*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.*** *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Sino-Forest Corporation, 1208-90 Burnhamthorpe Road West, Mississauga, Ontario L5B 3C3, telephone 905.281.8889, and are also available electronically at www.sedar.com.*

***This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.*** The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the **“1933 Act”**). Accordingly, except to the extent permitted by the Underwriting Agreement (as defined herein), the securities offered hereby may not be offered or sold within the United States of America and this short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States of America. See “Plan of Distribution.”

# SHORT FORM PROSPECTUS

*New Issue* December 10, 2009

# SINO-FOREST CORPORATION

## $319,200,000

## 19,000,000 Common Shares

This short form prospectus qualifies the distribution of 19,000,000 common shares (the **“Common Shares”**) of Sino-Forest Corporation (the **“Corporation”**) at a price of $16.80 (the **“Issue Price”**) per Common Share (the **“Offering”**). The Corporation’s registered office and principal business office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario L5B 3C3. The outstanding Common Shares are listed and posted for trading on the Toronto Stock Exchange (**“TSX”**) under the symbol “TRE”. The TSX has conditionally approved the listing of the Common Shares qualified for distribution under this short form prospectus. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX on or before February 26, 2010. The closing price of the Common Shares on the TSX on December 10, 2009 was $16.80.

Credit Suisse Securities (Canada), Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd. and Maison Placements Canada Inc. (the **“Underwriters”**), as principals, conditionally offer the Common Shares qualified for distribution under this short form prospectus on a fully marketed basis, subject to prior sale, if, as and when issued by the Corporation and accepted by them in accordance with the conditions contained in the Underwriting Agreement referred to under the heading “Plan of Distribution”, and subject to approval of certain legal matters by Aird & Berlis LLP on behalf of the Corporation and by Stikeman Elliott LLP on behalf of the Underwriters. See “Plan of Distribution”.

**Price: $16.80 per Common Share**

| | Price to the Public | Underwriters’ Fee(1) | Net Proceeds to the Corporation(2)(3) |
|---|---|---|---|
| Per Common Share | $16.80 | $0.76 | $16.04 |
| Total | $319,200,000 | $14,364,000 | $304,836,000 |

**Notes:**

(1) The Corporation has agreed to pay the Underwriters a cash commission (the **“Underwriters’ Fee”**) equal to 4.5% of the gross proceeds of this Offering including, for greater certainty, any Common Shares sold upon exercise of the Over-Allotment Option (as defined below).

(2) Before deducting the expenses of this Offering (estimated at $1,100,000) which, together with the Underwriters' Fee, will be paid by the Corporation from the proceeds of this Offering.

(3) The Corporation has granted to the Underwriters an option (the **''Over-Allotment Option''**) to sell an additional 2,850,000 Common Shares at the Issue Price for the purpose of covering over-allotments, if any. The Over-Allotment Option may be exercised at any time, in whole or in part, until that date which is 30 days following the Closing Date (as defined below). A person who acquires Common Shares pursuant to this Over-Allotment Option acquires such Common Shares under this short-form prospectus, regardless of whether the over-allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriters' Fee and net proceeds to the Corporation will be $367,080,000, $16,518,600 and $350,561,400, respectively. This short-form prospectus qualifies both the grant of the Over-Allotment Option and the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option.

The price of the Common Shares offered hereby was established solely by negotiation between the Underwriters and the Corporation. **See ''Plan of Distribution''.**

| Underwriters' Position | Maximum Size[1] | Exercise Period | Exercise Price |
|---|---|---|---|
| Over-Allotment Option . . . . | 2,850,000 Common Shares | Exercisable for a period of 30 days following the Closing Date | $16.80 |

**Note:**

(1) Assuming the exercise of the Over-Allotment Option in full.

**An investment in the Common Shares is subject to certain risks. Prospective investors should carefully consider the risk factors described in this short form prospectus under ''Risk Factors''.**

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing of this Offering is expected to occur on or about December 17, 2009 or such other date as the Corporation and the Underwriters may agree (the **''Closing Date''**), but in any event not later than January 31, 2010. A book-entry only certificate representing the Common Shares to be issued to Canadian purchasers pursuant to this Offering will be issued in registered form to CDS Clearing and Depository Services Inc. (''CDS'') or in the name of the depository as ''CDS & Co.'' and will be deposited with CDS & Co. on the Closing Date. A Canadian purchaser of Common Shares will receive only a customer confirmation from a registered dealer who is a CDS participant and from or through which the Common Shares are purchased. For all Common Shares sold within the United States, it is expected that certificates evidencing the Common Shares will be available for delivery at closing.

Subject to applicable laws, the Underwriters may, in connection with this Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See ''Plan of Distribution''.

Investors should rely only on the information contained in or incorporated by reference in this short form prospectus. The Corporation has not authorized anyone to provide investors with different information. The Corporation is not offering the Common Shares in any jurisdiction in which the offer is not permitted. Investors should not assume that the information contained in this short form prospectus is accurate as of any date other than the date on the front of this short form prospectus.

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# SUMMARY

*This summary does not contain all the information that may be important to you in deciding whether to invest in the Common Shares. You should read the entire short form prospectus, including the section entitled "Risk Factors" and any documents incorporated by reference herein, before making such decision.*

## The Corporation

### Overview

The Corporation is a leading commercial forest plantation operator in the People's Republic of China (**"PRC"**), with approximately 474,000 hectares of tree plantations under management located in eight provinces of the PRC as of September 30, 2009. In addition, the Corporation has entered into long-term master agreements in the provinces of Hunan, Yunnan, Guangxi, Jiangxi and Fujian that give the Corporation the right to acquire up to approximately 1.1 million to 1.3 million hectares of tree plantations. As of September 30, 2009, the Corporation has acquired approximately 348,000 hectares under these agreements. The Corporation's principal businesses include ownership and management of forest plantation trees, the sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2008 and for the nine-month period ended September 30, 2009, the Corporation's total revenue was US$901.3 million and US$768.6 million, respectively.

The Corporation's vision is to become the leading commercial forest plantation operator and the preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. The Corporation intends to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of its trees using advanced research and development and plantation management practices. The Corporation has developed its tree plantations in regions that have favourable climate and soil conditions for eucalyptus, pine and Chinese fir plantations, have access to key transportation routes and proximity to major population centers and industrial and consumer markets for wood panels, furniture, construction materials, interior decoration and pulp and paper products.

The Corporation's business operations are comprised of two core business segments. Wood fibre operations are the main revenue contributor, while manufacturing and other operations enable the Corporation to enhance the value of its fibre operations by producing downstream products.

#### Wood Fibre Operations Segment

The Corporation's wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from its purchased, planted or integrated plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. The wood fibre operations accounted for 93.0% and 96.0% of the Corporation's total revenue for the year ended December 31, 2008 and the nine-month period ended September 30, 2009, respectively.

The Corporation operates its plantations using three business models: purchased, planted and integrated. Under the purchased plantation model, the Corporation purchases young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows the Corporation to capture value through wood fibre growth during the course of ownership. Under the Corporation's planted plantation model, the Corporation assesses the suitability of land where the trees have been recently harvested. If it finds the land to be suitable, the Corporation seeks to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, the Corporation cultivates the trees using improved breeding, planting and silviculture techniques and sells the trees as standing timber. Under the integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods and the Corporation has the option to enter into long-term leases, typically for up to 50 years, under which the Corporation can plant and subsequently harvest several rotations of trees.

The Corporation expects its integrated plantation model to allow the Corporation to provide the market with a sustainable source of fibre under its existing long-term master agreements and to generate sustainable cash flow by purchasing mature trees instead of acquiring younger trees and holding them until maturity. The Corporation leases the land of harvested plantations on a long-term basis, replants it with higher yielding trees species and applies advanced breeding, planting and silviculture techniques. These advanced techniques are designed to enable the Corporation to improve efficiency, grow more uniform trees, lower its operating and harvesting costs, and achieve higher fibre quality and output while minimizing the impact on the environment.

The Corporation is pursuing its strategy of migrating to an integrated plantation model, as well as securing access to future purchases of tree plantations. The Corporation has entered into long-term master agreements in Hunan, Yunnan, Guangxi, and Fujian Provinces since September 2006, which have provided the Corporation with access to an additional 400,000, 200,000, 150,000, and 200,000 hectares of standing timber, respectively. In June 2009, the Corporation also entered into a new long-term master agreement in the Jiangxi Province which provides for wood fibre purchases sourced from an area of between 150,000 and 300,000 hectares of plantation trees. As of September 30, 2009, the Corporation has acquired approximately 348,000 hectares under these agreements.

As of September 30, 2009, approximately 405,000 hectares (85.4%) of the Corporation's plantations under management were purchased plantations and approximately 69,000 hectares (14.6%) were planted plantations. In the year ended December 31, 2008, the Corporation sold approximately 86,067 hectares (82.8%) of plantation fibre from its purchased plantations, 14,071 hectares (13.5%) from its integrated plantations, and 3,807 hectares (3.7%) from its planted plantations, for a total of 103,945 hectares. In the nine-month period ended September 30, 2009, the Corporation sold approximately 49,001 hectares (77.2%) of plantation fibre from its purchased plantations, 10,771 hectares (17.0%) from its integrated plantations and 3,696 hectares (5.8%) from its planted plantations, a total of 63,468 hectares.

Manufacturing and Other Operations Segment

The Corporation's manufacturing and other operations segment complements its wood fibre operations by maximizing the usage and adding value to the upstream fibre. This segment represents the Corporation's secondary source of revenue and consists of sales of wood-based products, such as engineered wood flooring, sawn timber, finger-joint board, blockboard, plywood, veneer and other wood-based products manufactured at its own production plants. The Corporation currently operates manufacturing plants in the provinces of Jiangsu, Heilongjiang, Hunan, Yunnan and Guangxi. The Corporation also operates a greenery and nursery business based in Jiangsu Province. For the year ended December 31, 2008 and the nine-month period ended September 30, 2009, the Corporation's manufacturing and other operations represented 7.0% (including revenue from the Gaoyao particleboard operation which was discontinued in 2009) and 4.0%, respectively, of its total revenue.

Growth Opportunities in China

The Corporation's fibre is sold in China, which is one of the fastest growing economies in the world, with 9% GDP growth in 2008. Increasing demand for wood products and wood fibre in the PRC continues to drive significant growth in the Corporation's business. Increased purchasing power by the growing Chinese middle class and the fiscal initiatives implemented by the central government and provincial governments have resulted in significant spending on infrastructure and construction materials, residential and commercial building materials, the production of furniture, interior decoration and pulp and paper products. At the same time, China's restrictions on logging of natural forests, combined with lower volumes of imported logs, have resulted in a chronic wood fibre deficit, which has made it possible for the

Corporation, as a leading commercial forest plantation operator in the PRC, to capitalize on these significant growth opportunities.

Over the last 14 years, the Corporation has established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. The Corporation believes that these relationships have strengthened the development of its business in the past and, coupled with the Corporation's proven track record and commitment to developing advanced breeding, planting and silviculture techniques applicable in China, will continue to benefit the Corporation in expanding its forestry resources in the future.

The Corporation's strategy is aligned with the objectives of the PRC government and State Forestry Administration to increase the country's forestry coverage, productivity and employment in rural areas. In 2006, the Corporation expanded its operations in inland regions such as the Hunan and Yunnan provinces, which aligned its expansion strategy with the PRC government's Eleventh Five-Year Plan (2006-2010) of rural and regional economic development. Leveraging the Corporation's first mover advantage in these regions, the Corporation was able to secure plantations in strategic locations for long-term sustainable re-plantation.

The Corporation believes that it is well positioned to benefit from the country's forestry reform and three-year Forestry Revitalization Plan (2010-2012) by collaborating with the Chinese forestry authorities and state-owned plantation entities to develop fast-growing high yielding plantations to reduce the country's chronic wood deficit. The Corporation has gained recognition for its sustainable plantation development practices in the PRC, which the Corporation expects will help enable it to enter into additional long-term fibre agreements.

**Competitive Strengths**

The Corporation believes that it has the following strengths:

- **Leading commercial forest plantation operator in the PRC with established track record.** The Corporation is a leading commercial forest plantation operator in the PRC with approximately 474,000 hectares of tree plantations under management as of September 30, 2009. With a 14 year track record of managing forestry plantations in China, the Corporation's use of advanced breeding, planting and silviculture techniques has enabled the Corporation to become a leading commercial forest plantation operator in the PRC. The Corporation believes that it is well positioned to maintain and expand its existing tree plantation resources under the existing long term master agreements and to grow its fibre base through other innovative strategies.

- **First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage the Corporation's industry foresight.** The Corporation was one of the first foreign companies to do business in the PRC's forestry sector and has a strong track record of obtaining, developing and cultivating commercial tree plantations since 1995. The Corporation believes that its proven ability to develop fast growing commercial tree plantations in the PRC, its reputation as a reliable partner and supplier of wood fibre and its capital structure position the Corporation as a preferred partner for commercialization of forestry plantation management in the PRC. Over the last 14 years, the Corporation has established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. The Corporation believes that these relationships have supported the development of its tree plantation business in the past and will continue to benefit the Corporation in expanding its forestry resources in the future.

- **Future growth supported by long-term master agreements at agreed capped prices.** The Corporation has entered into long-term master agreements in the Hunan, Yunnan, Guangxi, Jiangxi and Fujian Provinces that give the Corporation the right to acquire up to approximately 1.1 million to 1.3 million hectares of tree plantations with predetermined maximum prices, to the extent permitted under the then applicable PRC laws and regulations, of which the Corporation has acquired approximately 348,000 hectares as of September 30, 2009. These agreements allow the Corporation to harvest the trees and provide it with the right to enter into long-term leases, typically up to fifty years, to replant the plantations with new improved seedlings. These long-term leases will enable the Corporation to benefit from several rotations of higher-yielding, faster growing plantations. The Corporation believes that it will achieve significant growth by increasing the yields on its existing land leases, acquiring new tree plantations under the Corporation's master agreements and securing further master agreements.

