strong adhesive films when spread on smooth surfaces and dried. The major industrial uses of starch, such as paper coating and sizing, textile sizing, corrugated board manufacture and all adhesive applications utilize this property.

To date Asia Bio-Chem has focused on supplying high quality starch to downstream processors. Now that the company has completed its expansion to 600,000 tonnes of starch capacity and updated its manufacturing, it is an appropriate time to move into selective downstream markets.

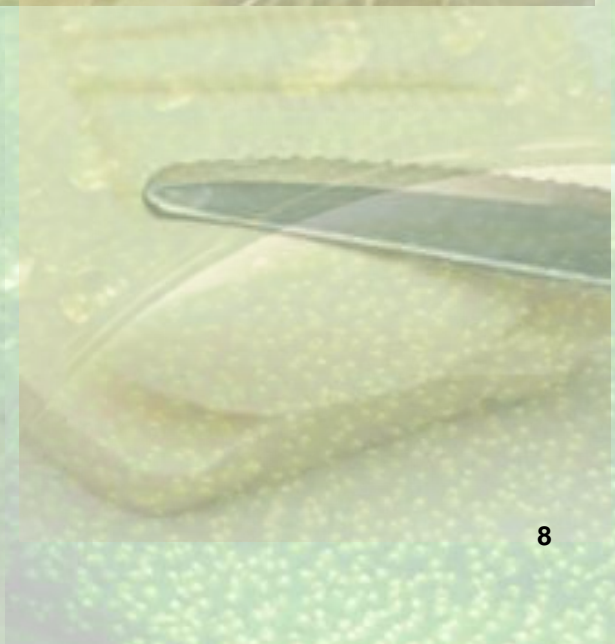


Germ

for the Corn Oil related products

Corn germ is the embryo of the kernel found in its centre and is comprised of fat (50%), starch (14%) and protein (13%). Corn germ is generally crushed into corn oil, which can then be further processed into cooking oil, margarine, mayonnaise, salad dressing, soaps and a variety of other products. Corn oil contains a high level of polyunsaturated fats, which is effective in lowering cholesterol levels as compared to animal fats.

Corn germ is often used as an alternative to Soybean germ which is crushed and can be used to manufacture many of the same products.



Feed

Products for the Pork, Poultry and Cattle Industry

Gluten

is a moderately high source of protein (about 65-70%), low in starch (about 12%), and the fibre is digestible. The fibre content allows farmers to feed their cattle relatively large amounts of gluten. Despite its high portion of fibre, it can still be regarded as an energy source while having a favourable levels of protein degradability, an important factor when considering protein levels in the diet of livestock.

Fibre

is composed of 21% protein, 18% starch and 30% fibre which make it ideal as an ingredient for animal feed. Fibre can be mixed with concentrated steeping liquor (called Gluten Feed). Fibre produced from the wet milling process is somewhat more digestible than in the dry form, permitting greater intakes of wet versus dry corn gluten feed. Because of these characteristics, cattle can be fed relatively large amounts thereby providing an important source of protein.

Asia Bio-Chem Group Corp.

Management Discussion and Analysis

Fiscal Year Ended December 31, 2010

March 15, 2011

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Asia Bio-Chem Group Corporation (the "Company" or "Asia Bio-Chem") and the financial performance for the year ended December 31, 2010. This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and related notes as at, and for the years ended December 31, 2010 and 2009. Reference should also be made to the Company's filings with Canadian securities regulatory authorities which are available at www.sedar.com.

This MD&A is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure directly and through its audit committee comprised exclusively of independent directors. The audit committee reviews and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure.

All amounts are in Canadian dollars unless otherwise noted and prepared in accordance with Canadian Generally Accepted Accounting Policies.

In addition to measures based on Canadian generally accepted accounting principles ("GAAP") in this MD&A, terms such as earnings before interest, taxes, depreciation and amortization ("EBITDA") and EBITDA margin are not defined by GAAP, and our use of such terms or measurement of such items may vary from that of other companies. In this MD&A, we describe certain income and expense items that are unusual or non-recurring. These terms are not defined by GAAP. Our usage of these terms may vary from the usage adopted by other companies. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

At December 31, 2010, the Company had 77,026,258 common shares outstanding. At March 15, 2011 the Company has 85,306,258 common shares outstanding.

Forward-Looking Information

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address Asia Bio-Chem's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements.

You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on

reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at March 16, 2011.

For a description of material factors that could cause our actual results to differ materially from the forward looking statements in this MD&A, please see the Risk Factors section.

Overview

Asia Bio-Chem Group Corp. (the“Company”), was incorporated under the laws of the Province of British Columbia on October 5, 2005 as Parran Capital Inc. (“Parran), a capital pool company. On June 19, 2008, Parran completed a qualifying transaction by acquiring Asia Bio-Chem Group Company Ltd. (“Asia Bio”), a company incorporated on July 30, 2007 under the Business Companies Act of the British Virgin Islands, and its wholly owned subsidiary Chang Tu Bio-Chem Technology Co. Ltd. (“Changtu”), formerly ChangTu Wan Shun Da Starch Co. Ltd., incorporated on June 10, 2004 under the business laws of the Peoples Republic of China (“PRC” or “China”). The acquisition was accomplished through an exchange of shares which resulted in the former shareholders of Asia Bio obtaining control of the Company. Accordingly, this transaction was recorded as a reverse takeover (“RTO”) and Asia Bio was deemed to be the accounting acquirer. Concurrent with this transaction, the Company changed its name from Parran Capital Inc. to Asia Bio-Chem Group Corp.

The Company operates two manufacturing facilities in China. The first facility is located in Changtu county, Liaoning province which was purchased by the company in 2006. Since the acquisition of the Changtu facility the capacity has been increased from 170,000 tonnes to approximately 300,000 tonnes of corn per year. This facility recently completed an update and relocation. These upgrades are expected to improve efficiencies by reducing steam, electricity and water usage. Also by undertaking these upgrades the Company will satisfy the latest standards of the international food and beverage industry and allow the Company to qualify for larger contracts.

On September 25, 2008, the Company completed the acquisition of 100% interest of Daqing Biochemical Company Ltd. (“Daqing”), a PRC company located in Heilongjiang Province. The construction of the Daqing processing plant was completed and initial production commenced in October 2009. The Daqing plant is expected to process approximately 600,000 tonnes of corn per year.

The Company primarily produces cornstarch which is sold to industrial customers in a variety of industries within China. Cornstarch is used in the manufacturing of hundreds of food products including MSG, fructose, maltose, glucose, dextrin, citric acid and lysine. Cornstarch is also used to produce sugar alcohols such as sorbitol and mannitol and is used to produce a wide variety of modified starch products for the pharmaceutical and fine chemical industries. The cornstarch manufacturing process produces three by-products: corn germ, gluten and fibre. Corn germ is used by the Company’s customers to produce corn oil used for cooking or in producing margarine. The gluten and fibre products manufactured by the Company are used by livestock farmers as animal feed.

Highlights for the Year

- During fiscal 2010, the Company achieved a number of significant milestones including the successful ramp up of the Daqing facility, improvements to its loading and shipping infrastructure and the upgrade and relocation of its Changtu facility.
- The Company's Daqing facility began production in the first quarter of 2010. Through continuous improvements in shipping logistics, this facility has achieved over 90% capacity during the fourth quarter of 2010 measured by finished goods produced ("production capacity"). As a result of this success at the Daqing facility, the Company achieved 117.6% growth in revenues and 101.1% growth in gross profit compared with fiscal 2009.
- The Company's Changtu plant completed its equipment upgrade and relocation in the third and fourth quarter of 2010 and is now fully compliant with international industry standards. The Changtu plant is currently ramping up production and expects to achieve 40% average production capacity during the first quarter of 2011.
- The successful ramp up of the Company's Daqing facility coupled with continued strong starch prices contributed to a doubling of gross profit during fiscal 2010 to \$28.9 million. This gross margin was achieved with only 68% average production capacity during the year given that Daqing was ramping up and Changtu had been closed temporarily for relocation.
- The Company has successfully managed its transportation, general and administrative expense to achieve 378.9% growth in income from operations and 325.8% growth in EBITDA during 2010 over the previous year.
- Net income increased by 428.1% to \$11.1 million during 2010 compared with 2009.
- As at December 31, 2010, the Company had \$5.6 million in cash and \$62.1 million in government and bank debt.
- Subsequent to year end, the Company completed a prospectus financing in the amount of \$11.6 million which will be used to finance an expansion of its product offering at the Daqing facility. This product expansion will involve the further refinement of starch into higher margin downstream products.

Performance of the Company

Key performance Indicators

The key performance indicators for the Company are revenue growth, gross profit, EBITDA and net income.

The success of the Company's expansion will be measured by revenue growth. Revenue growth will be dependent on the Company's ability to expand production capacity either by building new facilities or through acquisitions.

The cost of corn is a major factor in the Company's production process. The price paid by the Company for its corn input is influenced by seasonal demand and supply factors and can be volatile. Further, the selling prices of the Company's products are influenced by market conditions and can also be volatile. Gross profit is an indicator of the relationship between input costs and selling prices as well as how the Company is managing its production costs and customer price negotiations.

Management believes that EBITDA, after adjusting for stock-based compensation expense, is a measure of how efficiently and effectively the business is running.

Net income is also viewed as an important measure for determining the value created for shareholders.

Measurement

Provided below are two tables that the Company uses to assess performance. The Quarterly Results table presents the Company's consolidated results for the last eight quarters. The Results of Operations table sets out the Company's consolidated results for the year ended December 31, 2010, compared with the same period last year.

