SINO-FOREST CORPORATION

Annual Information Form

in respect of the year ended

December 31, 2009

March 31, 2010

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FORWARD-LOOKING STATEMENTS

This Annual Information Form, and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding Sino-Forest Corporation's ("Sino-Forest") future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are intended to be forward-looking statements under the "safe harbour" provisions of applicable securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest set out under "Description of the Business". These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material which are identified under "Risk Factors," other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. Sino-Forest does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required by law.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Annual Information Form using a number of conventions, which a reader should consider when reading the information contained herein. When we use the terms "we", "us", "our" and words of similar import or use the term "Corporation" or "Sino-Forest", we are referring to Sino-Forest Corporation itself, or to Sino-Forest Corporation and its consolidated subsidiaries, as the context requires.

All references in this Annual Information Form 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, or the PRC; and all references to "€" or "Euro" are to Euros. Solely for the convenience of the reader, this Annual Information Form contains translations of certain H.K. dollar and Renminbi amounts into U.S. dollars. Unless otherwise indicated, all dollar amounts in this Annual Information Form are expressed in U.S. dollars.

Statistical references to "PRC" and "China" do not include the Hong Kong Special Administrative Region, Hong Kong, the Macau Special Administrative Region, or Taiwan.

Certain references to PRC laws, regulations and policies in this Annual Information Form include the corresponding Chinese translations.

"PRC government" means the central government of the PRC, including all political subdivisions (such as provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

A hectare is a metric unit of area equal to 10,000 m^2 or approximately 2.471 acres.

"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 China in accordance with the relevant PRC laws, with capital provided solely by foreign investors. Such enterprises do not include branches and offices established in China by foreign enterprises and other economic entities.

TOTALS PRESENTED IN THIS ANNUAL INFORMATION FORM MAY NOT TOTAL CORRECTLY DUE TO ROUNDING OF NUMBERS.

THE CORPORATION

Sino-Forest 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 our class A subordinate-voting shares and our class B multiple-voting shares. On June 25, 2002, we filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, we filed articles of amendment whereby our class A subordinate-voting shares were reclassified as common shares ("Common Shares") and our class B multiple-voting shares were eliminated.

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

CORPORATE STRUCTURE

The following is a list of the Corporation's subsidiaries (which does not include certain non-material subsidiaries) as at March 31, 2010, indicating the place of incorporation / registration and showing the percentage equity interest beneficially owned, or controlled or directed (directly or indirectly) by the Corporation in each such entity:

	Place of Incorporation/ Registration	**Percentage Equity Interest Held by the Corporation**
Sino-Forest Corporation	**Canada**	
Sino-Panel Holdings Limited	British Virgin Islands	100
Sino-Global Holdings Inc.	British Virgin Islands	100
Sino-Forest Resources Inc.	British Virgin Islands	100
Sino-Panel (Asia) Inc.	British Virgin Islands	100
Grandeur Winway Limited	British Virgin Islands	100
Sinowin Investments Limited	British Virgin Islands	100
Dynamic Profit Holdings Limited	British Virgin Islands	100
Suri-Wood Inc.	British Virgin Islands	100
Sino-Panel (Guangxi) Limited	British Virgin Islands	100
Sino-Panel (Yunnan) Limited	British Virgin Islands	100
Sino-Panel (North East China) Limited	British Virgin Islands	100
Sino-Panel [Hunan] Limited	British Virgin Islands	100
SFR (China) Inc.	British Virgin Islands	100
Sino-Panel (Gaoyao) Ltd.	British Virgin Islands	100
Sino-Panel (North Sea) Limited	British Virgin Islands	100
Sino-Forest Investments Limited	British Virgin Islands	100
Sino-Panel [Xiangxi] Limited	British Virgin Islands	100
Sino-Panel [Suzhou] Limited	British Virgin Islands	100
Sino-Panel (Guangzhou) Limited	British Virgin Islands	100
Expert Bonus Investment Limited	British Virgin Islands	100
Glory Billion International Limited	British Virgin Islands	100
Amplemax Worldwide Limited	British Virgin Islands	100