- **Strong research and development capability, with extensive forestry management expertise in the PRC.** The Corporation believes that its ability to genetically breed faster-growing plantations and apply advanced silviculture techniques will allow it to shorten the harvest rotation, increase the amount of wood the Corporation extracts from each hectare of land and improve profitability. The Corporation cooperates with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, improve quality of harvested wood, maintain and enhance forest ecosystems and improve land productivity. Over the years, the Corporation's research and development efforts have allowed the Corporation to improve its planting materials and breeding and propagation methods, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing, and ecological and environmental technology. The Corporation's plantation planning and management team has an in-depth understanding of local forestry markets and regulations, with a significant number of its employees and scientists formerly serving with locally renowned universities, local forestry bureaus and/or state-owned plantation farms.

- **Expertise in sustainable plantation development.** The Corporation's sustainable plantation management practices in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. The Corporation employs advanced forest management practices and adopts prudent environmental management of its tree plantations. The Corporation's scientific and conscientious approach to quality plantation management led the Corporation to receive the Forest Stewardship Council Certificate for certain areas of its planted plantation in Gaoyao, Guangdong Province, the first commercial tree plantation in the PRC to be granted and hold such accreditation.

- **Diversified revenue and asset base.** The Corporation's asset base and revenue are broadly diversified by geographic region, mix of tree species, end-use market served and business segment. The tree plantations are located in the provinces of Guangdong, Guangxi, Hunan, Yunnan, Heilongjiang, Guizhou, Fujian and Jiangxi. The Corporation's primary tree species include eucalyptus, pine and Chinese fir plantations, and the Corporation's wood fibres are ultimately used for infrastructure and construction materials, residential and commercial building materials, furniture, interior decoration and pulp and paper products.

- **Robust capital structure with demonstrated market access.** Despite the Corporation's significant revenue growth in recent years, the Corporation believes that it has maintained a robust capital structure with a proven ability to support its financing needs in the capital markets. In July 2008, the Corporation completed a US$345 million convertible note offering, and in June 2009, the Corporation completed a Cdn.$379.5 million equity offering.

**Business Opportunities**

The Corporation believes that it is well-positioned to benefit from the following factors:

- **Strong and growing demand for wood fibre from downstream producers.** The Corporation believes that, as an upstream provider of wood fibre for downstream producers, it is well-positioned to benefit from increased demand for, and a limited supply of, wood fibre in the PRC. Pöyry Forest Industry Pte. Ltd. (**"Pöyry"**) estimates that domestic furniture production will grow approximately 11% per year between 2002 and 2010 and that consumption of paper and paperboard will exceed 60 million tons by 2010. PRC's leading consumer markets for wood fibre products are generally located in southern, south-western and eastern regions of the PRC in close proximity to the Corporation's tree plantations. This allows the Corporation to efficiently meet the growing demand from these markets while minimizing transportation costs and delivery times.

- **Growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighbouring countries.** Wood shortage is a persistent phenomenon in the PRC. The shortfall between domestic wood consumption and supply in the PRC was historically met by imports, which comprised approximately 32 million cubic meters of logs in 2006, with approximately 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian government raised round wood export duties from 6.5% to 25% as of April 2008. In light of the expected decrease in natural forest wood supply from within and outside of the PRC due to regulatory restrictions on harvesting and outside of the PRC due to rising export duties by the governments of round wood exporting countries and the expected increase in demand for wood, the Corporation believes that sustainable tree plantations will play an increasingly important role in satisfying domestic demand in the future.

- **Recent changes in the forestry industry that favour sustainable plantations.** The wood processing industry has in recent years begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter logs into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of the Corporation's planted plantations. The Corporation believes that these developments will benefit it by increasing demand for logs and standing timber from the Corporation's tree plantations, as well as increasing demand for wood-based products from its manufacturing plants.

**Strategy**

The Corporation's strategy is to build on its competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC. The Corporation is establishing operations in close proximity to PRC's key regional markets with the ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The Corporation believes the following key initiatives will allow it to successfully execute its strategy:

- **Expand the Corporation's geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufactured products.** The Corporation intends to increase its plantation area under management by investing in current geographic locations and by expanding into other geographic locations through acquisitions and sustainable replanting.

- **Improve the yields of the Corporation's tree plantations through continued investment in research and development and application of advanced forestry management techniques.** The Corporation intends to further develop and improve its forestry breeding and silviculture through genetic improvement, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields and fibre quality. To support these efforts, the Corporation intends to continue its investment in research and development resources, and to collaborate with PRC and overseas academic institutions.

- **Practice sustainable and environmentally responsible forestry and manufacturing.** The Corporation's forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. The Corporation will continue to implement and improve its environmental management systems to help improve the ecological and social environment of its tree plantations.
- **Build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify the Corporation's revenue streams.** The Corporation's downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify the Corporation's revenue streams.
- **Strengthen management processes and information systems to support the growth of the Corporation's multifaceted businesses.** The Corporation plans to invest in additional personnel, managers and technology in order to improve its management processes and information systems. As the area of the Corporation's tree plantations continues to grow, the Corporation will have to develop additional systems and management personnel to achieve greater planning and operational control of its plantations. This will allow the Corporation to conduct more frequent sampling checks of its timber resources, which will, in turn, allow the Corporation to better analyze planting statistics, including growth conditions and the quality of its tree plantations. These will also allow the Corporation to maintain more stringent controls over its tree plantation management processes.
- **Maintain Strategic Alignment with PRC government's plans.** The Corporation aligns its strategies with the PRC government's published plans to increase forest coverage and productivity, and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets. With respect to the forestry industry, the State Forestry Administration has announced plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. The Chinese government indicated at the UN climate change summit held on September 22, 2009 that China is targeting to increase the country's forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic meters by 2020 to absorb carbon emissions, and increase the proportion of energy generated from bio-fuels. The Corporation anticipates that the government will further advance the reform of the collectively-owned plantation rights system and commercialize the management of its state-owned forest plantations. Under the Corporation's long-term master agreements, the Corporation will use the integrated plantation model to focus on replanting and converting plantation lands into fast-growing and high-yielding plantations.

**Recent Developments**

***Current Cash Commitments***

The Corporation has allocated approximately US$460.0 million, equal to approximately 74.6% of the US$616.5 million of cash, cash equivalents and short-term deposits held by the Corporation as of September 30, 2009, for future acquisitions of commercial plantation forests under master agreements primarily in Fujian and Jiangxi. Under the applicable master agreements, the Corporation has the right to acquire 200,000 hectares in Fujian and between 15 and 18 million cubic meters of fibre in Jiangxi over a period of time ranging from three to ten years. As of September 30, 2009, the Corporation has not purchased any hectares in Fujian and has purchased approximately 8,000 hectares at a cost of US$21.1 million in Jiangxi.

*Concurrent Note Offering*

Concurrently with this Offering, the Corporation is conducting an offering (the **"Note Offering"**) of US$400 million (or US$460 million if the initial purchasers in the Note Offering exercise their over-allotment option in full) 4.25% convertible senior notes due 2016 (the **"Notes"**). The Notes will bear interest at the rate of 4.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning on June 15, 2010. The Notes will mature on December 15, 2016. Holders may convert the Notes into Common Shares at any time prior to the close of business on the business day immediately preceding the stated maturity date of the Notes based on an initial conversion rate of 47.2619 Common Shares per US$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $22.26, based on a fixed exchange rate applicable on conversion of the Notes of US$1.00 = $1.05205), subject to adjustment. Upon conversion, at its option, the Corporation may elect to deliver, in lieu of Common Shares, cash or a combination of cash and Common Shares. Holders who convert their Notes in connection with certain fundamental make-whole changes may be entitled to a make-whole premium upon conversion in some circumstances. If the Corporation experiences a fundamental change, it will be required to make an offer to each holder to purchase for cash all or a portion of its Notes at such holder's option. The Notes will be general senior unsubordinated obligations of the Corporation guaranteed by certain subsidiaries of the Corporation organized under the PRC that have also guaranteed existing significant obligations of the Corporation.

The Corporation expects that the Note Offering will be completed on or about the same date as this Offering. The Corporation intends to use the aggregate net proceeds from this Offering and the Note Offering as described under "Use of Proceeds".

There can be no assurance that the Corporation will be able to complete the Note Offering. The completion of this Offering is not conditioned upon the completion of the Note Offering. As a result, if the Note Offering is not completed, the Corporation may nevertheless complete this Offering and use the net proceeds as described below under "Use of Proceeds".

The Notes being offered and sold in the Note Offering, and the Common Shares issuable upon conversion of such Notes, have not been and will not be registered under the U.S. Securities Act of 1933, as amended. This short form prospectus does not constitute an offer of such Notes, or the Common Shares issuable upon conversion of such Notes, in the United States. The Corporation does not intend to register any of such Notes in the United States.

*Mandra Acquisition and Issuance of Additional 2014 Senior Notes*

On December 1, 2009, the Corporation entered into a memorandum of understanding with Mandra Forestry Finance Limited (**"Mandra Forestry"**), Mandra Forestry Holdings Limited (**"Mandra"**) and certain holders of the US$195,000,000 12% guaranteed notes due 2013 issued by Mandra Forestry and guaranteed by Mandra (the **"Mandra Notes"**) and certain warrants issued by Mandra (the **"Mandra Warrants"**) (such holders, the **"Mandra Holders"**), regarding an exchange by the Mandra Holders of Mandra Notes in the aggregate principal amount of US$192.7 million and Mandra Warrants held by them, for new senior notes to be issued by the Corporation in the aggregate principal amount of US$187.7 million bearing interest at a rate of 10.25% per annum with a maturity date of July 28, 2014 (the **"New 2014 Senior Notes"**). As part of the exchange, the Corporation will pay each Mandra Holder a cash payment representing interest on its Mandra Notes, less interest on the New 2014 Senior Notes to be issued to such Mandra Holder, in each case that has accrued and is unpaid through (but excluding) the settlement date of the exchange, and less deductions of certain expenses of the Mandra Holders. The New 2014 Senior Notes will have substantially the same terms and conditions as the Corporation's US$212,330,000 10.25% guaranteed senior notes due 2014 (the **"2014 Senior Notes"**) and, solely upon satisfaction of certain conditions under the memorandum of understanding, the New 2014 Senior Notes will be consolidated and form a single series with the outstanding 2014 Senior Notes. If such conditions are not satisfied, the New 2014 Senior Notes will not be consolidated with the 2014 Senior Notes. Consummation of the exchange is conditioned on, among other things, the Mandra Holders' waiver of any and all defaults or events of default, if any, with respect to the Mandra Notes and, if requested, their consent to certain amendments to the indenture governing the Mandra Notes.

The Corporation also currently has an agreement in principle, subject to definitive documentation and satisfaction of certain conditions, with Mandra Resources Limited and Morgan Stanley Dean Witter Equity Funding, Inc. ("**Morgan Stanley"**) to acquire all of the outstanding common shares of Mandra not already owned by the Corporation for nominal consideration. The Corporation currently anticipates that pursuant to the terms of the indenture governing the Mandra Notes, if the Corporation acquires the common shares of Mandra, it will become a guarantor with respect to any Mandra Notes which it does not receive in the exchange that remain outstanding. If the Corporation is not able to acquire all of the outstanding Mandra Warrants contemporaneously with the acquisition of the share capital of Mandra, it may seek to acquire such remaining Mandra Warrants pursuant to a purchase option under a shareholders agreement among Sino-Forest Investments Limited, Mandra, Morgan Stanley and Mandra Resources Limited dated May 11, 2005. In connection with the acquisition of the share capital of Mandra, and as partial contingent payment thereof, the Corporation also has an agreement in principle to make additional payments in the form of Common Shares based on the achievement of specific milestones.

***Long-term Acquisition Agreement in Guizhou***

The Corporation is currently negotiating, and expects to enter into shortly after the completion of this Offering, through one of its PRC subsidiaries, a master agreement to acquire between approximately 10.5 million and 16.5 million cubic meters of plantation wood fibre, within an area of approximately 150,000 hectares of plantations trees that has an average yield of 70 to 110 cubic meters per hectare in Guizhou Province (the **"Guizhou Master Agreement"**). The term of the agreement is three years, and the purchase price shall not exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Pursuant to the terms of the contemplated master agreement, the Corporation will not be obligated to acquire any of these plantation trees which do not meet its specific requirements. Subject to reaching a definitive purchase agreement with the vendor on the final terms of the master agreement, the Corporation expects to have pre-emptive rights to lease the underlying plantation land at a price, if permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years. The expected term of the land lease can be for up to 50 years from the harvest date as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of the definitive purchase or lease agreement between one of the Corporation's PRC subsidiaries and the vendor upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. There can be no assurance that the Corporation will be able to enter into the Guizhou Master Agreement.

***Opportunities to Invest in the PRC with State-Owned Plantation Entities***

The Corporation is currently exploring opportunities to fund investments in the PRC in co-operation with state-owned plantation entities (**"SOPs"**). The Corporation anticipates making such investments into newly formed entities (the **"Co-op Entities"**) owned by the Corporation and the SOPs. The purpose of these investments would be to develop the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management. The Corporation has currently allocated a significant portion of the proceeds of this Offering and the Note Offering to fund any investments the Corporation makes in such entities. See "Use of Proceeds".

## ELIGIBILITY FOR INVESTMENT

In the opinion of Aird & Berlis LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Common Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the **"Tax Act"**) and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts, subject to the specific provisions of any particular plan.