Quarterly Results

<i>in thousands of Canadian dollars except per share and percentage data</i>	Fiscal 2010				Fiscal 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	46,383	49,902	56,883	39,933	23,198	23,202	23,299	19,031
Gross profit	6,601	5,983	9,595	6,769	4,538	3,877	3,558	2,423
Gross margin (% of Sales)	14.2%	12.0%	16.9%	17.0%	19.6%	16.7%	15.3%	12.8%
Selected operating expenses								
Selling and distribution	2,133	2,114	2,352	1,741	1,136	891	1,118	715
General and administrative	735	1,262	1,314	1,128	1,327	965	920	977
Stock-based compensation	351	351	605	656	628	600	919	1,232
Income from operation	3,382	2,257	5,323	3,245	1,447	1,421	601	-502
Other income (expense)	-825	-641	-749	-888	695	-327	-107	-179
Income taxes	-300	-71	115	224	454	265	65	157
Net income	2,856	1,688	4,459	2,133	1,688	828	430	-837
EBITDA	5,364	3,980	7,003	4,782	2,355	1,688	1,088	-169
EBITDA before stock-based compensation	5,715	4,330	7,608	5,438	2,982	2,288	2,007	1,063
Earnings per share								
Basic	0.03	0.02	0.06	0.03	0.02	0.01	0.01	-0.01
Diluted	0.03	0.02	0.06	0.06	0.02	0.01	0.01	-0.01

Results of Operations

Consolidated Results

The following table sets out the Company's selected consolidated results for year ended December 31, 2010, compared with the same periods in 2009:

<i>in thousands of Canadian dollars except per share and percentage data</i>	Year Ended December 31,		
	2010	2009	% Change
Sales	193,102	88,731	117.6%
Gross profit	28,948	14,396	101.1%
Gross margin (% of Sales)	15.0%	16.2%	
Operating expenses	14,741	11,429	29.0%
Income from operations	14,207	2,967	378.9%
Other income (expense)	-3,104	82	-3893.0%
Income taxes	-32	940	-103.4%
Net income	11,135	2,109	428.1%
EBITDA	21,128	4,962	325.8%
EBITDA before stock-based compensation	23,091	8,341	176.8%
Earnings per share			
Basic	0.14	0.03	
Diluted	0.14	0.03	
Weighted average number of shares			
Basic	76,854,270	76,777,025	
Diluted	78,442,789	76,777,025	

The Company earns all of its revenues and incurs most of its expenses in Chinese Renminbi ("RMB"). Accordingly, reported results will fluctuate with changes in the exchange rate to the Canadian dollar. During the year ended December 31, 2010 the average exchange rate was \$0.15243 Canadian dollars to one Chinese RMB compared with \$0.16720 for the year ended December 31, 2009.

Sales

(\$000)	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Sales	46,383	23,198	100.0%	193,102	88,731	117.6%

For the quarter ended December 31, 2010, sales increased by \$23.2 million or 100.0%, compared with the corresponding period of 2009. For the year ended December 31, 2010, sales increased by \$104.4 million or 117.6%, compared with the corresponding period of 2009. These increases were primarily due to higher volumes resulting from the addition of the Daqing facility and

higher selling prices of starch. The improvement in sales was partly offset by foreign exchange translation effect due to the appreciation of the Canadian dollar against Chinese RMB.

Production Volume

The table below outlines the tonnage of product produced during the subject periods as well as the percentage changes for the quarter and the year ended December 31, 2010 compared with the corresponding periods of 2009.

Tonnes of production:

	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Starch	92,735	50,356	84.2%	416,205	195,402	112.9%
Gluten	8,150	4,437	83.7%	36,935	17,257	114.0%
Germ	9,526	5,095	86.9%	43,598	20,063	117.3%
Fibre	17,123	9,539	79.5%	77,998	37,165	109.9%
	<u>127,534</u>	<u>69,427</u>	83.7%	<u>574,736</u>	<u>269,887</u>	112.9%

During the quarter and year ended December 31, 2010, total production increased by 83.7% and 112.9%, respectively, compared with the same periods of 2009. These increases were due to the addition of the Daqing facility.

Product Pricing

During the fourth quarter of 2010, starch and germ prices have shown improvement while gluten and fibre prices have declined compared with the same period of 2009.

Starch prices have improved 24.3% in the fourth quarter of 2010 compared with the fourth quarter of 2009. On an annual basis, the average price of starch has improved 28.2% in fiscal 2010 compared with fiscal 2009. The improvement in starch pricing during the fourth quarter of 2010 and year 2010 is primarily due to increased demand from sweetener producers and higher corn prices.

Germ prices have improved during the fourth quarter of 2010 as prices were 14.5% higher compared with the fourth quarter of 2009. The improvement was due to improved prices for substitute products such as soy bean oil during the fourth quarter. Soy bean oil prices have increased due to a 30% rise in the price of soybean during the last quarter of 2010.

Given that germ prices had been low for the first half of 2010, the annual price during 2010 was 1.5% lower than that experienced in 2009. The lower annual prices for germ was due to a price decline in corn germ oil experienced in the first nine months of the year driven by lower prices for soy bean oil.

Gluten prices have been on a decline since the fourth quarter of 2009. During the quarter and fiscal year ended December 31, 2010, average prices of gluten declined by 19.2% and 13.7%, respectively, compared with the corresponding periods of 2009. The decline in fiscal year 2010 was partially due to the bird flu which affected consumption in the livestock industry as well as higher imports of substitute feeds such as soybean gluten. In the fourth quarter of 2010, the Company cleared out some less concentrated gluten produced during early stage of Daqing production at lower prices which also contributed to the decline in gluten prices.

Fibre prices have stabilized from the declines experienced earlier in 2010. During the fourth quarter fibre prices have declined by 13.7% compared with the fourth quarter of 2009. For the fiscal year 2010, fibre prices were relatively flat declining only 0.2% compared with fiscal 2009. The decline in fourth quarter of 2010 was due to reduced demand from exports. The higher demand from Southeast Asia during the first half of 2010 contributed to the higher fibre prices then.

Geographic Revenues

The Company earns all of its sales in the PRC. There is currently no plan to expand into exporting products, as management believes that demand within the Chinese market is more than sufficient.

Cost of Sales

(\$000)	<u>Three Months Ended December 31,</u>			<u>Year Ended December 31,</u>		
	2010	2009	% Change	2010	2009	% Change
Cost of Sales	39,782	18,660	113.2%	164,154	74,335	120.8%

Costs of sales increased by \$21.1 million or 113.2% and \$89.8 million or 120.8% during the quarter and year ended December 31, 2010, respectively, compared with the same periods in 2009. These increases were primarily due to the additional sales generated by Daqing facility. The increased price of corn also contributed to these increases. The foreign exchange translation effect resulting from the appreciation of the Canadian dollar against Chinese RMB partly offset the increase in cost of sales in Canadian dollars for the quarter and year ended December 31, 2010.

The following table presents the average price of corn paid by the Company during the respective periods.

<i>RMB per Tonne</i>	<u>Three Months Ended December 31,</u>			<u>Year Ended December 31,</u>		
	2010	2009	% Change	2010	2009	% Change
Average Corn Price	RMB 1,443	RMB 1,345	7.3%	RMB 1,437	RMB 1,320	8.9%

The average corn price has increased 7.3% during the fourth quarter of fiscal 2010 compared with the fourth quarter of fiscal 2009. On an annual basis, average corn prices during fiscal 2010 increased by 8.9% compared with fiscal 2009. These increases in corn prices were primarily due to continued high demand for starch from sweetener producers and higher quality corn yielded in Heilongjiang province during 2010.

Gross Profit

(\$000)	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Gross Profit	6,601	4,538	45.5%	28,948	14,396	101.1%
Gross Margin %	14.2%	19.6%		15.0%	16.2%	

Gross profit during the quarter and year ended December 31, 2010, increased by \$2.1 million or 45.5% and \$14.6 million or 101.1% compared with the same periods in 2009.

The increases in gross profit were primarily due to higher starch prices and the gross profit generated by Daqing facility.

The decrease in gross margin during the fourth quarter of 2010 was primarily due to the increase in price of corn and decrease in prices of Gluten and Fibre resulting from the local market factors explained above.

Selling and Distribution Expenses

\$0	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Selling and Distribution Expenses	2,133	1,136	87.8%	8,340	3,859	116.1%
% of Sales	4.6%	4.9%		4.3%	4.3%	

Selling and distribution expenses consist primarily of freight expense and, to a lesser extent, sales personnel and travel expenses.

Selling and distribution expenses increased by \$1.0 million or 87.8% and \$4.5 million or 116.1% during the fourth quarter and fiscal year ended December 31, 2010, respectively, compared with the same periods in 2009. These increases in distribution expenses were primarily due to the increases in freight expense and sale personnel expense as a result of increase in sales.

General and Administrative Expenses

(\$000)	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
General and	735	1,327	-44.6%	4,439	4,190	5.9%

(\$000)	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
administrative expenses of sales	1.6%	5.7%		2.3%	4.7%	

General and administrative expenses consist primarily of administrative personnel costs, professional and consulting fees, facilities expenses, travel expenses, equipment depreciation and land use right amortization.

During the fourth quarter ended December 31, 2010, general and administrative expenses decreased by \$0.6 million or 44.6% compared with the same period in 2009. The decrease was primarily due to the higher start-up costs associated with Daqing in fourth quarter of 2009. Lower professional and consulting fee also contributed to the decrease in general and administrative expenses.