	Place of Incorporation/ Registration	Percentage Equity Interest Held by the Corporation
Ace Supreme International Limited	British Virgin Islands	100
Express Point Holdings Limited	British Virgin Islands	100
Smart Sure Enterprises Limited	British Virgin Islands	100
Trillion Edge Limited	British Virgin Islands	100
General Excel Limited	British Virgin Islands	100
Brain Force Limited	British Virgin Islands	100
Prime Kinetic Limited	British Virgin Islands	100
Poly Kinetic Limited	British Virgin Islands	100
Alliance Max Limited	British Virgin Islands	100
Sino-Panel (China) Nursery Limited	British Virgin Islands	100
Sino-Wood Trading Limited	British Virgin Islands	100
Homix Limited	British Virgin Islands	100
Sino-Panel (Russia) Limited	British Virgin Islands	100
Sino-Wood Partners, Limited	Hong Kong	100
Sino-Plantation Limited	Hong Kong	100
Sino-Wood (Guangxi) Limited	Hong Kong	100
Sino-Wood (Jiangxi) Limited	Hong Kong	100
Sino-Wood (Guangdong) Limited	Hong Kong	100
Sino-Wood (Fujian) Limited	Hong Kong	100
Sino-Panel (China) Investments Limited	PRC	100
Hunan Jiayu Wood Products (Hongjiang) Co., Ltd.	PRC	100
Sino-Maple (Shanghai) Co., Ltd.	PRC	100
Sinowin Plantings (Suzhou) Co., Ltd.	PRC	100
Sino-Panel (Gengma) Co., Ltd.	PRC	100
Heilongjiang Jiamu Panel Co., Ltd.	PRC	100
Shaoyang Jiading Wood Products Co., Ltd.	PRC	100
Jiafeng Wood (Suzhou) Co., Ltd.	PRC	100
Guangdong Jiayao Wood Products Development Co., Ltd.	PRC	100
Sino-Panel (Beihai) Development Co., Ltd.	PRC	100
Sino-Forest (China) Investments Limited	PRC	100
Guangxi Guijia Forestry Co., Ltd.	PRC	100
Gaoyao Jiayao Forestry Development Co., Ltd.	PRC	100
Jiangxi Jiachang Forestry Development Co., Ltd.	PRC	100
Zhangzhou Jiamin Forestry Development Co., Ltd.	PRC	100
Sino-Forest (Heyuan) Co., Ltd.	PRC	100
Sino-Forest (Guangzhou) Co., Ltd.	PRC	100
Sino-Forest (Suzhou) Trading Co., Ltd.	PRC	100
Sino-Forest (Anhui) Co., Ltd.	PRC	100
Hunan Jiayu Wood Products Co., Ltd.	PRC	100
Xiangxi Autonomous State Jiaxi Forestry Development Co., Ltd.	PRC	100
Zhangjiagang Free Trade Zone Jiashen International Trading Co., Ltd.	PRC	100
Sino-Panel (Luzhai) Co., Ltd.	PRC	100

	Place of Incorporation/ Registration	Percentage Equity Interest Held by the Corporation
Jiangxi Jiawei Panel Co., Ltd.	PRC	100
Sino-Panel (Guangzhou) Trading Co., Ltd.	PRC	100
Guangzhou Pangyu Dacheng Wood Co., Ltd.	PRC	100
Jiangsu Dayang Wood Co., Ltd.	PRC	100
Sino-Wood (Heyuan) Co., Ltd.	PRC	100
Mandra Forestry Holdings Limited	British Virgin Islands	99.99(1)
Mandra Forestry Finance Limited	British Virgin Islands	99.99(2)
Mandra Forestry Anhui Limited.	British Virgin Islands	99.99(2)
Mandra Forestry Hubei Limited.	Hong Kong	99.99(2)
Anqing Mandra Forestry Limited.	PRC	99.99(2)
Xuancheng Mandra Forestry Limited.	PRC	99.99(2)
Wuhu Mandra Forestry Limited.	PRC	99.99(2)
Mandra Forestry (Jiangxi) Limited.	PRC	99.99(2)
Yihuang Mandra Forestry Limited.	PRC	99.99(2)
Huanggang Mandra Forestry Limited.	PRC	99.99(2)
Zixi Mandra Forestry Limited.	PRC	91.99(3)
Greenheart Resources Holdings Limited (“Greenheart”)	British Virgin Islands	17.26(4),(5)
Omnicorp Limited (“Omnicorp”)	Bermuda	20(4)

Notes:

(1) Ownership percentage is based on the issued and outstanding ordinary shares and excludes outstanding warrants. There is one issued and outstanding ordinary share not held by the Corporation.