Notwithstanding the foregoing, if the Common Shares are a "prohibited investment" for the purposes of a tax-free savings account, a holder will be subject to a penalty tax as set out in the Tax Act. Provided the holder of a tax-free saving account does not hold a "significant interest" (as defined in the Tax Act) in the Corporation or any person or partnership that does not deal at arm's length with the Corporation, and provided that such holder deals at arm's length with the Corporation, the Common Shares will not be a prohibited investment for a tax-free savings account.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with the provincial securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this short form prospectus:

(a) the annual information form of the Corporation dated March 31, 2009 for the year ended December 31, 2008 (the **"AIF"**);

(b) the Corporation's audited consolidated financial statements for the years ended December 31, 2008 and 2007, together with the notes thereto and the auditors' report thereon (the **"Audited Financial Statements"**);

(c) management's discussion and analysis of the Corporation's financial condition and operations dated March 16, 2009, as amended on March 17, 2009, for the year ended December 31, 2008;

(d) the Corporation's unaudited interim consolidated financial statements for the financial periods ended September 30, 2009 and 2008, together with the notes thereto (the **"Interim Financial Statements"**);

(e) management's discussion and analysis of the Corporation's financial condition and operations dated November 12, 2009 for the financial period ended September 30, 2009;

(f) the management information circular of the Corporation dated April 28, 2009 prepared in connection with the Corporation's annual shareholders' meeting held on May 25, 2009;

(g) the report of Pöyry Forest Industry Pte Ltd. (**"Pöyry"**) entitled "Valuation of China Forest Crop Assets As at 31 December 2008" dated April 1, 2009 (the **"Forest Valuation Report"**), a copy of which is available on www.sedar.com;

(h) the material change report of the Corporation dated February 13, 2009 with respect to the Corporation's acquisition of 55 million ordinary shares in the capital of Omnicorp Limited (**"Omnicorp"**) and 4% secured convertible bonds of Omnicorp with an aggregate principal amount of approximately US$21.6 million from various vendors;

(i) the material change reports of the Corporation dated May 22, 2009 and June 8, 2009 with respect to the Corporation's public offering and international private placement of 34,500,000 Common Shares at $11.00 per share for gross proceeds of $379,500,000;

(j) the material change reports of the Corporation dated June 25, 2009 and July 30, 2009 with respect to the Corporation's offer to exchange any and all of its outstanding US$300,000,000 9.125% guaranteed senior notes due 2011 (the **"2011 Senior Notes"**) held by eligible holders for the 2014 Senior Notes and the Corporation's solicitation of consents to make certain amendments to the indenture governing the 2011 Senior Notes; and

(k) the material change report of the Corporation dated December 3, 2009 with respect to the Corporation's announcement of the Offering, the Note Offering and the memorandum of understanding with Mandra Forestry.

All annual information forms, current annual financial statements and related management's discussion and analysis, interim financial statements and related management's discussion and analysis, material change reports (excluding confidential reports), business acquisition reports, information circulars and certain other documents which are filed by the Corporation with a securities commission or any other similar authority in Canada after the date of this short form prospectus and prior to the termination of this Offering shall be deemed to be incorporated by reference into this short form prospectus.

Any statement contained in this short form prospectus or a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

**The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except in its modified or superseded form, to constitute part of this short form prospectus.**

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference in this short form prospectus, constitute "forward-looking statements". All statements other than statements of historical fact contained in this short form prospectus and in documents incorporated by reference in this short form prospectus, including, without limitation, those regarding the Corporation's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Corporation participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Corporation's control, which may cause the Corporation's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Corporation's present and future business strategies and the environment in which the Corporation will operate in the future, including assumptions regarding expected yields, future wood fibre prices, business and operating strategies, and the Corporation's ability to operate its production facilities and plantations on a profitable basis. Important risk factors that could cause the Corporation's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

(a) political, social and economic considerations in the PRC;

(b) restrictions on foreign currency convertibility and remittance abroad;

(c) exchange rate fluctuations and changes in interest rates;

(d) developing legal system in the PRC;

(e) regulations and restrictions;

(f) change in policies, laws or regulations in the PRC;

(g) export tariffs imposed by the governments of timber exportation countries, including Russia;

(h) governmental approval processes;

(i) the Corporation's ability to expand and manage its tree plantations;

(j) the Corporation's business and operating strategies;

(k) the Corporation's capital expenditure and forestry development plans;

(l) the amount and nature of, and potential for, future development of the Corporation's business and new projects;

(m) the Corporation's ability to acquire rights to additional standing timber;

(n) the Corporation's ability to meet its expected plantation yields;

(o) the Corporation's ability to rely on authorized intermediaries, key customers, suppliers and third party service providers;

(p) the Corporation's ability to operate its production facilities on a profitable basis;

(q) the Corporation's evaluation of its provision for income and related taxes;

(r) the cyclical nature of the forest products industry, price fluctuations for wood products and logs, and the demand and supply of logs;

(s) various business opportunities that the Corporation may pursue;

(t) changes in competitive conditions and the Corporation's ability to compete under these conditions;

(u) other operating risks and factors referenced in this short form prospectus and in documents incorporated by reference in this short form prospectus; and

(v) other factors beyond the Corporation's control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" in the AIF and in this short form prospectus and in documents incorporated by reference in this short form prospectus. Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives and cautions readers that the information may not be appropriate for other purposes. Consequently, all of the forward-looking statements made in this short form prospectus and in documents incorporated by reference in this short form prospectus are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Corporation. These forward-looking statements are made as of the date of this short form prospectus and the Corporation assumes no obligation to update or revise them to reflect subsequent information, events or circumstances or otherwise, except as required by law.

## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

Unless otherwise indicated, all dollar amounts in this short form prospectus are expressed in Canadian dollars.

All references in the AIF (incorporated by reference herein) to "U.S. dollars" and "US$" are to United States dollars; all references to "Canadian dollars" and "Cdn$" are to Canadian dollars; all references to "H.K. dollars" and "HK$" are to Hong Kong dollars; all references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China (the **"PRC"**); and all references to "€" or "Euro" are to Euros. Solely for the convenience of the reader, the AIF contains translations of certain H.K. dollar and Renminbi amounts into U.S. dollars. All such H.K. dollar translations have been made at the rate of HK$7.750 to US$1.00. All such Renminbi translations have been made at the rate of RMB6.835 to US$1.00. No representation is made that the H.K. dollar or Renminbi amounts stated therein could have been, or could be, converted into U.S. dollars at such rates or at any other rate.

"Cooperative joint venture" or "CJV" means a Sino-foreign cooperative joint venture enterprise with limited liability established in the PRC under the relevant PRC laws and regulations which provides, among other things, that the distribution of profit or loss and the control of the joint venture company is entirely based on the joint venture contract and not on the joint venture parties' contributions to the registered capital of the joint venture.

"Wholly foreign-owned enterprise" or "WFOE" means an enterprise established in the PRC in accordance with the relevant PRC laws, with capital provided solely by foreign investors. Such enterprises do not include branches and offices established in the PRC by foreign enterprises and other economic entities.

## SUMMARY DESCRIPTION OF THE BUSINESS

The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act* (the **"CBCA"**). On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

The Corporation has offices located in Toronto, Hong Kong and the PRC. The Corporation's executive offices are located at Room 3815-29, 38/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong and its registered office and principal business office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, L5B 3C3.

Further details regarding the business of the Corporation are available in the AIF incorporated by reference herein.

## USE OF PROCEEDS

The net proceeds from this Offering are estimated to be approximately $303,736,000 (or US$287,765,040, being the U.S. dollar equivalent based on the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.$1.0555 to US$1.00), after deduction of the Underwriters' Fee and the estimated expenses of this Offering. If the Over-Allotment Option is exercised in full, the net proceeds from this Offering are estimated to be approximately $349,461,400 (or US$331,086,120, being the U.S. dollar equivalent based on the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.$1.0555 to US$1.00), after deduction of the Underwriters' Fee and the estimated expenses of this Offering.

The Corporation is also conducting the Note Offering concurrently with this Offering, which is expected to be completed on or about the same date as this Offering. The net proceeds from the Note Offering are estimated to be approximately US$388,300,000 (or approximately US$446,740,000 if the initial purchasers' over-allotment option is exercised in full) after giving effect to the initial purchasers' discount and offering expenses payable by the Corporation.

The Corporation intends to use the net proceeds from this Offering and the Note Offering for the following purposes:

1. approximately US$150.0 million to prepay the full amount of borrowings outstanding under the US$150.0 million loan facility with several financial institutions (the **"Syndicated Term Loan"**), including accrued but unpaid interest and related fees and expenses thereunder. Further details regarding the Syndicated Term Loan are available in the AIF, Audited Financial Statements and Interim Financial Statements, incorporated by reference herein;

2. approximately US$250.0 million as initial capital for the acquisition of commercial plantation forests in the Guizhou Province, PRC. The Corporation is currently negotiating, and expects to enter into shortly after the closing of this Offering, through one of its PRC subsidiaries, the Guizhou Master Agreement to acquire between approximately 10.5 million and 16.5 million cubic meters of plantation wood fibre, within an area of approximately 150,000 hectares of plantations trees that has an average yield of 70 to 110 cubic meters per hectare in Guizhou Province. The term of the agreement is three years and the purchase price for the timber shall not exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Pursuant to the terms of the contemplated master agreement, the Corporation will not be obligated to acquire any of these plantation trees which do not meet the Corporation's specific requirements. Subject to reaching a definitive purchase agreement with the vendor on the final terms of the master agreement, the Corporation expects to have pre-emptive rights to lease the underlying plantation land at a price, if permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years. The expected term of the land lease can be for up to 50 years from the harvest date as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of the definitive purchase or lease agreement between one of the Corporation's PRC subsidiaries and the vendor upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The primary business objective for such acquisition is to further expand the Corporation's plantations under management. There can be no assurance that the Corporation will be able to enter into the Guizhou Master Agreement;

3. approximately US$200.0 million to fund forestry investments in co-operation with SOPs in the PRC. It is intended that the Corporation and the SOPs will form the Co-op Entities in accordance with relevant PRC laws and regulations and subject to receipt of the requisite government approvals, with the goal of developing the economic value of state-owned plantation

farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management; and

4. any remainder, for any payments required to be made in connection with consummating the exchange for the Mandra Notes and Mandra Warrants (the **"Mandra Exchange"**) and the acquisition of common shares of Mandra (the **"Mandra Acquisition"**), for investments in Mandra Forestry as the Corporation may determine to make after it has consummated such exchange and acquisition, and for general corporate purposes.

The foregoing discussion represents an estimate of the net proceeds from this Offering and the Note Offering and the allocation of such net proceeds based on the Corporation's current plans and anticipated expenditures as of the date of this short form prospectus. Actual allocation of net proceeds may vary from the foregoing discussion as management may find it necessary or advisable to reallocate the net proceeds within the categories described above or to use such proceeds for other forestry acquisitions. In addition, the completion of the acquisitions discussed in the foregoing depends, to a certain extent, on certain factors beyond the Corporation's control, such as its ability to reach final agreements with the counterparties on commercially acceptable terms and other factors which may cause the Corporation's actual use of net proceeds to be materially different from the use of net proceeds discussed in the foregoing.

The completion of this Offering is not conditioned upon the completion of the Note Offering. As a result, if the Note Offering is not completed, the Corporation may nevertheless complete this Offering and use the net proceeds of this Offering to acquire the plantation forests in Guizhou Province, and use any remainder for any payments required to be made in connection with the Mandra Exchange and Mandra Acquisition, for investments in Mandra Forestry, and for general corporate purposes.

## EXCHANGE RATES

### *Canada*

The following table sets forth the noon buying rate for U.S. dollars in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| **Period** | **Period End** | **Average(1)** | **High** | **Low** |
| | (Cdn$ per US$1.00) | | | |
| 2002 | 1.5800 | 1.5702 | 1.6128 | 1.5108 |
| 2003 | 1.2923 | 1.3916 | 1.5750 | 1.2923 |
| 2004 | 1.2034 | 1.2984 | 1.3970 | 1.1775 |
| 2005 | 1.1656 | 1.2083 | 1.2703 | 1.1507 |
| 2006 | 1.1652 | 1.1307 | 1.1726 | 1.0989 |
| 2007 | 0.9881 | 1.0665 | 1.1852 | 0.9168 |
| 2008 | 1.2240 | 1.0713 | 1.2971 | 0.9717 |
| 2009 | | | | |
| January | 1.2365 | 1.2256 | 1.2749 | 1.1822 |
| February | 1.2710 | 1.2452 | 1.2710 | 1.2190 |
| March | 1.2606 | 1.2645 | 1.2995 | 1.2245 |
| April | 1.1939 | 1.2242 | 1.2640 | 1.1939 |
| May | 1.0957 | 1.1528 | 1.1868 | 1.0957 |
| June | 1.1626 | 1.1264 | 1.1626 | 1.0828 |
| July | 1.0791 | 1.1229 | 1.1650 | 1.0791 |
| August | 1.0967 | 1.0872 | 1.1097 | 1.0650 |
| September | 1.0719 | 1.0816 | 1.1060 | 1.0615 |
| October | 1.0767 | 1.0547 | 1.0843 | 1.0289 |
| November | 1.0570 | 1.0593 | 1.0742 | 1.0458 |
| December 1 to 7 | 1.0555 | 1.0501 | 1.0555 | 1.0430 |

*Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For the period beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 Statistical release of the Federal Reserve Board.*

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which has been determined by averaging the daily rates during the relevant period.

### *China*

The People's Bank of China sets and publishes daily a base exchange rate based on market supply and demand and by reference to a basket of currencies in the market during the prior day. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration for Foreign Exchange.