During the year ended December 31, 2010, general and administrative expenses increased by \$0.2 million or 5.9% compared with the same period in 2009. The increase was mainly due to the higher personnel cost, higher travel expense and costs associated with the TSX listing.

General and administrative expenses as a percentage of sales decreased for the fourth quarter and year of 2010 because a large portion of expenses are fixed and do not increase in proportion to increase in sales.

Stock-Based Compensation Expense

(\$000)	Three Months Ended December 31,			Year Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Stock-Based Compensation	351.0	628.0	-44.1%	1,962	3,380	42.0%
% of Sales	0.8%	2.7%		1.0%	3.8%	

Stock-based compensation expense decreased by \$0.3 million or 44.1% and \$1.4 million or 42.0% during the quarter and year ended December 31, 2010, respectively, compared with the same periods in 2009. This reduction is in accordance with the scheduled reduction in this expense according to the graded vesting schedule for stock options after adjusting for any new options granted.

Finance charges and interest

Finance charges and interest expenses increased to \$4.5 million for fiscal year 2010 from \$0.8 million for fiscal year 2009, and increased to \$1.4 million in the fourth quarter of 2010 from negative \$0.06 million in the same period of 2009. It was mainly due to the interest paid on higher average loan balances and accretion of interest for government and bank loans based on effective interest rate.

Other income

In the year ended December 31, 2010, other income includes a RMB 4.6 million (\$0.7 million) subsidy received. The Company is eligible to apply for government subsidy every year as long as it pays interest on eligible bank debt. The amount of subsidy is determined by government based on its budget and the number of companies applying for the subsidy. Also included in other income are the miscellaneous sales from selling residual materials generated in production.

Income Taxes

(\$000)	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Current income tax expense	48	437	808	1,174
Future income tax expense (recovery)	-348	17	-840	-234
Total	-300	454	-32	940
Effective tax rate	-11.7%	21.2%	-0.3%	30.8%

For the quarter and year ended December 31, 2010, total current income taxes decreased by \$0.4 million and \$0.4 million, respectively, compared to the same periods of 2009. The decreases of income taxes were due to the closure of the Changtu facility since mid-August for upgrades and relocation, which resulted in lower taxable income from Changtu in the fourth quarter and year of 2010.

The effective tax rates for the quarter and year ended December 31, 2010 are negative because there was no income tax provision for Daqing's net income before income taxes and there were future income tax recovery resulting from the temporary differences arising between the accounting basis and the tax basis of various assets and liabilities. As a wholly foreign-owned enterprise, Daqing was granted a tax exemption by local tax authorities for two fiscal years starting from fiscal 2010 (the first profitable year), and 50% of its usual tax rate for the next three years.

The National People's Congress of China approved legislation relating to tax reforms on March 16, 2007, and effective January 1, 2008, China adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and canceled several tax incentives enjoyed by foreign-invested enterprises including exemption granted by local tax authorities in Daqing. Because the Daqing tax exemption was granted by local authorities after the effective date of tax reform changes in China, there is risk that the incentives that have been granted by the local state tax authorities may not continue and may be retroactively revoked, in which case Daqing may become subject to the usual tax rates of 25% applicable under Chinese tax reform for the current and prior periods.

As a wholly foreign-owned enterprise, the Company's subsidiary, Changtu became subject to an exemption from income tax for up to two fiscal years starting July 1, 2006 and ending December

31, 2007, and subject to an exemption to the extent of 50% of the income tax payable for three years commencing January 1, 2008 to December 31, 2010.

Upon expiration of the tax exemptions currently granted to Changtu and Daqing, the effective income tax rate for the Company's China operations will increase to 25%.

Net Income

For the quarter ended December 31, 2010, net income was \$2.9 million compared to \$1.7 million for the corresponding period of 2009, an increase of \$1.2 million or 69.2%. For the year ended December 31, 2010, net income was \$11.1 million compared with \$2.1 million for the corresponding period of 2009, an increase of \$9.0 million or 428.1%. The increases in net income for the quarter and year ended December 31, 2010 were primarily the result of the aforementioned increase in starch prices, additional net income from Daqing operations, and lower stock-based compensation expense.

Unrealized gain (loss) on foreign exchange translation

The financial statements of the Company's self-sustaining foreign operations, Changtu and Daqing, are translated into Canadian dollars from their functional currency of RMB using the current rate method. Under the current rate method, assets and liabilities are translated using the current rates of exchange and revenues and expenses are translated using the average rates of exchange for the year. Unrealized gains and losses resulting from translation adjustments using the current rate method are recorded as other comprehensive income (loss).

For the quarter ended December 31, 2010, unrealized gain/loss on foreign exchange translation was \$1.2 million loss compared to \$3.0 million loss for the corresponding period of 2009. For the year ended December 31, 2010, unrealized gain/loss on foreign exchange translation was \$0.9 million loss compared with a \$12.0 million loss for the corresponding period in 2009. The change in the foreign exchange translation adjustment was due to the slight depreciation of Canadian dollar against Chinese RMB during the fourth quarter of 2010 and appreciation of Canadian dollar against Chinese RMB during the year ended December 31, 2010.

Earning before Interest, Taxes, Depreciation and Amortization (EBITDA)

\$0	Three Months Ended			Year Ended		
	December 31, 2010			December 31, 2010		
	2010	2009	% Change	2010	2009	% Change
Net income before income taxes	2556.0	2142.0		11,103	3,049	
Finance changes and interest	1,439	-62		4,480	773	
Amortization	1,369	275		5,545	1,140	
EBITDA	5,364	2,355	127.8%	21,128	4,962	325.8%
EBITDA before stock-based compensation	5,715	2,982	91.6%	23,090	9,341	176.8%

For the quarter and year ended December 31, 2010, EBITDA increased by \$3.0 million or 127.8% and \$16.2 million or 325.8%, respectively, compared with the same periods of 2009. The increases were primarily the result of the aforementioned increase in starch prices, additional net income from Daqing operations, and lower stock-based compensation expense.

EBITDA before stock-based compensation expense (“Adjusted EBITDA”) increased by \$2.7 million or 91.6% and \$14.7 million or 176.8%, respectively, for the quarter and year ended December 31, 2010, compared with the same periods of 2009. The increases were primarily the result of the aforementioned increase in starch prices and additional net income from Daqing operations.

Liquidity and Capital Resources

(\$000)	Year Ended December 31,	
	2010	2009
Cash provided by (used in) operating activities	\$14,836	-\$29,098
Cash (used in) investing activities	-\$29,349	-\$20,519
Cash provided by financing activities	\$6,051	\$54,854
Effect of exchange rate changes on cash	-\$15	-\$1,607
Increase (decrease) in cash	-\$8,477	\$3,630
Cash, beginning of period	\$14,119	\$10,489
Cash, end of period	<u>\$5,642</u>	<u>\$14,119</u>

The Company has funded its operations and capital expenditures primarily using bank debt and cash generated from operations.

Cash Position

Cash and cash equivalents totaled \$5.6 million as of December 31, 2010, representing a decrease of \$8.5 million compared with the balance as of December 31, 2009. This decrease was a result of \$29.3 million used in construction of plant and equipment, offset by \$14.8 million cash generated by operating activities and \$6.1 million proceeds from bank loans, and further decreased by \$0.02 million representing the changes in exchange rates on cash.

The Company believes its existing cash and cash equivalents and cash generated from operations will be sufficient to maintain its operations at present level for at least the next twelve months. The Company may need to obtain debt facilities or equity financing for funding its expansion. Additional financing may not be available at all or on terms favorable to the Company.

Working Capital

Working capital was negative \$12.0 million as of December 31, 2010, representing a decrease of \$13.7 million compared with \$1.7 million as of December 31, 2009. This decrease was primarily attributable to the \$15.9 million increase in short-term loan and current portion of long-term

loans, \$7.0 million increase in accrued liabilities and customer deposits mainly due to more deposits from customers, \$5.8 million increase in accounts payable, \$5.0 million decrease in other receivables related to value added tax ("VAT") recoverable, and \$8.5 million decrease in cash and cash equivalents. The decrease in working capital was offset by \$14.7 million increase in trade receivables due to the additional receivables from Daqing operations, \$3.1 million increase in inventory related to the Daqing operations, \$3.2 million increase in deposit and prepaid expenses relating to deposits made for corn, and the \$7.1 million note repayment.

Plant and Equipment, Construction in Progress, Land Use Rights

Plant and equipment net of accumulated amortization was \$96.5 million at December 31, 2010 compared with \$82.9 million as of December 31, 2009. The increase was primarily due to the addition to Changtu's plant and equipment at the new location, offset by an unrealized foreign exchange loss on plant and equipment experienced during the year ended December 31, 2010. Land use rights net of accumulated amortization was \$13.4 million as at December 31, 2010, compared to \$13.9 million as at December 31, 2009. The decrease was due to amortization and unrealized foreign exchange loss on land use rights experienced during the year ended December 31, 2010.

Contractual Obligations Summary

Operating lease obligations include the commitment under the lease agreements for the office premises. Based on the current rental lease agreements, future minimum rental payments of approximately \$0.1 million annually are required until November 2012.

Commitments on capital expenditures include various construction and equipment purchase contracts in Daqing and Changtu. The total contract price in Daqing is approximately \$103.2 million including VAT which relates to the original construction of the plant (\$85.2 million) as well as the Daqing downstream project (\$18.0 million). The cash commitment remaining for 2011 for Daqing original construction contracts is approximately \$5.7 million including VAT. The balance of \$12.0 million for Daqing downstream project is payable upon the progress of the project. The total contract price in Changtu is approximately \$17.2 million including VAT which relates to the upgrade and relocation as well as a small commitment for second phase plant expansion. The cash commitment remaining for 2011 for Changtu upgrade and relocation contracts is approximately \$4.5 million including VAT. The balance of \$1.5 million for Changtu second phase expansion is payable upon the progress of the project.