(2) Directly or indirectly wholly-owned by Mandra Forestry Holdings Limited.

(3) A joint-venture company.

(4) Ownership percentage is based on the outstanding ordinary shares as published respectively by Greenheart and Omnicorp as at March 31, 2010.

(5) The equity interest is made up of a 5.18% direct investment and 12.08% indirect investment through Omnicorp in Greenheart.

(6) Our non-material active subsidiaries that were not included in the above table are:

Sino-Capital Global Inc. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio Science Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Biotechnology (Guangzhou) Co. Ltd. (PRC WFOE), Sino-Panel (Guangxi) Development Co. Ltd. (PRC WFOE), Sino-Panel (Hezhou) Co. Ltd. (PRC WFOE), Sino-Panel (Sanjiang) Co. Ltd. (PRC WFOE), Sino-Panel (Yunnan) Trading Co. Ltd. (PRC WFOE), Hunan Jiayu Wood Products (Zhijiang) Co. Ltd. (PRC WFOE), Sino-Panel (Yuanling) Co. Ltd. (PRC WFOE), Sino-Panel (Jianghua) Co. Ltd. (PRC WFOE), Beihai Changqing Wooden Co. Ltd. (PRC Limited Company), Suzhou City Lvyun Garden Engineering Co. Ltd. (PRC Limited Company), Sino-Panel (Fujian) Co., Ltd. (PRC WFOE), Sino-Panel (Heilongjiang) Trading Co., Ltd. (PRC WFOE), Sino-Maple (Shanghai) Trading Co., Ltd. (PRC WFOE), and Sino-Forest (Guangzhou) Trading Co., Ltd. (PRC WFOE). Sino-Forest (Guangzhou) Trading Co., Ltd. is in the process of deregistration.

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Sino-Forest Corporation is a leading commercial forest plantation operator in the PRC. Our principal businesses include the ownership and management of forest plantation trees, sale of standing timber, wood logs, and complementary manufacturing of downstream engineered-wood products. Our executive offices are located in Hong Kong and Toronto, Canada and our Common Shares have traded on the Toronto Stock Exchange (the "TSX") under the symbol TRE since 1995.

Strategic Business Units

Our operations are comprised of two core business segments - **Wood Fibre Operations** is the main revenue contributor, while our **Manufacturing and Other Operations** enables us to enhance the value of our fibre operations by producing downstream products.

Revenue from Wood Fibre Operations is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantation business models in eight provinces and regions across China as of December 31, 2009.

Other Fibre

- wood logs – we source logs from PRC suppliers and sell them in the domestic market; and
- imported wood products – we source large diameter logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing and Other Operations include:

- engineered-wood flooring produced in Jiangsu Province and distributed through more than 300 outlets nationwide in the PRC;
- sawn timber produced in Yunnan Province and Heilongjiang Province;
- finger-joint board and blockboard produced in Hunan Province;
- plywood and veneer products produced in Guangxi Province; and
- greenery and nursery operations based in Jiangsu Province.

Historical Milestones

The following are important recent historical milestones in the development of our business:

2007

- Closed a private placement on April 10, 2007 in which 25.4 million Common Shares were issued to several institutional investors, including Temasek Holdings (Pte) Ltd. and United Capital - Investment Group Limited at Cdn.$9.15 per share for gross proceeds of approximately US$200 million. Proceeds of the offering are being used primarily for the acquisition of standing timber in the Yunnan Province, for the acquisition or construction of related processing facilities in the regions and for working capital.

- Entered into a master agreement on March 23, 2007 to acquire approximately 200,000 hectares of non-state owned commercial standing timber of pine, oak, birch and broadleaved shaw in the Yunnan Province over a 10-year period.

- Completed a bought deal on June 12, 2007 and raised gross proceeds of approximately Cdn$201 million by issuing 15.9 million Common Shares at Cdn.$12.65 per share. The proceeds are being used primarily for the acquisition of standing timber, for the acquisition or construction of related processing facilities in the plantation regions that have or will have operations, and for working capital in connection with the foregoing.