The following table sets forth the noon buying rate for U.S. dollars in The City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon Buying Rate | | | |
|---|---|---|---|---|
| | Period End | Average(1) | High | Low |
| | (RMB$ per US$1.00) | | | |
| 2002 | 8.2800 | 8.2772 | 8.2800 | 8.2700 |
| 2003 | 8.2767 | 8.2771 | 8.2800 | 8.2765 |
| 2004 | 8.2765 | 8.2768 | 8.2774 | 8.2764 |
| 2005 | 8.0702 | 8.1826 | 8.2765 | 8.0702 |
| 2006 | 7.8041 | 7.9579 | 8.0702 | 7.8041 |
| 2007 | 7.2946 | 7.5806 | 7.8127 | 7.2946 |
| 2008 | 6.8225 | 6.9193 | 7.2946 | 6.7800 |
| 2009 | | | | |
| January | 6.8392 | 6.8367 | 6.8403 | 6.8300 |
| February | 6.8395 | 6.8363 | 6.8470 | 6.8241 |
| March | 6.8329 | 6.8360 | 6.8438 | 6.8240 |
| April | 6.8180 | 6.8304 | 6.8361 | 6.8180 |
| May | 6.8278 | 6.8235 | 6.8326 | 6.8176 |
| June | 6.8302 | 6.8334 | 6.8371 | 6.8264 |
| July | 6.8319 | 6.8317 | 6.8342 | 6.8300 |
| August | 6.8299 | 6.8323 | 6.8358 | 6.8299 |
| September | 6.8262 | 6.8277 | 6.8303 | 6.8247 |
| October | 6.8264 | 6.8267 | 6.8292 | 6.8248 |
| November | 6.8265 | 6.8271 | 6.8300 | 6.8255 |
| December 1 to 7 | 6.8292 | 6.8270 | 6.8292 | 6.8260 |

*Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For the period beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 Statistical release of the Federal Reserve Board.*

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which has been determined by averaging the daily rates during the relevant period.

***Hong Kong***

The H.K. dollar is freely convertible into the U.S. dollar. Between October 17, 1983 and May 18, 2005, the H.K. dollar was linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the H.K. dollar against the U.S. dollar continues to be determined by the supply and demand in the foreign exchange market. However, against the background of the linked exchange rate system, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00 since the linked exchange rate system was first established. In May and June 2005, the Hong Kong Monetary Authority replaced the original rate of HK$7.80 per U.S. dollar with a range of rates from HK$7.75 to HK$7.85 per U.S. dollar. The Basic Law provides that the H.K. dollar will continue to circulate and remain freely convertible. The Hong Kong government has not made any official announcement that the linked exchange rate system will be changed or abolished or that the range of exchange rates will be altered. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.75 to HK$7.85 per U.S. dollar, at any rate or range or at all.

The following table sets forth the noon buying rate for U.S. dollars in The City of New York for cable transfers in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| **Period** | **Period End** | **Average(1)** | **High** | **Low** |
| | | **(HK$ per US$1.00)** | | |
| 2002 | 7.7988 | 7.7997 | 7.8095 | 7.7970 |
| 2003 | 7.7640 | 7.7876 | 7.8001 | 7.7085 |
| 2004 | 7.7723 | 7.7893 | 7.8010 | 7.7632 |
| 2005 | 7.7533 | 7.7754 | 7.7999 | 7.7514 |
| 2006 | 7.7771 | 7.7685 | 7.7928 | 7.7506 |
| 2007 | 7.7984 | 7.8008 | 7.8289 | 7.7497 |
| 2008 | 7.7499 | 7.7814 | 7.8159 | 7.7497 |
| 2009 | | | | |
| January | 7.7544 | 7.7566 | 7.7618 | 7.7511 |
| February | 7.7551 | 7.7534 | 7.7551 | 7.7511 |
| March | 7.7500 | 7.7530 | 7.7593 | 7.7497 |
| April | 7.7500 | 7.7501 | 7.7508 | 7.7495 |
| May | 7.7519 | 7.7510 | 7.7526 | 7.7500 |
| June | 7.7500 | 7.7505 | 7.7516 | 7.7499 |
| July | 7.7500 | 7.7500 | 7.7505 | 7.7495 |
| August | 7.7505 | 7.7506 | 7.7516 | 7.7500 |
| September | 7.7500 | 7.7503 | 7.7514 | 7.7498 |
| October | 7.7497 | 7.7497 | 7.7502 | 7.7495 |
| November | 7.7500 | 7.7497 | 7.7501 | 7.7495 |
| December 1 to 7 | 7.7499 | 7.7497 | 7.7500 | 7.7495 |

*Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For the period beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 Statistical release of the Federal Reserve Board.*

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which has been determined by averaging the daily rates during the relevant period.

## PRIOR SALES

The following table sets forth the date, number and prices at which the Corporation has issued Common Shares or securities that are convertible or exercisable into Common Shares in the 12 months preceding the date hereof:

| Date | Issuance Type | Total Number | Issuance/ Exercise Price per Security |
|---|---|---|---|
| January 5, 2009 | Options | Exercisable into 75,000 Common Shares | $10.12 |
| February 6, 2009 | Common Shares | 2,659,990 Common Shares | $10.00 |
| March 10, 2009 | Options | Exercisable into 75,000 Common Shares | $ 8.20 |
| March 31, 2009 | Options | Exercisable into 504,618 Common Shares | $ 8.01 |
| June 8, 2009 | Common Shares | 34,500,000 Common Shares | $11.00 |

## TRADING PRICE AND VOLUME

The following table sets forth, for the periods indicated, the high and low prices and the average volume of trading of the Common Shares on the TSX (as reported by TSX Historical Data Access):

| Calendar Period | High | Low | Average Daily Volume |
|---|---|---|---|
| **2008** | | | |
| November | $11.25 | $ 5.25 | 1,731,362 |
| December | $10.60 | $ 6.15 | 943,325 |
| **2009** | | | |
| January | $10.90 | $ 8.46 | 331,801 |
| February | $11.38 | $ 8.26 | 407,407 |
| March | $ 9.05 | $ 6.52 | 576,805 |
| April | $11.25 | $ 8.60 | 444,658 |
| May | $13.10 | $10.39 | 1,049,905 |
| June | $14.86 | $12.02 | 1,001,398 |
| July | $15.08 | $11.04 | 861,043 |
| August | $16.45 | $13.14 | 632,752 |
| September | $18.97 | $13.44 | 759,785 |
| October | $17.63 | $14.50 | 554,841 |
| November | $19.70 | $15.25 | 574,338 |
| December 1 to 10 | $20.01 | $16.14 | 1,362,712 |

On December 10, 2009, the closing price of the Common Shares on the TSX was $16.80.

## DIVIDEND RECORD AND POLICY

The Corporation has never declared nor paid dividends on the Common Shares. Currently, the Corporation intends to retain its future earnings, if any, to fund the development and growth of its business, and the Corporation does not anticipate declaring or paying any dividends on the Common Shares in the near future, although the Corporation reserves the right to pay dividends if and when it is determined to be advisable by the board of directors of the Corporation. As a result, shareholders will have to rely on capital appreciation, if any, to earn a return on investment in the Common Shares in the foreseeable future.

## CONSOLIDATED CAPITALIZATION OF THE CORPORATION

The following table sets out the consolidated short-term debt and capitalization of the Corporation as of September 30, 2009 on (i) an actual basis, (ii) an as-adjusted basis after giving effect to this Offering, and (iii) an as-adjusted basis after giving cumulative effect to this Offering, the Note Offering, and the prepayment in full of outstanding borrowings under the Syndicated Term Loan, including accrued but unpaid interest and related fees and expenses thereunder. See "Use of Proceeds". The following table should be read in conjunction with the audited and unaudited consolidated financial statements and related notes incorporated by reference herein.

| | As of September 30, 2009 | | |
|---|---|---|---|
| | Actual | As Adjusted for this Offering | As Further Adjusted for the Note Offering and prepayment of the Syndicated Term Loan |
| | | (US$ thousands) | |
| Short-term debt: | | | |
| Bank indebtedness[1] | 77,273 | 77,273 | 77,273 |
| Current portion of long-term debt | 37,500 | 37,500 | — |
| Total short-term debt | 114,773 | 114,773 | 77,273 |
| Long-term debt: | | | |
| 2013 Convertible Senior Notes[2] | 286,375 | 286,375 | 286,375 |
| 2011 Senior Notes[3] | 87,670 | 87,670 | 87,670 |
| 2014 Senior Notes[3] | 212,330 | 212,330 | 212,330 |
| Syndicated Term Loan[3] | 112,500 | 112,500 | — |
| Bank Loans | — | — | — |
| The Notes[4][5] | — | — | 400,000 |
| Unamortized deferred financing costs[6] | (24,492) | (24,492) | (35,323) |
| Total long-term debt[7] | 674,383 | 674,383 | 951,052 |
| Equity portion of 2013 Convertible Senior Notes[2] | 70,462 | 70,462 | 70,462 |
| Common Shares, no par value, unlimited shares authorized[8],[9] | 884,968 | 1,172,733 | 1,172,733 |
| Contributed surplus | 11,097 | 11,097 | 11,097 |
| Accumulated other comprehensive income | 224,376 | 224,376 | 224,376 |
| Retained earnings | 943,228 | 943,228 | 943,228 |
| Total shareholders' equity | 2,134,131 | 2,421,896 | 2,421,896 |
| Total capitalization[10] | 2,808,514 | 3,096,279 | 3,372,948 |

Notes:

(1) "Bank Indebtedness" includes bank indebtedness relating to both continued operations and discontinued operations.

(2) In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 Financial Instruments, a convertible note should be split into an equity and a liability component. The US$345 million 5% convertible senior notes due 2013 that were issued in July and August 2008 (the **"2013 Convertible Senior Notes"**) are guaranteed by the Subsidiary Guarantors (as defined in the indenture prepared in connection with the offering of the 2013 Convertible Senior Notes).

(3) The 2011 Senior Notes, 2014 Senior Notes and the Syndicated Term Loan are secured by pledges of the capital stock of the Subsidiary Guarantors and, in the case of the 2011 Senior Notes and the Syndicated Term Loan, the capital stock of Sino-Capital Global Inc. (BVI).

(4) In accordance with the CICA Handbook Section 3855 Financial Instruments, a convertible note should be split into an equity and a liability component. For illustrative purpose only, the aggregate principal amount of the Notes to be issued pursuant to the Note Offering has been presented as a liability in the above table.

(5) Assuming the over-allotment option in connection with the Note Offering is not exercised.

(6) Estimated costs and expenses relating to the Note Offering have been included in the above capitalization table.

(7) "Long-term debt" includes all long-term debt but excludes the current portion of long-term debt.

(8) As of September 30, 2009, 220,279,062 Common Shares were issued and outstanding. As of September 30, 2009, the Corporation had outstanding options to acquire an aggregate of 4,118,626 Common Shares pursuant to its stock option plan at prices ranging between $2.72 and $19.00 per Common Share with expiry dates to March 31, 2014. As of September 30, 2009, and at their initial conversion price, the outstanding 2013 Convertible Senior Notes are convertible into a maximum of 17,007,603 Common Shares. If US$460.0 million aggregate principal amount of the Notes issued in the Note Offering (assuming the exercise in full of the over-allotment option) were converted in full at their initial conversion rate of 47.2619 Common Shares per US$1,000 principal amount of Notes), it would result in the issuance of 21,740,474 additional Common Shares. If this Offering was completed in full (assuming the exercise of the Over-Allotment Option in full), it would result in the issuance of 21,850,000 additional Common Shares.

(9) The Canadian dollar proceeds of this Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.$1.0555 to US$1.00.

(10) "Total capitalization" includes long-term debt plus shareholders' equity.

Other than as described above, since September 30, 2009, there has not been any other material change to the capitalization of the Corporation.

## DESCRIPTION OF SECURITIES BEING DISTRIBUTED

This short form prospectus qualifies the distribution of Common Shares. Each holder of Common Shares is entitled to one vote at meetings of shareholders of the Corporation other than meetings of the holders of another class of shares. Each holder of Common Shares is also entitled to receive dividends if, as and when declared by the board of directors of the Corporation. Holders of Common Shares are entitled to participate in any distribution of the Corporation's net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to the Common Shares.

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated December 10, 2009 (the **"Underwriting Agreement"**) between the Corporation and the Underwriters, the Corporation has agreed to sell and the Underwriters have severally agreed in the proportions set out in the Underwriting Agreement to purchase from the Corporation on or about December 17, 2009, subject to the terms and conditions stated therein, an aggregate of 19,000,000 Common Shares at a price of $16.80 (the **"Issue Price"**) per Common Share, for sale to the public on a fully marketed basis. The Issue Price was determined by negotiation between the Corporation and the Underwriters. The Common Shares are being offered by the Underwriters in each of the provinces of Canada (the **"Qualifying Jurisdictions"**), pursuant to this short form prospectus.

In addition, the Underwriters will have the option (the **"Over-Allotment Option"**) to sell up to an additional 15% of the Common Shares sold at the Issue Price solely for the purpose of covering over-allotments, if any. The Over-Allotment Option may be exercised in whole or from time to time in part by giving written notice prior to 30 days after the Closing Date. This short-form prospectus qualifies both the grant of the Over-Allotment Option and the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option.

The Corporation has agreed to pay the Underwriters a cash commission equal to 4.5% of the aggregate gross proceeds of this Offering including, for greater certainty, any Common Shares sold upon exercise of the Over-Allotment Option.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated by any Underwriter at its sole discretion on the basis of such Underwriter's assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all such Common Shares if any such Common Shares are purchased under the Underwriting Agreement.

The TSX has conditionally approved the listing of the Common Shares qualified for distribution under this short form prospectus. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX on or before February 26, 2010.