Purchase commitments consist mainly of a commitment to purchase 52,366 tonnes of corn at an average price of RMB 1,860 per tonne including VAT. According to the contracts, 22,721 tonnes of corn must be delivered to the Company before the end of 2010. The delivery date for the 22,721 tonnes was extended due to the closure of the Changtu plant. These contracts were entered into in the normal course of business.

Capital Structure

The Company is authorized to issue an unlimited number of common shares, each common share providing the holder with one vote. As of March 15, 2011, there were:

- 85,306,258 common shares outstanding.
- 10, 444,440 stock options are outstanding, with exercise prices of between \$0.55 to \$1.20, with a weighted average remaining life of 4.47 years. 5,723,091 of these stock options are exercisable as of December 31, 2010.
- 758,106 warrants are outstanding, with an exercise price of \$1.20, expiring on June 19, 2011.

Report on Controls

Disclosure Controls and Procedures

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2010 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Internal Control over Financial Reporting

Management has also evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2010 and has concluded that although the Company has various controls, processes, and procedures in place to govern the preparation, approval and reporting of its interim and annual financial information and provide reasonable assurance about the reliability of financial reporting and preparation of financial statements, the design of the process used has not been completely documented. While management considers the lack of documentation of the process a weakness, management's assessment is that the process used is nevertheless effective for the purpose of providing timely and accurate external reporting. Management plans to complete the process of documenting its system of controls, processes and procedures relating to its financial reporting in 2011.

While the officers of the Company have certified the Company's Annual Filings, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, because of its inherent limitations, no matter how well conceived or implemented, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Further, over time controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate.

Off-Balance Sheet Arrangement

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of its operations or financial condition including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Critical Accounting Policies

This MD&A should be read in conjunction with the unaudited Consolidated Financial Statements and related notes as at and for the fiscal year ended December 31, 2010. To aid in understanding the Company's financial reporting, its critical accounting policies are described below. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

Revenue recognition

Sales revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, delivery has occurred and there is reasonable assurance of collection of the sales proceeds. The Company generally obtains acknowledgement from its customers, and considers delivery to have occurred when the delivery terms set out in the sales contracts have been fulfilled. An assessment as to whether collection is reasonably assured inherently requires the Company to evaluate the creditworthiness of its customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

Inventory

The Company writes down its inventory for estimated obsolescence, slow-moving or defective inventory equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand, future pricing and market conditions. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities.

Property, Plant and equipment

Property, plant and equipment are stated at historical cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets. Judgment is required to determine the estimated useful lives of assets, especially for computer equipment, including determining how long existing equipment can function and when new technologies will be introduced at cost-effective price points to replace existing equipment. Changes in these estimates and assumptions could materially impact the financial position and results of operations.

Impairment of long-lived assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible

assets that management expects to hold or use is based on the amount by which the carrying value exceeds the fair value of the asset. Changes in these estimates and assumptions could materially impact our financial position and results of operations.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, future income tax assets and liabilities are determined based on temporary differences which arise between the accounting basis and the tax basis of various assets and liabilities and for operating losses and tax credit carry-forwards. Management must make assumptions, judgments and estimates to determine the current provision for income taxes and the future income tax assets and liabilities and any valuation allowance to be recorded against a future income tax asset. Management's judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, management's interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or management's interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in the financial statements. Management's assumptions, judgments and estimates relative to the value of a future income tax asset take into account predictions of the amount and category of future taxable income, such as income from operations. Actual operating results and the underlying amount and category of income in future years could render management's current assumptions, judgments and estimates of recoverable net future income taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause the Company's actual income tax obligations to differ from the estimates, thus materially impact its financial position and results of operations.

Foreign currency

The reporting currency of the Company is the Canadian dollar. The functional currency of the Company and its wholly-owned BVI subsidiary is Canadian dollar and both transact in Canadian dollars ("CAD"). The functional currency of the Company's wholly-owned PRC subsidiary is the Chinese Renminbi ("RMB"). An entity's functional currency is the currency of the primary economic environment in which the entity operates. Management must use judgment in determining an entity's functional currency, assessing economic factors including cash flow, sales price, sales market, expense, financing and inter-company transactions and arrangements. Impact from exchange rate changes related to transactions denominated in currencies other than the functional currency is recorded as a gain and loss in the statements of operations, while impact from exchange rate changes related to translating a foreign entity's financial statements from the functional currency to its reporting currency, the Canadian dollar, is disclosed and accumulated in a separate component under the equity section of the consolidated balance sheets. Different judgments or assumptions resulting in a change of functional currency may materially impact the Company's financial position and results of operations.

Recent accounting pronouncements

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In February 2008, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). The Company will be required to report the results of its operations under IFRS beginning in the first quarter of 2011. At that time, it will also be required to present comparative balance sheet information as at January 1, 2011 under IFRS.

The Company has initiated its transition to IFRS and has identified the area expected to be most affected is the Company's componentization of property, plant and equipment, which may lead to different estimated useful lives and different annual depreciation charges than those currently estimated and the future income tax treatment related to acquisition of Daqing which did not meet the definition of business under the Canadian Institute of Chartered Accountant Handbook Emerging Issues Committee Extract 124. Management does not expect a material impact on the Company's financial statements due to the differences between IFRS and current Canadian GAAP.

Financial Instruments and Other Instruments

The various risks related to the Company's financial instruments, including interest rate and credit risk, currency risk, and liquidity risk have been disclosed in detail in the notes to financial statements.

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and accounts receivable. The Company has significant cash balances. To minimize the credit risk the Company places these instruments with high credit quality financial institutions located in Canada, Hong Kong and China.

Credit risk from accounts receivable encompasses the default risk of customers. Management monitors the level of accounts receivable attributable to each customer and the length of time taken for amounts to be settled on an ongoing basis, and where necessary, takes appropriate action to follow up on those balances considered overdue.

Management does not believe that there is significant credit risk arising from any of the Company's customers; however, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts.

Interest rate risk is mostly related to bank loans. A significant change in the interest rate could have an effect on the Company's results of operations, financial position, and/or cash flows.

The Company generates revenues and incurs expenses and expenditures primarily in Canada and China and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. A significant change in the currency exchange rates between the Canadian dollars relative to the RMB could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash on hand. The Company's normal term of trade receivables is generally less than 60 days.

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations. In the Company's Annual Information Form dated May 25, 2010, it provided a detailed review of the risks that could affect its financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in the Company's forward-looking statements. In management's opinion, there has been no material change in the nature or magnitude of the risks faced by the Company.

**Asia Bio-Chem Group Corp.
Consolidated Financial Statements
For the years ended
December 31, 2010 and 2009**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of: Asia Bio-Chem Group Corp.

We have audited the accompanying consolidated financial statements of Asia Bio-Chem Group Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income (loss), retained earnings, accumulated other comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting standards, and for such internal control as management determines is necessary to enable the preparation of 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 audits 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 Asia Bio-Chem Group Corp. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ "Manning Elliott LLP"
Chartered Accountants
March 11, 2011
Vancouver, British Columbia

Asia Bio-Chem Group Corp.
Consolidated Balance Sheets
As at December 31, 2010 and 2009
(Expressed in Canadian Dollars)

	2010	2009
	\$	\$
Current Assets		
Cash	5,642,368	14,118,631
Trade receivables	23,360,341	8,698,117
Other receivables	870,855	5,842,181
Inventory (Note 4)	11,352,256	8,229,324
Deposit and prepaid expenses (Note 5)	11,589,692	8,374,185
	<u>52,815,512</u>	<u>45,262,438</u>
Construction deposits (Note 6)	9,313,063	-
Property, plant and equipment (Note 7)	96,485,298	82,851,662
Land use rights (Note 8)	13,441,740	13,852,405
Future income taxes (Note 18)	437,134	315,802
	<u>172,492,747</u>	<u>142,282,307</u>
Current Liabilities		
Accounts payable	7,066,898	1,304,417
Accrued liabilities and customer deposits (Note 9)	12,767,071	5,764,029
Short-term loans (Note 10)	41,886,680	27,507,686
Taxes payable	45,784	412,634
Note payable (Note 14)	-	7,055,673
Current portion of long-term loans (Note 11)	3,029,936	1,532,990
	<u>64,796,369</u>	<u>43,577,429</u>
Long-term loans (Note 11)	17,231,939	19,883,701
Capital lease (Note 12)	41,475	54,578
Future income taxes (Note 18)	1,642,285	2,380,172
	<u>83,712,068</u>	<u>65,895,880</u>
Shareholders' Equity		
Share capital (Note 15)	39,049,711	38,713,504
Contributed surplus (Note 16)	9,508,266	7,669,730
Reserves (Note 17)	7,414,066	5,625,264
	<u>55,972,043</u>	<u>52,008,498</u>
Retained earnings	31,984,892	22,638,352
Accumulated other comprehensive income	823,744	1,739,577
	<u>32,808,636</u>	<u>24,377,929</u>
	<u>88,780,679</u>	<u>76,386,427</u>
	<u>172,492,747</u>	<u>142,282,307</u>

COMMITMENTS (Note 23)

SUBSEQUENTS EVENTS (Note 24)

Approved on behalf of the Board:

"Zhiping Wang"