- Entered into a master agreement on December 10, 2007 to purchase approximately 150,000 hectares of non-state owned commercial timber of Chinese fir, pine trees, eucalyptus forest and others in the Guangxi Province over a five-year period.

2008

- Closed an offering on July 23, 2008 made on a private placement basis to international investors for US$300 million principal amount of 5% convertible senior notes. Net proceeds from the offering are being used to acquire commercial plantation forests in the Fujian Province, to lease land and plant with Jatropha trees and for general corporate purposes.

  The underwriters in connection with the offering exercised an over-allotment option in full and sold an additional US$45 million principal amount of convertible senior notes on August 6, 2008.

- Entered into a master agreement on August 11, 2008 to acquire 200,000 hectares of non-state owned plantation trees of pine, Chinese fir and eucalyptus forest in the Fujian Province over a 10-year period.

2009

- On February 6, 2009, we acquired 55,000,000 Omnicorp ordinary shares and 4% convertible bonds with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and the issuance of 2,659,990 Common Shares at a price of Cdn.$10.00 per share.

- Completed a bought deal on June 8, 2009 and raised gross proceeds of approximately Cdn$379.5 million by issuing 34.5 million Common Shares at Cdn.$11.00 per share. The offering included the exercise in full of the over-allotment option by the underwriters to purchase 4.5 million Common Shares. The net proceeds of the offering will be used primarily for the acquisition of commercial plantation forests in Jiangxi Province and for general corporate purposes.

- Entered into a master agreement on June 11, 2009 to acquire between 150,000 to 300,000 hectares of non-state owned plantation trees of pine, Chinese fir and others in the Jiangxi Province over a three-year period.

- Completed an exchange offer on July 27, 2009 pursuant to which US$212.3 million in principal amount of the US$300 million 9.125% guaranteed senior notes due 2011 (the "2011 Senior Notes") was exchanged for an equivalent principal amount of newly issued 10.25% guaranteed senior notes due 2014 (the "2014 Senior Notes"). After completion of such exchange, US$87.7 million in principal amount of the 2011 Senior Notes remains outstanding. Concurrently with the exchange offer, a consent solicitation to amend certain of the provisions of the 2011 Indenture (as defined below under "Material Contracts") was also completed on July 27, 2009.

- Closed an offering on December 17, 2009 made on a private placement basis to international investors for an aggregate of US$460 million principal amount of 4.25% convertible senior notes due 2016 (the "2016 Convertible Senior Notes"), which amount included US$60 million principal amount of notes issued upon the exercise in full of the over-allotment option by the initial purchasers. The 2016 Convertible Senior Notes are convertible into Common Shares at an initial conversion rate of 47.2619 Common Shares per US$1,000 principal amount of notes. Concurrently with the offering of the 2016 Convertible Senior Notes, we also completed an offering of approximately 21.8 million Common Shares at a price of Cdn.$16.80 per Common Share for gross proceeds of approximately Cdn.$367 million, which included the exercise in full of the over-allotment option by the underwriters to purchase 2,850,000 Common Shares. The aggregate net proceeds from the note offering and the Common Share offering are being used primarily: for the prepayment of the full amount of borrowings outstanding under the Corporation's syndicated term loan facility (the "Syndicated Term Loan") secured on February 24, 2006, including accrued but unpaid interest and related fees and expenses thereunder; as initial capital for the acquisition of commercial plantation forests in the Guizhou Province, PRC; for any payments required to be made in connection with consummating the exchange for certain notes issued by Mandra Forestry Finance Limited ("Mandra Finance") and warrants issued by Mandra Forestry Holdings Limited ("Mandra Holdings") and the acquisition of common shares of Mandra Holdings and for investments in Mandra Finance as we may determine to make; for forestry investments that we may make in cooperation with state-owned plantation entities ("SOPs") in the PRC and investments into newly formed entities owned by us and the SOPs in the PRC; and for general corporate purposes.

On January 4, 2010, the Corporation acquired all of the issued and outstanding shares of HOMIX Limited ("HOMIX"), a company engaged in research and development and manufacturing of engineering-wood products in China, for an aggregate amount of US$7.1 million. The acquisition includes HOMIX's facilities in China and its patents. The acquisition was funded with cash on hand of the Corporation.