Pursuant to the policy statements and/or rules of the relevant securities commissions or similar authorities, the Underwriters may not, beginning two trading days prior to the date that the Issue Price was determined and ending on the date the selling process ends, bid for or purchase any Common Shares or attempt to induce or cause any person to do so. The foregoing restriction is subject to certain exceptions. These exceptions include a bid or purchase: (i) permitted under the rules of the TSX; (ii) relating to market stabilization and passive market-making activities; or (iii) made for and on behalf of a customer where the order was not solicited during the restricted period described above.

The Corporation has agreed to indemnify the Underwriters and their respective directors, officers and each person, if any, who controls the Underwriters within the meaning of either Section 15 of the 1933 Act (as herein defined) or Section 20 of the United States *Securities Exchange Act of 1934*, as amended, and each affiliate of the Underwriters within the meaning of Rule 405 under the 1933 Act against certain liabilities in connection with the issuance of the Common Shares qualified for distribution under this short form prospectus.

The Corporation has agreed that it will not, prior to the date which is 121 days after the Closing Date, without the prior written consent of Credit Suisse Securities (Canada), Inc. and TD Securities Inc., on behalf of the Underwriters, which consent shall not be unreasonably withheld or delayed, issue, agree to issue, or announce an intention to issue any additional Common Shares or any securities convertible into or exchangeable for Common Shares (except in connection with the Note Offering, the Mandra Acquisition, the exchange, transfer, conversion or exercise rights of existing outstanding securities or existing commitments to issue securities or except in respect of the grant of options pursuant to the Corporation's stock option plan and the issuance of shares pursuant to the exercise thereof).

The Common Shares offered hereby have not been and will not be registered under the 1933 Act and may not be offered or sold in the United States except pursuant to exemptions from such registration. The Underwriters have agreed that they will not offer or sell the Common Shares offered hereby within the United States, except in accordance with the Underwriting Agreement and pursuant to an exemption from the registration requirements of the 1933 Act. This short form prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the Common Shares offered hereby in the United States. In addition, until 40 days after the commencement of this Offering, an offer or sale of the Common Shares offered hereby within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made other than in accordance with an exemption under the 1933 Act.

The Underwriting Agreement also permits the Underwriters to offer and sell the Common Shares to investors in certain jurisdictions other than the Qualifying Jurisdictions, provided that such offers and sales shall be effected in compliance with the applicable laws of such jurisdictions and shall be effected in such a manner so as not to require registration of the Common Shares or the filing of a prospectus, registration statement or any other notice or document with respect to the distribution of the Common Shares, under the laws of any jurisdiction outside the Qualifying Jurisdictions including, without limitation, the United States and the PRC.

## RISK FACTORS

*An investment in the Common Shares is subject to a number of risks. You should consider the risks described below carefully and all of the information contained in this short form prospectus (including all documents incorporated by reference herein) before deciding whether to purchase the Common Shares. The risks and uncertainties described below are not the only risks and uncertainties that the Corporation faces. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently deems immaterial may also impair its business operations. Any of the following risks could materially and adversely affect the Corporation's business, financial condition and results of operations. In that event, the price of the Common Shares could decline, and you may lose all or part of your investment in the Common Shares. The risks discussed below also include forward-looking statements and the Corporation's actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements."*

### Risks Related to the Business of the Corporation

***The cyclical nature of the forest products industry and price fluctuations could adversely affect the Corporation's results of operations***

The Corporation's results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Market prices and demand for standing timber, wood logs and wood products have been, and in the future are expected to be, subject to cyclical fluctuations, which have a significant effect on the Corporation's business, results of operations and financial condition. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration materials and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes. The markets for wood products are sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior decoration activity. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- changes in market prices of commodities;
- governmental regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters and other factors affecting tree growth).

Cyclical changes in the forest products industry, including changes in demand and pricing for the Corporation's products and the other factors described above, could have a material adverse effect on the Corporation's business, financial condition and results of operations.

***Expanding the Corporation's tree plantations and manufacturing operations requires substantial future capital expenditures and the Corporation may be unable to obtain adequate financing to fund its capital and other requirements***

Expanding the Corporation's tree plantations and manufacturing operations requires intensive capital investment. During the years ended December 31, 2006, 2007, 2008 and the nine-month period ended September 30, 2009, the Corporation incurred approximately US$407.2 million, US$647.0 million, US$672.5 million and US$706.0 million, respectively, in capital expenditures to acquire tree plantations. In recent years, the Corporation has expanded its manufacturing operations through investments in an engineered wood flooring plant in Jiangsu, a blockboard facility in Hunan, a plywood and veneer facility in Guangxi and sawn timber facilities in Yunnan and Heilongjiang. The Corporation has financed its expansion of tree plantations and manufacturing operations primarily from internal cash flows and debt and equity financing and, if the Corporation requires additional debt or equity financing for future capital expenditures, it can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, the Corporation currently has substantial indebtedness, including the following principal amounts of indebtedness outstanding: US$87.7 million of 2011 Senior Notes, US$212.3 million of 2014 Senior Notes, the Syndicated Term Loan and US$345 million of 2013 Convertible Senior Notes, the terms of which restrict the Corporation's ability to raise additional debt financing. Such restrictions could affect the Corporation's ability to raise financing in the future. In addition to the Notes, the Corporation may also issue an additional US$187.7 million in principal amount of New 2014 Senior Notes. See "Summary—Recent Developments—Mandra Acquisition and Issuance of Additional 2014 Senior Notes". The Corporation may incur additional indebtedness from domestic PRC lenders to supplement the funding of its proposed investments with SOPs. See "Summary—Recent Developments—Opportunities to Invest in the PRC with State-Owned Plantation Entities". If the Corporation is not able to obtain financing for expanding its tree plantations and/or manufacturing operations and/or other capital requirements, the Corporation's business, financial condition and results of operations may be materially and adversely affected.

***The Corporation's decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that the Corporation will actually develop and operate the amount of tree plantations with respect to which the Corporation has certain contractual rights***

The Corporation's ability to further expand and develop its tree plantations and successfully implement its tree plantation models depends, among other things, on the Corporation's ability to purchase trees with respect to which it has certain contractual rights and to lease the underlying plantation land on which the trees are located or to find other suitable plantation land. Under the purchase agreements for most of the Corporation's purchased plantations, the Corporation has a pre-emptive right to lease the underlying plantation land for a maximum period of up to 30 to 50 years, subject to negotiation of the definitive land use right transfer agreement, obtaining the requisite governmental approval and completing the requisite registration procedures. The Corporation's decision and ability to purchase the trees and exercise its contractual rights with respect to its tree plantations will depend on, among other factors, the Corporation's business strategy and the availability of future financing, the Corporation's ability to negotiate a final price, whether the area is desirable for tree plantations and the availability of tree plantations for expansion.

Should the Corporation be unable to purchase the trees, exercise its right to acquire the underlying plantation land use rights or obtain and complete the requisite governmental approval and registration procedures, or should the Corporation be unable to locate available and suitable plantation land for expansion, the Corporation's business, financial condition and results of operations could be materially and adversely affected.

***The Corporation's integrated plantation model has a short operating history and may not be successful***

The Corporation commenced set-up and operations of its integrated plantation model in the fourth quarter of 2006 which consists of selling trees from the Corporation's plantations as logs or using the wood fibre for producing value-added wood products at the Corporation's own manufacturing facilities. The integrated plantation model is in an early business stage and has a short operating history. The Corporation may be unable to continue to acquire standing timber under the long-term acquisition agreements due to factors such as (i) risks of disagreement with counterparties and/or original plantation rights holders in the provinces regarding entering into specific agreements for the implementation of the Corporation's plantation acquisition plan, (ii) the failure of any such counterparty to obtain any requisite consents from the original plantation rights holders, and (iii) risks of the counterparties failing to coordinate with the Corporation to obtain the requisite governmental approvals and complete the related registration procedures. In addition, the Corporation may not have the ability to allocate proper management resources and attention to the implementation of the integrated plantation model as well as coordinate the integration of the Corporation's tree plantations with its downstream manufacturing activities. Furthermore, although results of operations and gross profit margins generated by sales of logs pursuant to the integrated plantation model in the year ended December 31, 2008 exceeded management's guidance, such results are not necessarily indicative of results that may be achievable in the future. The Corporation may be subject to operational and execution risks of integrating its upstream plantation activities to its downstream manufacturing operations, among other things.

***The Corporation's expansion in new regions may pose certain implementation risks***

The Corporation commenced operations in Hunan and Yunnan Provinces for the first time in the fourth quarter of 2006 and the first quarter of 2007, respectively. The Corporation is exposed to certain risks relating to its ability to successfully operate the Corporation's plantations in those regions, primarily because the Corporation has no operating history in Hunan and Yunnan Provinces, and also because the Corporation does not have extensive experience interacting with local governments, business counterparties and original plantation rights holders in these provinces. These risks are similar to the risks the Corporation faces with respect to the integrated plantation model.

***The Corporation is subject to risks presented by fluctuations in exchange rates***

The Corporation publishes its financial statements and incurs substantially all of its indebtedness in U.S. dollars, while substantially all of the Corporation's revenue is denominated in Renminbi.

Since 1994, the conversion of Renminbi into U.S. dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The relative value and rate of exchange of the Renminbi against the U.S. dollar is affected by, among other things, changes in the PRC's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar of more than 21% from the July 21, 2005 change in exchange rate policy to December 7, 2009. The PRC government may decide to adopt an even more flexible currency policy in the future, which could result in a further and more significant appreciation or depreciation of the Renminbi against the U.S. dollar.

Renminbi devaluation and exchange rate fluctuations may adversely affect the Corporation's results of operations and financial condition and may result in foreign exchange losses because the Corporation has substantial foreign currency-denominated indebtedness, expenses and other requirements while most of the Corporation's revenues are denominated in Renminbi. In addition, the Corporation may not be able to increase the Renminbi prices of its domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors. To the extent the Renminbi appreciates against the U.S. dollar or other currencies, it will make it more expensive for the Corporation to finance the expansion of its plantations in the PRC through equity or non-Renminbi borrowings.

As at September 30, 2009, the Corporation's total long-term debt (including current portion of long-term debt) was US$711.9 million, all of which was denominated in U.S. dollars. The Corporation does not currently hedge exchange rate fluctuations between the Renminbi and other currencies.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the U.S. dollar, Canadian dollar, Euro and H.K. dollar, or in the U.S. dollar against the Renminbi, the Canadian dollar, the Euro or the H.K. dollar, may have an adverse impact on the Corporation's results of operations and may adversely affect the value, translated or converted into U.S. dollars, Canadian dollars or otherwise, of the Corporation's revenue and net income.

***The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of the Corporation's control***

The Corporation's business, financial condition and results of operations depend to a significant extent on its ability to harvest trees or engage in trading activities at adequate levels. The following factors, which are outside of the Corporation's control, may affect the prices of logs and wood-based products, and the Corporation's ability to harvest the trees on its tree plantations or engage in its trading activities:

- unfavourable local and global weather conditions, such as prolonged drought, flooding, hailstorms, windstorms, typhoons, frost and winter freezing; and
- the occurrence of natural disasters, such as damage by fire, insect infestation, crop pests, and earthquakes.

In recent years, certain areas of the PRC have been adversely affected by severe flooding. In addition, the southern coastal areas of the PRC suffer a number of typhoons each season, which lasts from June to September and occasionally results in significant damage. Further, there have been several incidences of forest fires in Guangdong Province. Dry weather conditions brought by the El Niño weather pattern in 1998 adversely affected certain areas of the world. In 1996, damage brought about by frost adversely affected the yield of eucalyptus plantations on higher altitude inland plantations in the PRC. In February 2008, snow and freezing rain storms damaged plantations in certain provinces. Similar conditions may well recur in the future. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where the Corporation's tree plantations are located, or otherwise disrupt its trading activities, which may adversely affect the Corporation's business, financial condition and results of operations.

***The Corporation may not be able to meet its expectations for the yields of its tree plantations***

The success of the Corporation's business depends upon the productivity of its tree plantations and the ability to realize yields at estimated levels. The Corporation estimates that the current average standing timber yield for its eucalyptus trees ranges from approximately 100 to 150 cubic meters per hectare per six-year cycle. Tree plantation yields depend on a number of factors, many of which may be beyond the Corporation's control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. The Corporation's ability to maintain its yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that the Corporation may obtain in the future.

The Corporation's ability to improve or maintain its yields will depend on the factors described above as well as the Corporation's ability to develop genetic improvements in planting materials, the ability to grow improved eucalyptus trees and the ability to implement improved silvicultural practices as the Corporation gains experience in managing eucalyptus tree plantations. As a result, the Corporation cannot provide any assurance that it will be able to realize the historical or future yields expected by the Corporation. If the Corporation cannot achieve yields at expected levels, its business, financial condition and results of operations would be materially and adversely affected.

***The Corporation may not be able to effectively manage its tree plantations if the Corporation does not hire additional employees and improve its management systems and internal controls***

As of September 30, 2009, the Corporation had 2,795 permanent employees based in Canada, Hong Kong and the PRC to manage its operations. The Corporation also engages third parties to perform the day-to-day operations of its tree plantations. However, as the Corporation expands the area of its tree plantations, the Corporation will have to hire additional management employees, strengthen its management processes and develop a plantation resources information system in order to effectively manage its tree plantations. There is no assurance that the Corporation will be able to recruit qualified management employees, strengthen its management processes or develop such an information system in a timely manner, or at all. The Corporation also believes that it is necessary to strengthen its internal controls and corporate governance as the Corporation continues to build its business. Should the Corporation fail to take the measures described in this paragraph, it may not be able to implement the Corporation's expansion strategy or to manage its growth effectively and its business, financial condition and results of operations could be materially and adversely affected.