"William Thomson"

Zhiping Wang, CEO, Director

William Thomson, Director

Asia Bio-Chem Group Corp.
Consolidated Statements of Income and Comprehensive Income (Loss)
For the Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars)

	2010	2009
	\$	\$
Sales	193,101,836	88,730,633
Cost of sales	164,153,608	74,334,616
Gross profit	28,948,228	14,396,017
Expenses		
Selling and distribution	8,340,177	3,859,359
General and administrative	4,438,751	4,190,231
Stock-based compensation	1,962,243	3,379,550
	14,741,171	11,429,140
Income from operations	14,207,057	2,966,877
Other Income (Expenses)		
Interest income	24,283	26,648
Finance charges and interest	(4,479,840)	(772,983)
Other income	1,343,668	864,877
Gain on disposal of equipment	9,061	-
Foreign exchange loss	(690)	(36,719)
	(3,103,518)	81,823
Net income before income taxes	11,103,539	3,048,700
Income taxes (Note 18)	(31,803)	939,950
Net income	11,135,342	2,108,750
Other Comprehensive Income		
Unrealized gain (loss) on foreign exchange translation	(915,833)	(12,049,162)
Comprehensive Income (loss)	10,219,509	(9,940,412)
Earnings per share – basic	0.14	0.03
Earnings per share – diluted	0.14	0.03
Weighted average number of shares – basic	76,854,270	76,777,025
Weighted average number of shares – diluted	78,442,789	76,777,025

See accompanying notes to consolidated financial statements.

Asia Bio-Chem Group Corp.
 Consolidated Statements of Retained Earnings
 For the Years Ended December 31, 2010 and 2009
 (Expressed in Canadian Dollars)

	2010	2009
	\$	\$
Retained earnings, beginning	22,638,352	21,276,531
Net income	11,135,342	2,108,750
Transfer to reserves	(1,788,802)	(746,929)
Retained earnings, ending	31,984,892	22,638,352

Consolidated Statements of Accumulated Other Comprehensive Income
 For the Years Ended December 31, 2010 and 2009
 (Expressed in Canadian Dollars)

	2010	2009
	\$	\$
Accumulated other comprehensive income, beginning	1,739,577	13,788,739
Foreign exchange translation adjustment	(915,833)	(12,049,16)
Accumulated other comprehensive income, ending	823,744	1,739,577

Asia Bio-Chem Group Corp.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars)

	2010 \$	2009 \$
OPERATING ACTIVITIES		
Net income	11,135,342	2,108,750
Items not involving cash:		
Future income tax expense	(840,067)	(234,261)
Amortization of property, plant and equipment	5,544,777	1,140,804
Gain (loss) on disposal of equipment	(9,061)	2,930
Interest expense	977,241	407,289
Stock based compensation	1,962,243	3,379,550
Unrealized foreign exchange (gain) loss	690	(4,098)
	<u>18,771,165</u>	<u>6,800,964</u>
Changes in other assets and liabilities:		
Trade receivables	(14,854,949)	(249,880)
Other receivables	4,933,014	(6,345,368)
Inventories	(3,239,406)	(6,218,741)
Deposit and prepaid expenses	(3,333,962)	(9,047,136)
Accounts payable	5,813,219	(4,628,774)
Accrued liabilities and customer deposits	7,111,354	(7,238,275)
Holdbacks payable	-	(2,300,019)
Income taxes payable	(364,217)	129,170
	<u>14,836,218</u>	<u>(29,098,059)</u>
INVESTING ACTIVITIES		
Acquisitions of plant and equipment	(19,931,347)	(20,565,716)
Acquisition of land use right	(56,380)	-
Construction deposit	(9,370,128)	-
Proceeds from disposal of equipment	9,146	46,699
	<u>(29,348,709)</u>	<u>(20,519,017)</u>
FINANCING ACTIVITIES		
Repayment to loans and note payable	(56,643,302)	-
Proceeds from bank and government loans	62,494,284	54,865,006
Payments on capital lease	(12,230)	(11,418)
Proceeds from issuance of common stock, net	212,500	-
	<u>6,051,252</u>	<u>54,853,588</u>
Effect of changes in exchange rates on cash	(15,024)	(1,606,822)
Increase (decrease) in cash	(8,476,263)	3,629,690
Cash, beginning	14,118,631	10,488,941
Cash, ending	<u>5,642,368</u>	<u>14,118,631</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	3,334,931	2,363,700
Cash paid for income taxes	1,172,481	1,045,034

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Asia Bio-Chem Group Corp. (the "Company" or "Asia Bio-Chem"), formerly Parran Capital Inc. ("Parran"), was incorporated under the Laws of the Province of British Columbia on October 5, 2005 as a Capital Pool Company.

On June 19, 2008, the Company completed a qualifying transaction by acquiring Asia Bio-Chem Group Company Ltd. ("Asia Bio"), a company incorporated on July 30, 2007 under the Business Companies Act of the British Virgin Islands, and its wholly owned subsidiary Chang Tu Bio-Chem Technology Co. Ltd. ("Changtu"), formerly ChangTu Wan Shun Da Starch Co. Ltd., incorporated on June 10, 2004 under the business laws of the Peoples Republic of China ("PRC" or "China"). The acquisition was accomplished through an exchange of shares by issuance of 50,040,000 of the Company's common shares which resulted in the former shareholders of Asia Bio owning 97.6% of the then issued shares of the Company. Accordingly, this transaction was recorded as a reverse takeover ("RTO") for accounting purposes as Asia Bio was deemed to be the acquirer and these consolidated financial statements are a continuation of the financial statements of Asia Bio while the capital structure is that of the Company.

Concurrent with this transaction, the Company changed its name from Parran Capital Inc. to Asia Bio-Chem Group Corp., effected a change in directors, management and business, and its common shares resumed trading as a Tier 1 Industrial Issuer on the TSX Venture Exchange.

On September 13, 2008, the Company acquired a 100% interest in Daqing Biochemical Company Ltd. ("Daqing"), a wholly foreign owned enterprise under the laws of the PRC. At the time of acquisition, Daqing was a development stage company in the process of constructing a 600,000 tonne corn processing plant in Zhaoyuan County of Heilongjiang, PRC. Pursuant to the sale and purchase agreement, the Company paid consideration of \$24,700,000 comprised of cash of \$17,290,000 and the issuance of an unsecured non-interest bearing promissory note with a face value of \$7,410,000. The construction of the Daqing processing plant was completed and commercial scale production at planned capacity began in January 2010.

On September 20, 2010, the Company graduated from the TSX Venture Exchange to the Toronto Stock Exchange.

Through its subsidiaries in People's Republic of China, the Company's primary business is the manufacturing, packaging and sale of corn starch, germ, fibre and gluten manufactured from raw corn using various chemical processes.

2. BASIS OF CONSOLIDATION AND PRESENTATION

These consolidated financial statements include the assets and operations of Asia Bio-Chem Group Corp., Asia Bio-Chem Group Company Ltd. (BVI), Chang Tu Bio-Chem Technology Co. Ltd. (PRC) and Daqing Biochemical Company Ltd. (PRC).

All significant inter-company balances and transactions have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles including the following significant accounting policies:

(a) Revenue recognition

Sales revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, delivery has occurred and there is reasonable assurance of collection of the sales proceeds.

The Company generally obtains acknowledgement from its customers, and considers delivery to have occurred when the delivery terms set out in the sales contracts have been fulfilled.

Product delivered to third parties in anticipation of sales is considered part of inventory until the product is delivered to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash equivalents

Cash equivalents consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased.

(c) Trade receivables

Trade receivables are carried at original invoice amounts less allowances made for doubtful receivables based on a review of year-end trade receivables. An allowance for doubtful accounts receivables is made when there is objective evidence that the Company will not be able to collect the amounts due according to original payment terms.

(d) Inventory

Inventory and raw materials are stated at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less any costs to complete and sell the product. An allowance for obsolete, slow-moving or defective inventories is made where necessary.

(e) Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

(f) Property, plant and equipment and land use rights

Property, plant and equipment are stated at cost which includes the acquisition price and any direct costs to bring the asset into productive use at its intended location.

Amortization of property, plant and equipment is calculated using the straight-line method to write off the cost, net of any estimated residual value, over their estimated useful lives. Land use rights are amortized over the lives of the rights. The amortization periods used are as follows:

Land use rights	50 years
Plant	20 years
Machinery and equipment	15 years
Motor vehicles	5 years
Office furniture and equipment	5 years

(g) Construction-in-progress

Construction-in-progress is stated at cost, which comprises all direct and indirect costs of procuring, assembling and testing the asset. Upon completion, construction-in-progress is transferred to property, plant and equipment and is amortized upon being put into productive use.

(h) Government assistance

Government assistance related to the acquisition of capital expenditures is reflected as a reduction of the cost of the related assets.

Subject to meeting any repayment obligations or operational requirements or restrictions, government assistance related to operations or cost of sales is recognized in the period in which the Company either receives the assistance, or can establish with certainty that the assistance will be received.

During the year ended December 31, 2010, the Company received \$694,244 (RMB 4,554,657) in municipal government subsidies (December 31, 2009 – \$833,000 (RMB 5,000,000)). This amount has been included in other income as the grant does not contain any requirements or restrictions with which the Company must comply as a condition of receipt.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Interest expense

Interest expenses for loans are calculated using effective interest method. Interest expenses that are directly attributable to the acquisition and construction of manufacturing plants are included in the cost of that asset. The Company begins capitalizing interest expenses as part of the cost of manufacturing plant on the commencement date and ceases capitalizing when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Upfront loan administration fees are included in the determination of the loan balance and expensed as part of finance charges and interest.