On January 28, 2010, the Corporation, through its wholly-owned subsidiary, Sino-Panel (China) Investments Limited, entered into a master agreement to acquire approximately 150,000 hectares of non-state owned plantation trees of pine, Chinese fir and others in the Guizhou Province over a three-year period.

On February 5, 2010, the Corporation acquired substantially all of the outstanding common shares of Mandra Holdings. Concurrently with the Mandra Holdings acquisition, the Corporation completed an exchange with holders of 99.7% of the US$195 million 12% guaranteed senior notes due 2013 issued by Mandra Finance and 96.7% of warrants issued by Mandra Holdings (the "Mandra Warrants"), for new guaranteed senior notes issued by the Corporation in the aggregate principal amount of US$187,177,375 bearing interest at a rate of 10.25% per annum with a maturity date of July 28, 2014 (the "New 2014 Senior Notes"). On February 11, 2010, the holders of the New 2014 Senior Notes exchanged all such notes for additional 2014 Senior Notes issued by the Corporation in the aggregate principal amount of $187,187,000.

DESCRIPTION OF THE BUSINESS

Vision and Strategy

Our vision is to become the leading commercial forest plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices.

Our strategy is to build on our competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC. We are 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. We believe the following key initiatives will allow us to successfully execute our strategy:

- expand our geographical locations by investing 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;

- improve the yields of our tree plantations through continued investment in research and development and application of advanced forestry management techniques;

- practice sustainable and environmentally responsible forestry and manufacturing;

- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;

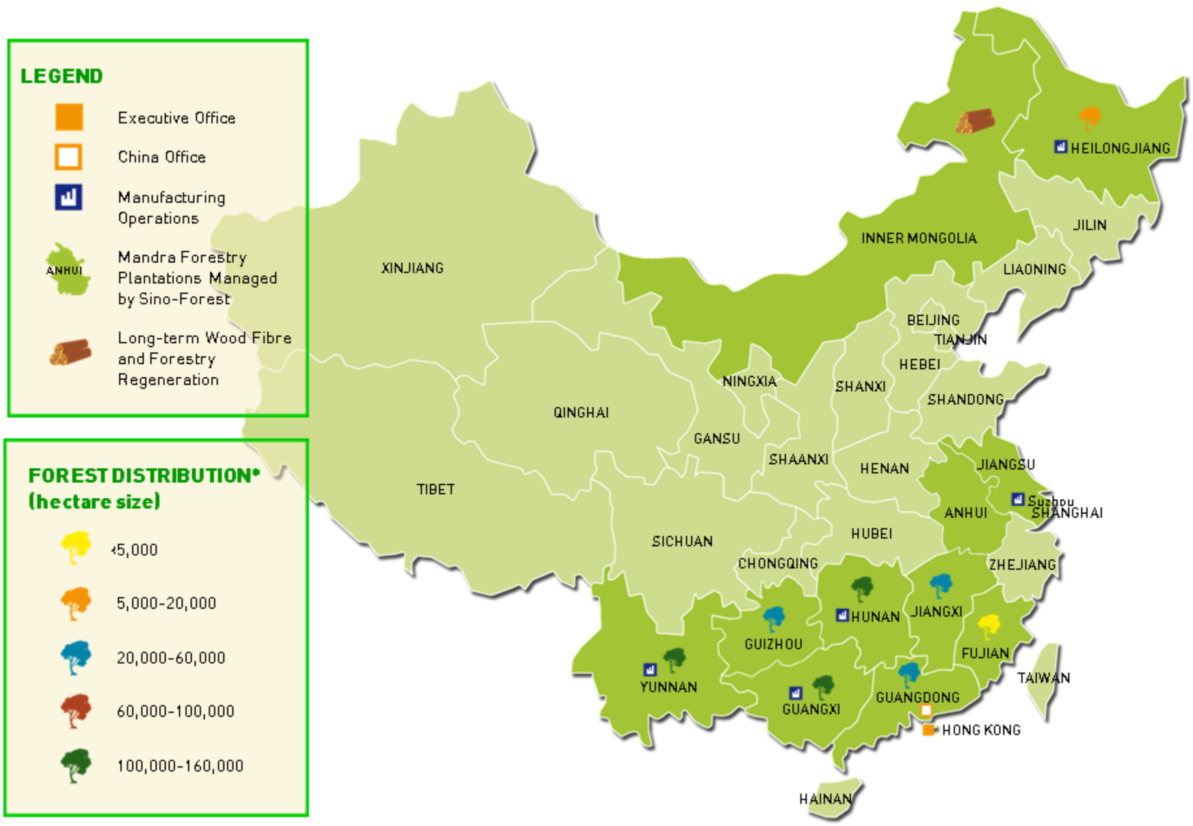
- strengthen management processes and information systems to support the growth of our multi-faceted businesses; and

- maintain strategic alignment with the PRC government's plans.