***The forest products industry is highly competitive***

The forest products industry is highly competitive in terms of price and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. Lumber and log markets in the PRC are subject to competition from worldwide suppliers. In the Corporation's tree plantations and standing timber and wood-based products trading activities, the Corporation is subject to increasing competition from other large domestic and foreign-owned tree plantations operators in the PRC, as well as wood dealers and local forestry companies, all of which provide logs and wood-based products for sale in the PRC. The Corporation also competes with a number of overseas forestry companies selling wood logs and wood-based products in the PRC.

The Corporation's manufacturing plants face competition from other large domestic and foreign-owned wood panel manufacturers in the PRC, as well as manufacturers in other countries selling into the PRC. In this regard, other manufacturers of wood panels are currently constructing new mills in the PRC that will substantially increase the production capacity of wood panels in the PRC. The Corporation may not be able to compete effectively against these and other potential competitors. If the Corporation is not able to compete effectively in its different business lines, or if competition significantly increases, the Corporation's business, financial condition and results of operations could be materially and adversely affected.

***The Corporation relies on its relationships with local plantation landowners and/or plantation land use rights holders***

The conversion of the legal structure of all four of the Corporation's CJVs into WFOEs was completed in the fourth quarter of 2007 and negotiations with local farmers, collective organizations or other land use rights holders for entering into new plantation land use agreements are in progress. There can be no assurance that through the WFOEs the Corporation will be able to secure all the plantation land use rights that the Corporation would expect them to secure, or secure such rights on satisfactory terms, from the farmers, collective organizations or other land use rights holders, or that the Corporation will be able to enter into any plantation land use agreements with relevant farmers, collective organizations or other land use rights holders to maintain the use of the tree plantations originally operated by its former CJVs or to obtain additional tree plantations.

In addition, the Corporation relies on its relationships with local plantation landowners and/or plantation land use rights holders to enter into any plantation land use agreements on commercially acceptable terms for its purchased tree plantations. The Corporation cannot give any assurance that it will be able to enter into any such agreements on commercially acceptable terms.

***The loss of business from a major customer could reduce the Corporation's sales and harm its business and prospects***

A few large customers account for a significant percentage of the Corporation's total revenue. During the years ended December 31, 2006, 2007 and 2008, and the nine-month period ended September 30, 2009, the Corporation's five largest customers accounted for approximately 57.5%, 58.7%, 55.6% and 71.6%, respectively, of its total revenue. For the same periods, the Corporation's largest customer accounted for approximately 12.9%, 15.8%, 13.9% and 16.5%, respectively, of its total revenue. These major customers are all wood dealers and the Corporation's authorized intermediaries (**"AIs"**) who sell logs and wood-based products to end-user customers of these products. As a result, the Corporation expects that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a significant percentage of its total revenue. Dependence on a limited number of customers exposes the Corporation to the risk that a reduction of business volume from any one customer could have a material adverse effect on the Corporation's business, financial condition and results of operations.

***Disruptions in the Corporation's supply of raw timber could adversely affect its business, financial condition and results of operations***

A few large suppliers account for a significant percentage of the Corporation's timber supply. For the years ended December 31, 2006, 2007 and 2008 and the nine-month period ended September 30, 2009, the Corporation's five largest timber suppliers accounted for approximately 44.2%, 54.8%, 45.5% and 61.0%, respectively, of its total costs of sales. For the same periods, the Corporation's largest supplier of timber accounted for approximately 12.6%, 32.2%, 16.5% and 20.6%, respectively, of its total costs of sales. These major suppliers are all wood dealers and the Corporation's AIs. The Corporation has not entered into any long-term supply contract for the supply of raw timber. Dependence on a limited number of suppliers exposes the Corporation to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on its business, financial condition and results of operations.

***The Corporation depends on services provided by third party service providers***

The Corporation relies to a significant extent on third party service providers for day-to-day operation of its tree plantations. The operations performed by third party service providers include: site preparation, planting, plantation management, fertilization and harvesting. The Corporation occasionally experiences seasonal labor shortages in May and September as farmers become fully engaged in the planting and harvesting of rice. If the Corporation is unable to obtain services from these third party service providers, at economical rates or at all, or if any of the services they provide are inadequately performed, the Corporation's business, financial condition and results of operations would be materially adversely affected.

***If the Corporation loses any of its key personnel, the operations and business of the Corporation may suffer***

The Corporation is heavily dependent upon its senior management in relation to their expertise in the forestry industry and research and development in forest plantation management practices and wood-based products manufacturing production processes, and the relationships cultivated by them with the Corporation's major customers and others. The Corporation has no long-term contracts with any of its senior management. The Corporation does, however, have key person life insurance policies for two of its executive officers. In addition, the Corporation has life insurance policies covering many of its employees, including senior management. The departure, or otherwise loss of service, of any of the Corporation's senior management could materially and adversely affect its business, financial condition and results of operations.

***The Corporation may face difficulties during the transitional stages of its expansion; the Corporation may experience difficulties in managing future growth and potential acquisitions***

The Corporation's organic growth, as well as growth arising from acquisitions or joint ventures, could place a significant strain on its managerial, operational and financial resources. The Corporation's ability to manage its future growth will depend on its ability to continue to implement and improve operational, financial and management information systems on a timely basis and to train, motivate and manage an enlarged workforce and the Corporation's ability to integrate its existing workforce with that of any businesses that the Corporation may acquire. Failure to effectively manage the Corporation's expansion may lead to increased costs, a decline in sales and reduced profitability.

The Corporation may also seek to achieve its growth targets through joint ventures or acquisitions of local businesses providing access to new markets and/or creating synergies with its existing business. The Corporation may not be able to identify appropriate targets, complete the acquisitions on satisfactory terms (particularly as to price) or efficiently integrate the acquired companies or activities and achieve the expected benefits in terms of cost and synergies, which could adversely affect the Corporation's business, financial condition and results of operations. There can be no assurance that the Corporation will be able to achieve its growth objectives.

***The Corporation's manufacturing plants are in an early stage of development and have a short operating history. The manufacturing plants may not be profitable or successful***

The Corporation's manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures. The Corporation's ability to conduct and expand its manufacturing plants will depend upon the Corporation's ability to, among other things:

- produce and develop high quality wood-based products that will be acceptable to customers;
- recruit and retain technical and management personnel with requisite expertise and experience in the wood-based products manufacturing industry; and
- raise working capital and fund capital expenditures for the expansion of the manufacturing plants.

The Corporation can give no assurance that these facilities will operate at their planned operating capacity.

***The Corporation's ability to develop and operate investments with state-owned plantation entities in the PRC is subject to various factors and uncertainties, and no assurance can be given that the Corporation will actually develop and operate such entities successfully or at all or without significant delays***

The Corporation is currently exploring opportunities to fund investments in the PRC in co-operation with state-owned plantation entities (**"SOPs"**). The Corporation anticipates making such investments into newly formed entities (the **"Co-op Entities"**) owned by the Corporation and the SOPs. The purpose of these investments would be to develop the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management. The Corporation has currently allocated a significant portion of the proceeds of this Offering and the Note Offering to fund any investments the Corporation makes in such entities. See "Use of Proceeds".

However, the Corporation does not currently have agreements in place with respect to the structure or timing of any such investments. The Corporation's ability to successfully fund, develop and operate these forestry investments in cooperation with SOPs depends on various factors and uncertainties, including the time required for the PRC government to formalize a forestry commercialization policy, the Corporation's limited operating history with SOPs, implementing a capital and ownership structure for the investments with the SOPs that permits the Corporation to exercise the requisite level of control and oversight, availability of additional debt or equity funding as necessary on acceptable terms to effect these investments, and receipt of requisite government approvals. The Corporation has not previously entered into such arrangements with SOPs, and there can be no assurance that the Corporation will actually develop and operate such entities successfully or at all or without significant delays.

***The Corporation's insurance coverage may be insufficient to cover losses***

Consistent with PRC forestry industry practice, the Corporation has a policy of obtaining external insurance coverage for key insurable risks relating to its tree plantations and the operation of its manufacturing facilities. As a general matter, most of the Corporation's insurance policies include a coverage limit that applies either per claim or per claim and per year, in particular for the purchased plantations. See the section entitled "Description of the Business—Other Information—Insurance" in the AIF, incorporated by reference herein.

The Corporation insures its planted and purchased plantations in various locations in the PRC against certain accident and disaster related losses such as fires, lightning, explosion, flooding and windstorm. The Corporation does not, however, insure its plantations against losses from all natural and other disasters, such as pest and disease, and the Corporation does not carry business interruption insurance. As a result, the Corporation's insurance coverage may be insufficient to cover losses that it may incur on the Corporation's tree plantations. If the Corporation were to suffer an uninsured loss or a loss in excess of its insurance coverage to the tree plantations, the Corporation's business, financial condition and results of operations could be materially and adversely affected. The Corporation also maintains property all risk and public liability insurance policies for its manufacturing facilities. The Corporation maintains a level of fire insurance in amounts that it considers to be appropriate for such risks. Such insurance is subject to deductibles that the Corporation considers reasonable and not excessive given the current insurance market environment. The occurrence of a loss at the Corporation's manufacturing facilities that it is not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect the Corporation's business, financial condition and results of operations.

***The Corporation's manufacturing plants are subject to operational risks for which the Corporation may not be adequately insured***

The operation of manufacturing plants involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards, and industrial accidents. In addition, the costs of repairing or replacing the Corporation's production equipment and the associated downtime of the affected production line may not be totally reimbursed, or the level of insurance may not be adequate. The occurrence of material operational problems could have a material adverse effect on the Corporation's business, financial condition and results of operations.

***The Corporation may be liable for income and related taxes to its business and operations, particularly its BVI Subsidiaries, in amounts greater than the amounts that the Corporation has estimated and for which the Corporation has provisioned***

The Corporation's principal operating subsidiaries incorporated in the British Virgin Islands (the **"BVI Subsidiaries"**) are engaged in the sale of standing timber and earning income (**"Authorized Sales Activities"**) in the PRC through AIs that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements (**"AI Agreements"**) made with the AI, the AI are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at September 30, 2009 is the balance of the tax provision for the tax related contingency amounting to US$113,024,000 (compared to US$89,909,000 as at December 31, 2008) provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries for the nine-month period ended September 30, 2009 and the years ended December 31, 2005, 2006, 2007 and 2008.

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgments made by management. A change in the facts and these estimates and judgment could have a material impact on the Corporation's tax expense. The Corporation has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Corporation operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Corporation operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to a period from three to five years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

***Increases in the export tax on logs in Russia may result in decreased demand for logs imported from Russia***

The Russian government significantly increased the export tariffs on logs from 6.5% in early 2007 to 20% and 25% in July 2007 and April 2008, respectively. The increases had an impact on the Corporation's revenue from sales of imported wood products, which decreased by 7.3% in the year ended December 31, 2008 compared to the year ended December 31, 2007. If the Russian government continues to increase export tariffs, taxes levied will be passed on to the Corporation's customers, and the Corporation anticipates that demand for logs that the Corporation imports from Russia will continue to decrease as a result of increased prices, which could have a material adverse effect on the Corporation's results of operations from its imported logs business.

***The Corporation will be obliged to adopt new accounting standards under IFRS for the years beginning on or after January 1, 2011, which could materially impact the financial statements of the Corporation***

The Corporation prepares its financial statements in accordance with Canadian GAAP. All companies that are Canadian reporting issuers will have to use the International Financial Reporting Standards (**"IFRS"**) as issued by the International Accounting Standards Board for their financial reporting for the years beginning on or after January 1, 2011. As such issuers are required to produce comparative consolidated financial statements, the transition to IFRS will have to be reflected in their balance sheets as at January 1, 2010, in order to provide comparable balance sheet, income statement and statement of cash flows data for financial years 2011 and 2010. Applying these standards to the Corporation's financial statements may have a considerable impact on a number of important areas. The preparation of the Corporation's financial statements in accordance with IFRS could result in significantly different results from those obtained from financial statements prepared in accordance with Canadian GAAP. In particular, the valuation of the Corporation's assets, especially its plantations, may be substantially affected by the application of IFRS to its financial statements.

***The Corporation's tree plantations and wood-based products trading activities are subject to extensive PRC laws and regulations***

The Corporation is subject to regulation under a variety of PRC national and local laws and regulations, including, among others, the PRC Forestry Law and its Implementation Regulations, the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures, the Environmental Protection Law of the PRC and the Administrative Measures on Foreign Investment Forestation of Guangdong Province. Violations of any of the wide range of PRC laws and regulations that the Corporation may be subject to, including PRC environmental policies and programs that apply to the Corporation's tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for the Corporation's business. The Corporation engages in the following activities that are subject to regulation:

- tree plantation activities, including planting, plantation use and maintenance, logging and transportation of logs;
- marketing, sale and trading of standing timber, logs and wood-based products; and
- timber processing and manufacturing and sale of wood panels.

For further details on these regulations and risks relating to them, see below under "Risks Related to the PRC."

***The Corporation's subsidiaries are subject to restrictions on the payment of dividends and the repayment of inter-company loans or advances to the Corporation and its subsidiaries***

As a holding company, the Corporation depends upon the receipt of dividends and the repayment of intercompany loans or advances from its subsidiaries and affiliates, including the PRC Subsidiaries, to satisfy the Corporation's debt obligations. The ability of the Corporation's direct and indirect subsidiaries to pay dividends and repay intercompany loans or advances to their shareholders (including the Corporation) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of the Corporation's subsidiaries, applicable laws and restrictions contained in debt instruments of such subsidiaries. Covenants in the debt instruments of certain direct and indirect subsidiaries of the Corporation limit their ability to pay dividends. In addition, if any of the subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Corporation to make payments on the debt obligations. These restrictions could reduce the amounts that the Corporation receives from its subsidiaries, which could restrict the Corporation's ability to meet its payment under the debt obligations.

The Corporation's ability to utilize cash resources that it has received from subsidiaries to finance the needs of other subsidiaries, to a significant extent, is subject to the same restrictions.