(j) Impairment of long-lived assets

Property, plant and equipment and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss is recognized for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows expected from the asset or quoted market prices. The Company has not recognized any impairment losses to date.

(k) Stock-based compensation

The Company follows the recommendation of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under this method, compensation expense for stock option grants to employees and non-employees is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option-Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period using a graded vesting assumption. Consideration paid by employees and non-employees together with the related contributed surplus on the exercise of stock options is recorded as share capital.

(l) Income tax

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences which arise between the accounting basis and the tax basis of various assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is provided for any future income tax assets if it is more likely than not that the asset will not be realized.

(m) Reserve funds

The Company's PRC subsidiaries, Changtu and Daqing, are required to appropriate a portion of the annual profits to various statutory reserve funds in accordance with PRC regulations. These statutory reserve funds are restricted as to the distribution of dividends and other distributions (see Note 17).

(n) Earning per share

Basic earning per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earning per share. Diluted earning per share excludes all dilutive potential common shares if their effect is anti-dilutive.

(o) Financial Instruments

The Company's financial instruments consist of cash, trade and other receivables, accounts payable, note payable, loans and commitments. Except for the loans, the fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840 "Related Party Transactions".

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial Instruments (continued)

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income.

The Company classifies cash as held-for-trading, trade and other receivables as loans and receivables, accounts payable, note payable and loans as other financial liabilities.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. To minimize the credit risk the Company places these instruments with high credit quality financial institutions.

(p) Foreign currency translation

The reporting currency of the Company is the Canadian dollar.

The functional currency of the Company and Asia Bio is Canadian dollar and both transact in Canadian dollars ("CAD"). Monetary assets and liabilities denominated in Hong Kong dollars and US dollars are translated into Canadian dollars, the reporting currency, at rates of exchange prevailing at the balance sheet dates. Revenues and expenses and other assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the related transaction dates.

The functional currency of the Company's wholly-owned PRC subsidiaries, Changtu and Daqing which comprise substantially all of the assets and operations, is the Chinese Renminbi ("RMB"). Management considers both of these companies to be self-sustaining foreign operations and accordingly, the financial statements of Changtu and Daqing are translated into Canadian dollars for consolidation purposes using the current rate method. Under the current rate method, amounts are translated using the current rates of exchange for assets and liabilities and using the average rates of exchange for the year for revenues and expenses. Gains and losses resulting from translation adjustments using the current rate method are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholder's equity, described as accumulated other comprehensive income (loss). In the event of a reduction of the Company's net investment in the self-sustaining foreign operation, the related portion of accumulated other comprehensive income related to the reduction is realized and recognized in operations.

For the year ended December 31, 2010 an unrealized foreign exchange translation adjustment of \$915,833 (2009 - \$12,049,162) was recorded under accumulated other comprehensive income (loss) as a result of changes in the value of the Chinese Renminbi with respect to the Canadian dollar.

(q) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions about the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the results of operations. Significant areas requiring the use of management estimates include the recognition of revenue, allowance for doubtful receivables, obsolescence of inventories, useful lives of property, plant and equipment, determination of accrued liabilities, future income tax valuation allowances and stock based compensation. Actual results could differ from the estimates made.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Recent accounting pronouncements

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements for the acquisition method of business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In February 2008, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). The Company will be required to adopt IFRS for its first annual and quarterly reporting periods beginning January 1, 2011. The Company is in the process of determining and quantifying the effect of its transition to IFRS on its financial statements.

4. INVENTORY

	2010 \$	2009 \$
Raw materials	2,073,895	6,213,456
Finished goods	9,278,361	2,015,868
	<u>11,352,256</u>	<u>8,229,324</u>

5. DEPOSIT AND REPAID EXPENSES

	2010 \$	2009 \$
Corn deposits	9,889,750	8,327,756
Others	1,699,942	46,429
	<u>11,589,692</u>	<u>8,374,185</u>

The corn deposits of \$9,889,750 (RMB 65,280,262) included in deposit and prepaid expenses at December 31, 2010 are related to partial pre-payments for five corn purchase contracts covering commitments to purchase 52,366 tonnes of corn at an average price of RMB 1,860 per tonne including VAT. According to the contracts, 22,721 tonnes of corn must be delivered to the Company before the end of 2010. The Company has advanced these deposits in order to secure supply and fix the purchase price of future corn deliveries.

6. CONSTRUCTION DEPOSITS

Among the construction deposits of \$9,313,063 (RMB 61,473,663) at December 31, 2010, \$255,840 (RMB 1,688,750) is related to the Changtu plant second phase expansion for an additional 600,000 tonnes of corn processing capacity and \$6,052,296 (RMB 39,950,000) is related to the Daqing down stream projects. The remaining \$3,004,926 (RMB 19,834,913) are prepayments of VAT to contractors for the Daqing plant construction which has been completed but not invoiced yet. Upon receiving the invoices from contractors, the prepayments related to VAT will be transferred to other receivables and recovered as part of the Company's VAT filing.

7. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
Plant	33,834,651	2,095,681	31,738,970
Machinery and equipment	69,498,248	5,191,836	64,306,412
Vehicles	175,857	85,536	90,321
Vehicle under capital lease	308,112	97,788	210,324
Office furniture and equipment	136,977	50,889	86,088
Software	65,720	12,537	53,183
Leasehold improvement	8,127	8,127	—
	<u>104,027,692</u>	<u>7,542,394</u>	<u>96,485,298</u>

Construction in progress	112,682	—	112,682
Plant	24,649,982	873,170	23,776,812
Machinery and equipment	59,835,753	1,366,817	58,468,936
Vehicles	318,697	70,621	248,076
Vehicle under capital lease	97,112	29,133	67,979
Office furniture and equipment	142,049	25,378	116,671
Software	66,502	5,996	60,506
Leasehold improvement	8,127	8,127	—
	<u>85,230,904</u>	<u>2,379,242</u>	<u>82,851,662</u>

Interest of \$422,306 (RMB 2,787,557) (2009 - \$2,472,936 (RMB 16,131,459)) was capitalized to plant and machinery during the year.

8. LAND USE RIGHTS

	2010 \$	2009 \$
Cost	14,406,160	14,520,832
Accumulated amortization	(964,420)	(668,427)
Net book value	<u>13,441,740</u>	<u>13,852,405</u>

Changtu acquired the land use rights for a piece of land near Shenyang, Liaoning, China on June 10, 2004 for \$3,556,619 (RMB 21,700,000) on which the Changtu's plant was situated. In August 2010, the PRC Government granted approximately 190,000 square metres of land with a fair value of approximately \$5,838,000 (RMB 38,000,000) to Changtu at substantially no cost to the Company, provided a plant is constructed on the site. During 2010, Changtu moved its plant to the new location and as at December 31, 2010, it was operating the expanded plant from the new location.

Daqing acquired the land use rights for a piece of land near Daqing, Heilongjiang, China in November 2007 on which Daqing built its processing plant for a cost of RMB 46,080,000. In accordance with the tax agreement between the PRC Government and Daqing, the PRC Government will reimburse the Company for its cost to acquire the land use rights once the cost amount is fully paid by the Company. On December 2007 and January 2008, the PRC Government reimbursed a total of RMB 46,000,000 to Daqing. On September 13, 2008, the Company acquired the land use rights with a fair value of \$11,287,189 (RMB 80,640,000).

9. ACCRUED LIABILITIES AND CUSTOMER DEPOSITS

	2010 \$	2009 \$
Customer deposit	5,252,381	399,026
Construction related payables	4,763,107	5,221,668
Other	2,751,583	143,335
	<u>12,767,071</u>	<u>5,764,029</u>

10. SHORT-TERM LOANS

(a) On December 1, 2010, the Company obtained a working capital loan of \$1,817,961 (RMB 12,000,000) from Fuxing Bank at 5.1% annual interest rate. The loan matures on February 28, 2011.

(b) On May 28, 2010, the Company obtained a working capital loan of \$4,544,904 (RMB 30,000,000) from Shanghai Pudong Development Bank at 5.31% annual interest rate. The loan matures on May 24, 2011.

(c) On February 12, 2010, the Company renewed a working capital loan of \$5,302,388 (RMB 35,000,000) from China Construction Bank at 5.841% annual interest rate. The loan matures on February 11, 2011.

(d) On December 3, 2009, the Company obtained a working capital loan of \$21,967,034 (RMB 145,000,000) from China Construction Bank at 5.31% annual interest rate and paid a related loan fee of \$121,197 (RMB 800,000). The loan matured on December 2, 2010 and was repaid. Upon repaying the RMB 145,000,000 loan, on December 14, 2010, the Company obtained a working capital loan of \$30,299,358 (RMB 200,000,000) from China Construction bank at 5.56% annual interest rate and paid a related loan fee of \$166,646 (RMB 1,100,000). The loan matures on December 13, 2011. Based on an effective interest rate of 6.32% per annum, the carrying value of the loan at December 31, 2010 was \$30,221,427 (RMB 199,485,594).

The debt covenants for this short term loan are debt asset ratio in Daqing must be less than 75% and the working capital for Daqing is higher than 0.7. The Company fulfils both covenants in 2010.

(e) Total interest payments made for the short-term loans during the year ended December 31, 2010 were \$1,481,571 (RMB 9,779,553) (2009 - \$558,479 (RMB 3,340,188)).