In addition, PRC regulations permit payment of dividends only out of accumulated after tax profits as determined in accordance with PRC accounting standards and regulations. The Corporation's subsidiaries in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Furthermore, under prevailing PRC income tax laws, there is a 10% withholding tax imposed on dividend payments received by foreign investors in the PRC Subsidiaries. If the foreign investor is a Hong Kong resident and is the beneficial owner of the dividend, such withholding tax rate may be lowered to 5% pursuant to a double tax treaty between Hong Kong and the PRC.

In practice, the PRC Subsidiaries may declare dividends once a year at the end of each financial year. Certain of the Corporation's operations in the PRC are conducted through WFOEs. Under their articles of association adopted in accordance with PRC regulations, the WFOEs are only allowed to declare dividends once a year although such dividends may be distributed multiple times each year. As a result of such limitations, there could be timing limitations on payments from the PRC Subsidiaries to meet the Corporation's payment under the debt obligations and there could be restrictions on payments required to pay off the debt obligations at maturity or upon conversion or for repurchase or redemption.

Furthermore, in practice, the market interest rate that the PRC Subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The PRC Subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident if it is the beneficial owner of the interest) withholding tax as well as a 5% business tax on the Corporation's behalf on the interest paid under any shareholders' loans. Prior to payment of interest and principal on such shareholder loan, the PRC Subsidiaries must present evidence of payment of the required withholding tax on the interest payable under any such shareholder loan and evidence of registration with State Administration for Foreign Exchange (**"SAFE"**), as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, there can be no assurance that the Corporation will have sufficient cash flow from dividends or payments on inter-company loans or advances from its subsidiaries to satisfy the Corporation's debt obligations or make dividend payments on the Common Shares.

***The Corporation's ability to pay dividends to its shareholders is subject to restrictive covenants under the indentures relating to the 2011 Senior Notes and the 2014 Senior Notes and under the Syndicated Term Loan***

The indenture pertaining to the 2011 Senior Notes (the **"2011 Indenture"**) and the indenture pertaining to the 2014 Senior Notes (the **"2014 Indenture"**) each contains restrictive covenants limiting its ability and the ability of its subsidiaries to make certain restricted payments, including dividends. Such covenants in the 2011 Indenture and the 2014 Indenture prevent the Corporation and its subsidiaries from making dividend payments, except under certain circumstances, unless the Corporation's restricted payments under the indentures (including such dividends) shall not exceed a certain threshold based on financial aggregates such as the Corporation's consolidated net income, net cash proceeds from asset sales or issuance or sale of equity securities, and net reductions in the Corporation's consolidated investments due, among other things, to specific payments by the Corporation or certain of its subsidiaries. Similar restrictions on payment of dividends are contained in the Syndicated Term Loan. No assurance can be given that the Corporation will be able to make dividend payments on the Common Shares under these covenants should the Corporation ever decide to do so in the future.

***The Corporation has substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect its financial health and ability to generate sufficient cash to satisfy the Corporation's outstanding and future debt obligations***

The Corporation has a substantial amount of indebtedness. On an adjusted basis, after giving effect to the Note Offering and the prepayment of the Syndicated Term Loan, as of September 30, 2009, the Corporation's total debt was approximately US$1,028.3 million. The Corporation may also issue an additional US$187.7 million in principal amount of New 2014 Senior Notes.

The Corporation's substantial indebtedness could have important consequences. For example, it could:

- limit the Corporation's ability to satisfy its obligations under existing debt;
- limit the Corporation's ability to make dividends or other distributions to its shareholders;
- increase the Corporation's vulnerability to adverse general economic and industry conditions;
- require the Corporation to dedicate a substantial portion of the Corporation's cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of the Corporation's cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit the Corporation's flexibility in planning for or reacting to changes in its businesses and the forestry industry in which the Corporation operates;
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt;
- limit, along with the financial and other restrictive covenants of the Corporation's indebtedness, among other things, its ability to borrow additional funds; and
- increase the cost of additional financing.

In particular, the Syndicated Term Loan, the 2011 Indenture and the 2014 Indenture include restrictive covenants limiting the Corporation's ability to incur additional debt. Such debt covenants in the Syndicated Term Loan, the 2011 Indenture and the 2014 Indenture proscribe the Corporation from incurring new debt, except under certain circumstances, unless the Corporation meets a specified financial ratio. Further, the indenture governing the 2013 Convertible Senior Notes provides, in certain cases, restrictions against some of the Corporation's subsidiaries providing additional guarantees.

In the future, the Corporation may from time to time incur substantial additional indebtedness. If the Corporation or its subsidiaries incur additional debt, the risks that the Corporation faces as a result of its already substantial indebtedness and leverage could intensify.

The Corporation's ability to generate sufficient cash to satisfy its outstanding and future debt obligations will depend upon the future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond the Corporation's control. The Corporation anticipates that its operating cash flow should be sufficient to meet its anticipated operating expenses and to service its debt obligations as they become due. However, the Corporation may not generate sufficient cash flow for these purposes. If the Corporation is unable to service its indebtedness, the Corporation will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing its indebtedness, or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, certain of the Corporation's financing arrangements impose operating and financial restrictions on its business. These provisions require the Corporation to, among other things, maintain a debt to equity ratio, a capital asset coverage ratio, an EBIT to interest expense ratio, a current ratio, and a debt to timber holdings ratio, above certain specified levels. The Corporation's ability to meet its financial ratios may be affected by events beyond the Corporation's control. The Corporation cannot assure that it will be able to meet these ratios. These provisions may negatively affect the Corporation's ability to react to changes in market conditions, take advantage of business opportunities the Corporation believes to be desirable, obtain future financing, fund needed capital expenditures, significantly increase research and development expenditures, or withstand a continuing or future downturn in the Corporation's business. Any of these could materially and adversely affect the Corporation's ability to satisfy its debt obligations.

***If the Corporation is unable to comply with the restrictions and covenants in its debt agreements, there could be a default under the terms of these agreements, which could cause payment of the Corporation's debt to be accelerated***

If the Corporation is unable to comply with the restrictions and covenants in its current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Corporation, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the Corporation's debt agreements contain cross-acceleration or cross-default provisions. As a result, a default under one debt agreement may cause the acceleration of debt, or result in a default under the other debt agreements. If any of these events occur, the Corporation cannot assure that its assets and cash flow would be sufficient to repay in full all of its indebtedness, or that the Corporation would be able to find alternative financing. Even if the Corporation could obtain alternative financing, it cannot assure that it would be on terms that are favourable or acceptable to the Corporation.

***Any outbreak of severe communicable diseases may materially affect the Corporation's operations and business***

An outbreak of influenza A (H1N1), a communicable disease that is potentially lethal, or other contagious diseases such as severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect the operations of the Corporation at one or more of its facilities. The Corporation cannot predict at this time the impact that the current or any future outbreak could have on the Corporation's business and results of operations.

***The Forest Valuation Report is subject to significant assumptions and limitations and actual values realized by the Corporation may differ***

The Corporation engaged Pöyry to prepare a report and provide its opinion on the value of the Corporation's plantation forest crop assets as at December 31, 2008, and Pöyry's report is incorporated by reference herein. The Forest Valuation Report contains a discussion of the principal assumptions, limitations and other considerations utilized in its preparation, which prospective investors should review carefully, including, without limitation, that Pöyry assumes that the forests visited by Pöyry in the field inspection represent the full range of conditions that exist for the species seen, that for species not assessed as part of 2008's valuation, Pöyry has applied yield estimates that it has previously derived and that Pöyry made assumptions with respect to future costs and market prices. A copy of the Forest Valuation Report is available on www.sedar.com.

As a result of the foregoing and other limitations to the Forest Valuation Report, actual conditions of the Corporation's forestry plantations may be substantially different than those set forth in the Forest Valuation Report, and, as a result, you should not place undue reliance on the report. Accordingly, the valuations set forth in the Forest Valuation Report are not necessarily indicative of the actual values that can be realized by the Corporation. If actual values realized by the Corporation are less favourable than those shown in the Forest Valuation Report or the assumptions used in deriving the valuation included in the Forest Valuation Report prove to be incorrect, the Corporation's business, financial condition or results of operation could be adversely affected.

### Risks Related to the PRC

***PRC economic, political and social conditions as well as government policies could adversely affect the Corporation's business***

All of the Corporation's tree plantations are located in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, government control of foreign exchange, allocation of resources and balance of payment position.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on the Corporation.

The Corporation's business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the forestry industry and downstream industries;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

In addition, the level of demand in the PRC for forestry products depends heavily on economic growth. According to the National Bureau of Statistics of China, between 1994 and 2008, the PRC's GDP, based on current prices, increased from approximately RMB4.88 billion to approximately RMB30.1 trillion. The annual per capita GDP, based on current prices, also rose between 1994 and 2007, from RMB4,044 to RMB18,934. This growth, however, has been uneven both geographically and among various sectors of the economy. From time to time, the central government of the PRC has taken corrective measures and actions to stabilize the country's economy and any possible social unrest, and has implemented various measures in strengthening and improving macroeconomic regulation. The Corporation cannot assure that such growth will be sustained in the future.

More recently, the global financial system has experienced significant difficulties and disruptions since the second half of 2007, leading to reduced liquidity, greater volatility, widening credit spreads and a lack of price transparency in the United States and global credit and financial markets. The difficulties in global credit and financial markets have also resulted in widening global economic downturn. There are indications that the current financial crisis and economic downturn may persist or worsen. The slowdown experienced in the economies of the United States, the European Union and certain Asian countries with which the PRC has significant trade relationships may adversely affect economic growth in the PRC. There are indications that economic growth in the PRC has already started to slow significantly with GDP growth for the PRC declining from 13% in 2007 to 9% in 2008. In particular, demand may decrease or slow for wood fibre and wood products from the Corporation's downstream customers in the PRC real estate, construction and interior decoration industries, as well as overseas demand for exports of Chinese-made wood furniture. Such a decrease and/or slowdown in demand for wood and wood products could in turn put downward pressure on log prices in the PRC.

While various governments, including that of the PRC, have announced efforts to increase liquidity in the financial markets and stimulus packages to slow or reverse the economic downturn, there can be no assurance that these measures will be successful. If the PRC economy continues to grow at a slower rate, or experiences a recession, and growth in demand for forestry products also continues to slow down or decrease, the Corporation's business, financial condition and results of operations would be adversely affected.

***The Corporation's operations are subject to the uncertainty of the PRC legal system***

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, interpretation of many laws, regulations and rules has not always been uniform, and enforcement of these laws and regulations involve significant uncertainties, which may limit or otherwise adversely affect legal protections available to the Corporation. Moreover, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Corporation may not be aware of any violation by it of these policies or rules until some time after such violation. In addition, litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. The Corporation cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This may result in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction.

At present, the legal framework for the tree plantation industry in the PRC is at an early stage of development. For example, the laws and regulations relating to the ownership, licensing and rights over forestry areas are not well developed. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Such uncertainty may make it difficult for the Corporation to enforce its plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, the Corporation cannot be certain that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on its business, financial condition and results of operations.

The reform of the collectively owned plantation rights system has been ongoing in the PRC in recent years in order to enhance the rural land contract relationship and ensure that farmers have proper legal plantation rights. Farmers and rural collective organizations are currently permitted to transfer their plantation rights to third parties pursuant to existing PRC laws and regulations by means of bidding, public auction or competitive negotiation, as recognized by certain local practices. The Corporation cannot assure that the PRC government will not promulgate new rules and regulations that may be more detailed and complex than existing ones for regulating the transfer of plantation rights. Such rules may restrict or delay the acquisition of any new plantation rights from original plantation rights holders. Moreover, the

Corporation cannot assure that the enforcement of such rules and regulations will not have a material adverse effect on its business, financial condition and results of operations.

***Restrictions on foreign currency exchange may limit the Corporation's ability to obtain foreign currency or to utilize its revenue effectively***

The Corporation receives most of its revenues in Renminbi. As a result, any restrictions on currency exchange may limit its ability to use revenue generated in Renminbi to:

- purchase timber imported from other countries;
- fund other business activities outside the PRC, such as the purchase of equipment for the Corporation's manufacturing plants;
- service and repay the Corporation's indebtedness, including but not limited to the 2011 Senior Notes, the 2014 Senior Notes and the 2013 Convertible Senior Notes; and
- pay out dividends to the shareholders of the Corporation.

The Corporation's subsidiaries in the PRC do not require prior approval from SAFE before undertaking current account foreign exchange transactions. Current account transactions refer to those international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, and the declaration of and payment of dividends out of after tax retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions must be processed through banks in the PRC licensed to engage in foreign exchange.

Foreign exchange transactions under the capital account, however, will be subject to the registration requirements and approval of SAFE. Capital account transactions refer to international revenues and expenditures, that, being inflows and outflows of capital, produce increases or reductions in debt and equity, including direct investment, various types of borrowings and investment in securities. In addition, for either current or capital account transactions, the Corporation's WFOEs must purchase foreign currency from one of the PRC banks licensed to conduct foreign exchange.

The Corporation cannot assure that sufficient amounts of foreign currency will always be available to enable the Corporation to meet its foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi, including the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Senior Notes and the Notes to be issued pursuant to the Note Offering, or to remit profits out of the PRC. In addition, the Corporation's subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay dividends to the Corporation, repay intercompany loans or to satisfy their other foreign currency requirements. The Corporation's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at September 30, 2009, the Corporation had retained earnings of US$943.2 million in the PRC which may be restricted. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from SAFE, this could affect the subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Corporation. The Corporation also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

***Certain PRC regulations governing PRC companies are less developed than those applicable to companies incorporated in more developed countries***

A significant portion of the Corporation's investments are in the form of WFOEs established in the PRC, which are subject to PRC laws and regulations applicable to foreign investment companies, and other applicable laws and regulations in the PRC. These laws and regulations may not afford investors the same legal protections available to them in the United States, Canada or elsewhere, and may be less developed than those applicable to companies incorporated in the United States, Canada and other developed countries or regions.