11. LONG-TERM LOANS

Long-term loans consist of:

	2010 \$	2009 \$
Government loan	7,054,350	6,646,635
China Construction Bank loan	13,207,525	14,770,056
	<u>20,261,875</u>	<u>21,416,691</u>
Less Construction Bank loan, current portion	<u>(3,029,936)</u>	<u>(1,532,990)</u>
	<u>17,231,939</u>	<u>19,883,701</u>

Government Loan:

As of December 31, 2010, the Company has received \$9,089,807 (RMB 60,000,000) as a portion of its long-term government loan facility. An additional amount of \$6,059,871 (RMB 40,000,000) is under negotiation with the PRC government. The non-interest bearing long-term government loan facility charges a 1% administrative fee paid upfront. The loan is secured by fixed assets in Daqing in the amount of approximately \$30,300,000 (RMB 200,000,000). The loan matures 5 years from the date of receipt and is due in several tranches between March and September 2014. Based on an effective interest rate of 7.2% per annum, the carrying value of the loan at December 31, 2010 is as follows.

	2010 \$	2009 \$
Fair value at issuance	6,362,865	6,438,558
Interest accretion	691,485	208,077
	<u>7,054,350</u>	<u>6,646,635</u>
Balance	7,054,350	6,646,635

11. LONG-TERM LOANS (Continued)

China Construction Bank Loan:

On June 2, 2009, the Company obtained a loan of \$15,149,679 (RMB 100,000,000) from China Construction Bank at an annual interest rate of 5.94% for construction of the Daqing processing plant and paid a related loan fee of \$657,496 (RMB 4,340,000). The loan matures on June 1, 2015. Based on an effective interest rate of 7.33% per annum, the carrying value of the loan at December 31, 2010 was \$13,207,525. Total interest paid during the year ended December 31, 2010 was \$883,341 (RMB 5,830,758). The Company repaid \$1,514,968 (RMB 10,000,000) on June 1, 2010 and is required to repay \$3,029,936 (RMB 20,000,000) on June 1, 2011, which has been classified in the current portion of long-term loans.

12. CAPITAL LEASE

In 2008, the Company entered into a lease arrangement to acquire a vehicle. Future minimum payments and the obligations due under the capital lease are as follows:

2011	\$ 16,745
2012	42,719
<hr/>	
Total minimum lease payments	59,464
Less amount representing interest at 7.68% per annum	(4,886)
<hr/>	
	54,578
Less current portion included in accrued liabilities	(13,103)
<hr/>	
	\$ 41,475
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13. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2010, the Company paid director fees of \$75,000 (December 31, 2009 -\$60,500), and management fees of \$659,437 (December 31, 2009 - \$631,688) to companies with common officers.

14. NOTE PAYABLE

The unsecured, non-interest bearing promissory note has a face value of \$7,410,000 and was due six months from the completion of construction and commissioning of the Daqing processing plant. The repayment date was extended to the end of October 2010 and the note was repaid as rescheduled.

15. SHARE CAPITAL

Authorized:

The Company is authorized to issue an unlimited number of voting common shares without par value.

Issued and outstanding:

	Number of Common Shares	Amount
Balance, and 2008	76,777,025	\$ 38,713,504
Shares issued for warrants exercised	116,033	207,003
Shares issued for stock options exercised	133,200	129,204
<hr/>		
Balance, (see also Note 24)	77,026,258	\$ 39,049,711
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15. SHARE CAPITAL (Continued)

Warrants

	Underlying Shares	Weighted Average Exercise Price
Warrants outstanding, and 2008	2,758,106	\$1.20
Exercised	(116,033)	\$1.20
Expired	(1,883,967)	\$1.20
Warrants outstanding, December 31, 2010 (expiring)	758,106	\$1.20

Stock options

	Underlying Shares	Weighted Average Exercised Price
Stock options outstanding,	9,202,640	1.20
Cancelled	(400,000)	1.20
Granted	975,000	0.55
Granted	800,000	1.16
Stock options outstanding,	10,577,640	\$1.14
Exercised	(133,200)	\$0.55
Stock options outstanding,	10,444,440	\$1.14

Details of stock options outstanding:

Expiry Date	Exercise Price	Stock Options Outstanding	Stock Options Exercisable and Vested
	\$0.61	108,823	108,823
	\$1.20	4,854,966	3,236,644
	\$0.55	841,800	191,800
	\$1.16	800,000	266,400
	\$1.20	3,838,851	1,919,424
		10,444,440	5,723,091

As at December 31, 2010, the weighted average remaining contractual life of the outstanding stock options is 4.47 years.

The Company adopted its stock option plan under which it may grant stock options for up to 20% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to regular employees and persons providing investor-relation or consulting services up to a limit of 5% and 2% respectively of the Company's total number of issued and outstanding shares per year. The stock options vest 33% on each of the 1st to 3rd anniversary dates of grant, except for those issued to the Executive Vice President, which vest 25% on each of the 1st to 4th anniversary dates of grant, and those issued in exchange for pre-existing Company options, which vested on grant. The option price must be greater or equal to the discounted market price on the grant date and the option term cannot exceed ten years from the grant date.

The fair value of options granted during 2009 was calculated using the Black-Scholes model with the following weighted average assumptions yielding the following weighted average grant date fair values:

	2009
Assumptions:	
Risk-free interest rate (%)	2.53
Expected dividend yield (%)	-
Expected option life (years)	4.63
Expected stock price volatility (%)	100
Weighted average grant date fair value	\$0.60

15. SHARE CAPITAL (Continued)

For year ended December 31, 2010, the Company recognized stock-based compensation expense of \$1,962,243 (December 31, 2009 - \$3,379,550) related to these options.

16. CONTRIBUTED SURPLUS

Balance,	\$ 4,290,180
Stock based compensation recognized	3,379,550
<hr/>	
Balance,	7,669,730
Stock based compensation recognized (Note 15)	1,962,243
Fair value of warrant exercised	(67,763)
Fair value of stock options exercised	(55,944)
<hr/>	
Balance,	<u>\$ 9,508,266</u>

17. RESERVES

According to the Company Law of China, the Company's Chinese subsidiaries are required each year to transfer 10% of the profit after tax as reported in their financial statements, prepared in accordance with Chinese generally accepted accounting principles, to the statutory common reserve fund until the fund reaches 50% of the registered capital. This fund can be used to make up for any losses incurred in the future or be converted into paid-in capital, provided that the fund does not fall below 25% of the registered capital.

Changtu was also required to transfer 5% of the profit after tax for the 2004 and 2005 years to the enterprise expansion fund as determined by the board of directors. This fund is used for the collective welfare of staff and workers of the Company. The enterprise expansion fund is not available for distribution to owners, except upon liquidation.

The Company's Chinese subsidiaries' transfers to the statutory reserves from their net profits are as follows:

	Statutory Common Reserve Fund \$	Expansion Fund \$	Total \$
Balance,	4,571,838	306,497	4,878,335
Transfer for the year (RMB 4,872,369)	746,929	-	746,929
<hr/>			
Balance,	5,318,767	306,497	5,625,264
Transfer for the year (RMB 11,807,521)	1,788,802	-	1,788,802
<hr/>			
Balance,	<u>7,107,569</u>	<u>306,497</u>	<u>7,414,066</u>

18. INCOME TAX

Asia Bio-Chem, Daqing and Changtu are subject to taxes under their respective tax jurisdictions, which are the same as their respective places of incorporation.

Effective July 1, 2006, Changtu had completed its industrial and commercial re-registration and has since been changed to a wholly foreign owned enterprise. As approved by the tax authorities, Changtu became subject to an exemption from income tax for up to two fiscal years starting July 1, 2006 and ending December 31, 2007, and subject to an exemption to the extent of 50% of the income tax payable for three years commencing January 1, 2008 to December 31, 2010. Starting January 1, 2008, Changtu's statutory Corporate Income Tax rate of 25% was reduced to 12.5% for the three years commencing January 1, 2008 to December 31, 2010, and the rate will revert to 25% starting January 1, 2011. This tax exemption is considered grandfathered under the new Enterprises Income Tax Law of the People's Republic of China which came into force on January 1, 2008 and is not expected to be affected by tax reform.

18. INCOME TAX (Continued)

On November 7, 2008, the Company signed a tax agreement with the PRC government, under which Daqing was granted an exemption from income tax for two fiscal years, and 50% of its usual tax rate of 25% for the next three years. The exemption started upon the commencement of operations in Daqing which was January 1, 2010. This tax exemption is not technically considered grandfathered because it was granted to Daqing after the January 1, 2008 effective date of the New Enterprise Income Tax Law in PRC. The Company has been provided with assurance that the PRC government will administratively apply the exemption to Daqing. The tax rate applicable to Daqing will be confirmed when Daqing first reports taxable income on its Daqing operations and there is no guarantee that this incentive will not be revoked. For the year ended December 31, 2010, the Company has treated its Daqing taxable income as exempt based on this agreement.

Income tax expenses are comprised as follows:

	December 31, 2010 \$	December 31, 2009 \$
Current	808,264	1,174,211
Future	(840,067)	(234,261)
Total income tax expenses	(31,803)	939,950

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. The significant differences are as follows:

	2010 \$	2009 \$
Canadian combined statutory rates	28.5%	31%
Income taxes at combined statutory rates	3,164,508	945,096
Difference in foreign income tax rates	(493,355)	(457,302)
Non-taxable item	559,197	1,048,495
Reduction in tax rates	4,954	181,542
Income taxes exempted	(3,881,948)	(1,165,102)
Other item	65,934	(150,176)
Valuation allowance	548,907	537,397
Income taxes	(31,803)	939,950

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets (liabilities) are as follows:

	2010 \$	2009 \$
Deferred revenue	14,400	-
Plant and equipment	1,839,057	297,906
Land use rights	(2,632,769)	(2,721,256)
Start-up costs	275,868	358,979
Bank and government loan	(635,144)	-
Non-capital losses	1,331,052	751,428
Share issue costs	308,062	405,342
Valuation allowance	(1,705,677)	(1,156,770)
Total future income tax assets (liabilities)	(1,205,151)	(2,064,371)

Future income tax assets (liabilities) allocated to the subsidiaries of the Company as follows:

	2010 \$	2009 \$
Changtu	437,134	315,801
Daqing	(1,642,285)	(2,380,172)
Total	(1,205,151)	(2,064,371)

18. INCOME TAX (Continued)

The Company has business losses carried forward in Hong Kong of \$818,081 which can be carried forward indefinitely, and in Canada of \$4,273,252 which expire in 2030.

The Company, through Changtu and Daqing, conducts substantially all of its business in China. China currently has tax laws related to various taxes imposed by both federal and regional governments. Applicable taxes include value added tax, corporate income tax, payroll or social taxes and others. Laws related to these taxes have not been effective for an extended period of time compared to laws of more developed countries. The implementation of regulations including the Enterprise Income Tax Law of the People's Republic of China which came into force on January 1, 2008, is frequently unclear and their application is sometimes inconsistent or non-existent. Conflicting opinions about interpretation and application often exist among and within government ministries and organizations creating uncertainties and conflict.

Tax declarations, together with other legal compliance areas such as customs and currency controls, are subject to review and investigation by various agencies and authorities, who are enabled by law to impose very severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems and structures.

Various tax authorities could take differing positions on interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from future review and assessment by tax authorities.

Current PRC Tax Law also imposes a 10% withholding tax on all dividends paid by PRC companies to non-PRC shareholders and contains rules governing such matters as international transfer pricing.

19. ECONOMIC DEPENDENCE

For the year ended December 31, 2010, two suppliers accounted for 41% of the Company's total purchases (for the year ended December 31, 2009 – 51% from one supplier). At December 31, 2010, there were prepayments of \$9,415,327 to these two suppliers (see note 5) (December 31, 2009 – \$8,327,756 to one supplier).

For the year ended December 31, 2010, top three customers accounted for approximately 24% of the Company's total sales (year ended December 31, 2009 – 21.7% from three customers). At December 31, 2010, outstanding trade receivables from the top three customers accounted for 38% of the total outstanding trade receivable (December 31, 2009 – 19% from three customers). The loss of any of these suppliers or customers could have a material adverse effect on the Company's financial position and results of operations.

20. FINANCIAL INSTRUMENT

Fair values

The Company's financial instruments includes cash, trade receivable, other receivables, loans, note payable and accounts payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. It is impractical to determine the fair value of these financial instruments with sufficient reliability due to the nature of the financial instrument, the absence of secondary market and the significant cost of obtaining external appraisals. The Company has financial instruments in convertible debentures. The fair value of these financial instruments approximates their carrying value under the effective interest method.

The following table summarizes the carrying values of the Company's financial instruments:

		December 31, 2010
Held for trading (i)	\$	5,642,368
Loans and receivables (ii)		24,231,196
Other financial liabilities (iii)		7,199,066

20. FINANCIAL INSTRUMENT (Continued)

Fair values (continued)

- (i) Cash
- (ii) Trade receivable and other receivables
- (iii) Accounts payable

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total 2010
Cash	\$5,642,368	\$-	\$ -	\$ 5,642,368
Total	\$5,642,368	\$ -	\$ -	\$ 5,642,368

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company has significant cash balances. To minimize the credit risk the Company places these instruments with high credit quality financial institutions located in Canada, Hong Kong and China.

Credit risk from accounts receivable encompasses the default risk of its customers. Management monitors the level of accounts receivable attributable to each customer and the length of time taken for amounts to be settled on an ongoing basis, and where necessary, takes appropriate action to follow up on those balances considered overdue.

Management does not believe that there is significant credit risk arising from any of the Company's customers; however, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired at December 31, 2010:

	Neither past due Nor impaired	31 - 60 days	61 - 90 days	91 + days	Carrying Value
Trade accounts receivable	\$8,263,439	\$4,084,884	\$10,090,304	\$951,174	\$23,360,341

The definition of items that are past due is determined by reference to terms agreed with individual customers. None of the amounts outstanding have been challenged by the respective customer(s) and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectible in the future.

20. FINANCIAL INSTRUMENT (Continued)

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify variation from contractual terms.

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in Canada and China and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. A significant change in the currency exchange rates between the Canadian dollar relative to the RMB could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2010, through its wholly owned subsidiaries, the Company had cash of \$5,520,466, accounts receivable of \$23,360,341, other receivables of \$828,760, accounts payable of \$7,066,898, short-term loans of \$41,886,680 and long-term loans of \$20,261,875 which were denominated in RMB.

Remaining Contractual Lives

The information related to the remaining contractual lives of longer term financial instruments is described in Notes 10 and 11.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company's ability to collect its accounts receivables in a timely manner and maintain sufficient cash on hand.

At December 31, 2010, the Company's trade receivable were \$23,360,341, all of which were denominated in RMB, and due within normal terms of trade which is generally less than 60 days.

The following are the contractual maturities of financial liabilities as at December 31, 2010:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years	Over 3 years
	\$	\$	\$	\$	\$	
Accounts payable	7,066,898	(7,066,898)	(7,066,898)	-	-	
Short-term loans	41,886,680	(41,886,680)	(41,886,680)	-	-	
Long-term loans	20,261,875	(24,549,480)	(3,713,424)	(3,543,726)	(3,368,256)	(13,924,074)
Total	69,215,453	(73,503,058)	(52,667,002)	(3,543,726)	(3,368,256)	(13,924,074)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on comprehensive income which a change in foreign exchange rates as at and during the year ended December 31, 2010 would have had.

The sensitivity analysis includes the assumption that changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of this sensitivity analysis indicates that a 10% increase in the average value of the RMB during the year would have resulted in an increase (decrease) in other comprehensive income of approximately \$3,950,000.

20. FINANCIAL INSTRUMENT (Continued)

The effect of other comprehensive income reflected in above results primarily from the fact that all of the Company's significant operations and assets are denominated in RMB, while it's reporting currency is the Canadian dollar. The financial position of the Company may vary at the time that a change in the foreign exchange rate occurs, causing the impact on the Company's results to be affected accordingly.

The impact of the change in foreign exchange rates on net income is insignificant.

21. SEGMENT DISCLOSURES

The Company operates in one reporting segment – manufacturing cornstarch and related products. All of the Company's assets and operations, with the exception of a corporate office in Toronto, Canada, are located in the PRC.

22. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,
- to provide an adequate return to shareholders through expansion and acquisition correspondingly to the level of risk, and
- to ensure sufficient capital availability to complete its plant construction program.
- to ensure the Company fulfils the debt covenants of the loan (see Note 10(d)).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets as well as the availability of debt and equity financing. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, increase its debt, or sell assets to reduce debt.

23. COMMITMENTS

(a) The Company is committed to office leases for its office in Toronto, Canada expiring in November 2012. Minimum lease payments of \$86,435 annually are required until November 2012.

(b) The Company is committed to office leases for its office in Shenyang, PRC expiring in August 2011. Minimum lease payments of \$35,147 annually are required until August 2011.

(c) The Company was committed to various construction and equipment purchase contracts in Daqing with a total contract price of \$85,232,721 including VAT. The cash commitment remaining for 2011 for these contracts is \$5,712,059 including VAT. The Company was also committed to construction and equipment purchase contracts of \$18,028,118 for the Daqing down stream project, the balance of \$11,975,821 is payable upon the progress of the project.

(d) The Company was committed to various construction and equipment purchase contracts in Changtu with a total contract price of \$15,457,905 including VAT. The cash commitment remaining for 2011 for these contracts is \$4,533,439 including VAT. The Company was also committed to equipment purchase contracts of \$1,727,063 for the Changtu second phase plant expansion, the balance of \$1,471,223 is payable upon the progress of the project.

(e) The Company is committed to purchase 52,366 tonnes of corn at an average price of RMB 1,860 per tonne including VAT. According to the contracts, 22,721 tonnes of corn must be delivered to the Company before the end of 2010 (see also Note 5).

24. SUBSEQUENT EVENTS

- (a) The working capital loan of \$5,302,388 described in Note 10(c) matured on February 11, 2011 and was repaid.
- (b) The working capital loan of \$1,817,961 described in Note 10(a) matured on February 28, 2011 and was repaid.
- (c) On February 1, 2011, the Company obtained a working capital loan of \$7,574,839 (RMB 50,000,000) from Yingkou Bank at 7.55% annual interest rate. The loan matures on January 27, 2012.
- (d) In February 2011, the Company obtained a bank draft of \$7,271,846 (RMB 48,000,000), of which \$7,014,301 (RMB 46,300,000) has been cashed. The bank draft is guaranteed by \$3,635,923 (RMB 24,000,000) cash deposit at Yingkuo bank and expires in August 2011.
- (e) On February 10, 2011, the Company closed a prospectus financing in which it raised gross proceeds of \$10,080,000 by issuing 7,200,000 shares at \$1.40 per share. The Company has also granted to the Underwriters the option to purchase up to 1,080,000 additional shares at \$1.40 per share and agreed to pay the Underwriters a commission equal to 6% (\$604,800) of the gross proceeds from the issue and sale of the shares.