***Operational licenses and permits***

Currently, PRC laws and regulations require tree plantation companies to obtain licenses and permits to operate tree plantations, harvest logs on the tree plantations and transport the logs out of the forest areas. The tree plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forestry bureaus for the logging permits and transportation permits for plantations that are to be harvested. The Corporation currently has the relevant business licenses for its subsidiary companies in the PRC to engage in forestry activities and has received the requisite logging permits and transportation permits for its completed logging and transportation activities. In this regard, the PRC State Council reviews and approves the annual logging quota every five years. This annual logging quota is allocated by the local forestry bureaus within their administrative regions. For foreign invested plantations, the logging quota is allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. There is no assurance that the Corporation will continue to maintain the business licenses and obtain the relevant permits for its future logging and transportation activities, or that the PRC government will not enact laws and regulations that would add requirements for tree plantation companies to conduct these activities in the PRC.

Further, PRC laws and regulations require manufacturers to obtain licenses and permits to operate timber manufacturing plants. The timber manufacturing companies must apply to the relevant Administration for Industry and Commerce of the PRC for a business license, and those established in the forestry areas must apply for the Timber Operation (Processing) Permit required by the relevant forestry regulatory authorities in the PRC. The Corporation currently has the requisite business licenses for its subsidiary companies in the PRC to engage in timber manufacturing activities. However, there is no assurance that the Corporation will continue to maintain the business licenses or the Timber Operation (Processing) Permits for its manufacturing plants, or that the PRC government will not pass laws and regulations that would place additional requirements on companies conducting these activities in the PRC.

***Environmental regulations***

Laws and regulations protecting the environment have generally become stricter in the PRC in recent years and could become more stringent in the future. On December 26, 1989, the Standing Committee of the National People's Congress of the PRC adopted the Environmental Protection Law of the PRC. This law contains, and future legislation with respect to protection of the environment, whether relating to forests, protected animal species, or water conservation, could contain, restrictions on tree planting, timber harvesting, and other forest practices. The Corporation's tree plantations and manufacturing plants will also be subject to environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. The Corporation may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which the Corporation is subject in its tree plantations and manufacturing plants could become more stringent in the future, which could affect the Corporation's production costs and results of operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by the Corporation to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect the Corporation's business, financial condition and results of operations.

***Implementation and Issuance of new form Plantation Rights Certificate***

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership and use rights and of issuing certificates to the persons having such plantation rights (the **"Plantation Rights Certificates"**). In April 2000, the PRC State Forestry Administration issued a notice, which provided that a new form of Plantation Rights Certificate was to be used from the date of the notice. The PRC government is in the process of gradually implementing the issuance of the new form of certificates on a nationwide scale. However, the registration and issuance of the new form plantation rights certificates by the PRC State Forestry Administration have not been fully implemented in a timely manner in certain parts of the PRC. The Corporation has obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under its management, and the Corporation is in the process of applying for the plantation rights certificates for those plantations for which it has not obtained such certificates.

The Corporation can give no assurance when the official Plantation Rights Certificates will be issued by the relevant local PRC governments to all the purchased plantations and planted plantations acquired and under the Corporation's management and cultivation. Until official new form Plantation Rights Certificates are issued, there can be no assurance that the Corporation's rights to its tree plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if the Corporation's rights to any of its tree plantation lands are subject to dispute or challenge, the Corporation's business, financial condition and results of operations could be materially adversely affected.

***Agricultural Taxes and Other Related Forestry Fees***

Prior to February 2006, agricultural taxes on forestry companies were levied by the PRC government and generally amounted to approximately 8% of the selling prices or government standardized prices, depending upon the entity and the province in which it operates. The agricultural taxes and other forestry-related fees are levied at the time trees are harvested or sold. In certain provinces where the Corporation's tree plantations are located, the agricultural taxes have been exempted or reduced. On February 17, 2006, the agricultural taxes were abolished by the PRC State Council. The forestry-related fees include the reforestation fund and maintenance fees, which are generally charged at 10% to 20% of sales and, under a new rule effective from July 1, 2009, the reforestation fund shall be charged at no more than 10% of sales, but the fees actually charged vary from place to place. There is also a forest protection fee of RMB5 per cubic meter of wood harvested. No assurance can be given that other forestry-related tax will not be levied and such forestry-related fees will not be increased in the future. According to a notice issued by the Ministry of Finance, the National Development and Reform Commission and the State Forestry Administration on August 4, 2003, the forestry protection fee has been cancelled. However, the cancellation of the forestry protection fee has not yet been fully implemented in the provinces where the Corporation's tree plantations are located.

**Risks Related to this Offering and the Common Shares**

***The market price of the Common Shares may be volatile***

The market price of the Common Shares experienced, and may continue to experience, significant volatility. For the period from January 1, 2009 to December 10, 2009, the trading price of the Common Shares on the TSX has ranged from a low of $6.52 per share to a high of $20.01 per share. Numerous factors, including many over which the Corporation has no control, may have a significant impact on the market price of the Common Shares, including, among other things:

- changes in the outlook for and competition and other market conditions of the PRC tree plantation industry;
- regulatory developments in target markets affecting the Corporation, its customers or its competitors;
- actual or anticipated fluctuations in the Corporation's quarterly operating results;
- changes in financial estimates or other material comments by securities analysts relating to the Corporation, its competitors or the industry in general;
- announcements by other companies in the industry relating to their operations, strategic initiatives, financial condition or financial performance or to the industry in general;
- announcements of acquisitions or consolidations involving industry competitors or industry suppliers;
- addition or departure of the Corporation's executive officers; and
- sales or perceived sales of additional Common Shares.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of the Common Shares, regardless of the Corporation's operating performance.

***Future issuances of Common Shares or equity-related securities may depress the trading price of the Common Shares***

Any issuance of equity securities after this Offering could dilute the interests of existing shareholders and could substantially decrease the trading price of the Common Shares. The Corporation is concurrently conducting the Note Offering which is expected to close on or about the Closing Date of this Offering. The issuance of Common Shares upon the conversion of Notes by holders thereof would have a dilutive effect on the Common Shares. The Corporation may issue equity securities in the future for a number of reasons, including to finance its operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust the ratio of debt to equity and to satisfy the Corporation's obligations upon the exercise of outstanding warrants, options, or other convertible securities or for other reasons. Sales of a substantial number of Common Shares or other equity-related securities in the public market (or the perception that such sales may occur) could depress the market price of the Common Shares, and impair the Corporation's ability to raise capital through the sale of additional equity securities. Except as described above under "Plan of Distribution" and similar lock-up restrictions in connection with the Note Offering, there is no restriction on the Corporation's ability to issue securities or the ability of any of its shareholders to dispose of, encumber or pledge its Common Shares, and there can be no assurance that the Corporation will not issue securities or that any such shareholder will not dispose of, encumber or pledge its Common Shares. The Corporation cannot predict the effect that future sales of the Common Shares or other equity-related securities would have on the market price of the Common Shares.

***Corporate law and provisions in the Corporation's articles of continuance could delay or deter a change in control***

The articles of continuance of the Corporation contain provisions that may prevent or discourage a third party from acquiring the Corporation, even if the acquisition would be beneficial to its shareholders.

The articles of continuance allow for the issuance of preference shares, although there are at present no preference shares outstanding. The board of directors may fix the rights, privileges, restrictions, conditions and other provisions of any series of preference shares in its sole discretion and issue such shares without the approval of shareholders. The rights and preferences of the preference shares may be superior to those of the Common Shares.

Further, under the CBCA, some business combinations, including certain amalgamations, continuances or the sale, lease or other disposition of all or a substantial part of the Corporation's assets, must be approved by at least two-thirds of the votes cast by the shareholders or, in certain cases, holders of each class of shares. In some cases shareholders may have a right to dissent from the transaction, in which case the Corporation would be required to pay dissenting shareholders the fair value of their Common Shares provided they have followed the required procedures.

The ability of the board of directors to issue preference shares and the exercise of supervoting rights by holders of preference shares, provisions of corporate law and the other statutory provisions described above could have the effect of delaying or preventing third parties from acquiring the Corporation, even if the acquisition would be beneficial to shareholders.

***Third party statistical and financial data in certain of the documents incorporated by reference in this short form prospectus may be incomplete or unreliable***

Certain of the documents incorporated by reference in this short form prospectus contains statistical and financial data from industry publications and other third party sources. Although the Corporation believes the information to be correct, it has not independently verified such data and therefore the Corporation cannot assure you that they are complete or reliable. Such data may also be produced on different bases from those used in other countries. Therefore, discussions of matters relating to the PRC, different regions and markets within the PRC, their respective economies and the Corporation's industry in the documents incorporated by reference in this short form prospectus are subject to the caveat that the statistical and other data upon which such discussions are based may be incomplete or unreliable.

***The Corporation may not complete the concurrent Note Offering, which may require the Corporation to obtain alternative sources of funding in the future***

The Corporation is conducting the Note Offering concurrently with this Offering and expects that the Note Offering will be completed on or about the same date as this Offering. The Corporation intends to use the aggregate net proceeds of this Offering and the Note Offering as described under "Use of Proceeds". The completion of this Offering is not conditioned upon the completion of the Note Offering. As a result, if the Note Offering is not completed, the Corporation may complete this Offering and use the net proceeds as described under "Use of Proceeds". However, if the Note Offering is not completed, the Corporation may need to obtain alternative sources of funding in the future. There can be no assurance that the Corporation will be able to obtain such financing on terms acceptable to the Corporation, or at all. If the Corporation is not able to obtain such financing, it may have an adverse effect on the Corporation's future growth plans and prospects.

## INTEREST OF EXPERTS

Each of Pöyry Forest Industry Pte Ltd., Aird & Berlis LLP and Stikeman Elliott LLP is considered to be an expert for the purposes of this short form prospectus and the documents incorporated by reference herein.

Neither Pöyry Forest Industry Pte Ltd. nor any partner, employee or consultant thereof has ever received a direct or indirect interest in any property of the Corporation or any of its associates or affiliates. As of the date hereof, Pöyry Forest Industry Pte Ltd. and the partners, employees and consultants thereof, as a group, beneficially own, directly and indirectly, less than 1% of the outstanding Common Shares.

Neither Aird & Berlis LLP nor any partner, employee or consultant thereof has ever received a direct or indirect interest in any property of the Corporation or any of its associates or affiliates. As of the date hereof, Aird & Berlis LLP and the partners, employees and consultants thereof, as a group, beneficially own, directly and indirectly, less than 1% of the outstanding Common Shares.

Neither Stikeman Elliott LLP nor any partner, employee or consultant thereof has ever received a direct or indirect interest in any property of the Corporation or any of its associates or affiliates. As of the date hereof, Stikeman Elliott LLP and the partners, employees and consultants thereof, as a group, beneficially own, directly and indirectly, less than 1% of the outstanding Common Shares.

## AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, Vancouver, British Columbia.

The registrar and transfer agent of the Common Shares is CIBC Mellon Trust Company at its principal office in Toronto, Ontario. Effective December 29, 2009, Valiant Trust Company has been appointed to replace CIBC Mellon Trust Company as the registrar and transfer agent of the Common Shares.

## STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

**AUDITORS' CONSENT**

We have read the short form prospectus of Sino-Forest Corporation (the "Company") dated December 10, 2009 relating to the issue and sale of 19,000,000 common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended; our report is dated March 13, 2009. We also consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the directors of the Company on the consolidated balance sheet of the Company as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year ended December 31, 2007; our report is dated March 12, 2008 except as to notes 2, 18 and 23 which are as of July 17, 2008.

Vancouver, Canada
December 10, 2009.

(Signed) ERNST & YOUNG LLP
Chartered Accountants

**AUDITORS' CONSENT**

We consent to the incorporation by reference in the short form prospectus dated December 10, 2009 relating to the offering of 19,000,000 common shares of Sino-Forest Corporation (the "Company"), of our report dated March 19, 2007 to the shareholders of the Company with respect to the audited consolidated financial statements of the Company for the years ended December 31, 2006 and 2005.

| | |
|---|---|
| Hong Kong | (Signed) BDO LIMITED |
| December 10, 2009 | Certified Public Accountants |

**CERTIFICATE OF SINO-FOREST CORPORATION**

Dated: December 10, 2009

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

| | |
|---|---|
| (Signed) ALLEN T.Y. CHAN<br>Chief Executive Officer | (Signed) DAVID J. HORSLEY<br>Chief Financial Officer |

On behalf of the Board of Directors of
Sino-Forest Corporation

| | |
|---|---|
| (Signed) W. JUDSON MARTIN<br>Director | (Signed) JAMES M.E. HYDE<br>Director |

## CERTIFICATE OF THE UNDERWRITERS

Dated: December 10, 2009

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

| CREDIT SUISSE SECURITIES (CANADA), INC. | TD SECURITIES INC. |
|---|---|
| (Signed) RYAN LAPOINTE | (Signed) LOUIS G. VÉRONNEAU |

DUNDEE SECURITIES CORPORATION

(Signed) DAVID G. ANDERSON

| RBC DOMINION SECURITIES INC. | SCOTIA CAPITAL INC. | CIBC WORLD MARKETS INC. | MERRILL LYNCH CANADA INC. |
|---|---|---|---|
| (Signed) STEVEN BORRITT | (Signed) ANDREW MCLENAN | (Signed) ALAN WALLACE | (Signed) NEIL KELL |

| CANACCORD FINANCIAL LTD. | MAISON PLACEMENTS CANADA INC. |
|---|---|
| (Signed) CHARLES SHIN | (Signed) JOHN R. ING |

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