Our Wood Fibre Operations

Overview

Our wood fibre operations generate the bulk of our revenue, accounting for 96.3% of our revenue in the year ended December 31, 2009. These operations essentially consist of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. Most of the standing timber and logs we sell come from our own tree plantations. All of our tree plantations are located primarily in the southern and eastern regions of the PRC. The following map highlights the locations of our tree plantations in the PRC as of December 31, 2009:



*Map shows trees distribution as at December 31, 09, trees under management were 512,700 hectares.

Tree Plantations and Plantation Business Models

We operate our plantations using three business models: purchased, planted and integrated.

Purchased Plantation Model

In our purchased plantation model, we purchase young trees from local forestry entities and subsequently sell the trees as standing timber when they reach maturity. The purchase agreements for the trees also give us the right to lease the plantation land and replant after we harvest the trees. The right to lease the plantation is subject to negotiation of a definitive plantation land-use agreement and obtaining and completing the requisite government approval and registration procedures. We refer to plantations managed under our purchased plantation model as “purchased plantations.”

The purchase price of the trees takes into account a variety of factors such as tree species, yield, age, size, quality and location of the tree plantation. We also consider soil and weather conditions for replanting, log prices and regional market demand. While we normally do not have to conduct extensive plantation management work with respect to the trees growing on our purchased plantations, we do take measures to ensure that the trees are protected from pests and disease, and apply fertilizer regularly, where appropriate, depending on the age of the trees.

As of December 31, 2009, our purchased plantations under management consisted of approximately 438,900 hectares. As of December 31, 2009, our purchased plantations are primarily located in Guangdong, Guangxi, Jiangxi, Hunan, Yunnan, Heilongjiang, Guizhou and Fujian Provinces. They consist of a diversified mix of tree species, predominantly pine, Chinese fir and eucalyptus. The advantages of purchasing trees include the ability to achieve an expansion of plantation reserves within a shorter time scale than by planting, while at the same time better positioning us to ensure a sizeable harvesting profile.

Planted Plantation Model

In our planted plantation model, we assess the suitability of land where trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to our planted or re-planted trees as “planted plantations.” We choose to plant trees in strategically located areas and operate our commercial plantations using advanced environmentally prudent plantation management practices. We believe our 15-year track record in the PRC using advanced plantation management techniques is a competitive advantage in the country, where the commercial tree plantation industry is comparatively underdeveloped and where there are currently limited large-scale plantations using advanced plantation management practices.

In the fourth quarter of 2007, we completed the conversion of the legal structure of all of our four CJVs to WFOEs in accordance with PRC law. Under the WFOE structure, we will have overall operational control and management rights of our plantation operations. We have leased and will continue to lease land from the original plantation rights holders and pay the land lease rent. Terms of land leases are between 30 and 50 years, depending on negotiations in different locations. The conversion is expected to provide us with greater control over plantation management through plantation land leasing rather than harvested timber sharing and allow us to capture higher margins. As of December 31, 2009, our planted plantations operated through WFOEs comprised approximately 73,800 hectares. For those plantations originally operated by CJVs, we are still in the process of negotiating with the original plantation land use rights holders to enter into plantation land use agreements and going through the requisite governmental approval and registration procedures. There is no assurance that we will secure all of these plantation land use rights from the farmers and collective organizations. See “Risk Factors—Risks Related to Our Business.”

We started operating our first planted plantation on barren land in 1995. Our planted plantations now consist primarily of eucalyptus trees in Guangdong, Guangxi, Hunan, Fujian and Jiangxi Provinces. As of December 31, 2009, our planted plantations under management consisted of approximately 73,800 hectares.

Integrated Plantation Model

Pursuant to our integrated plantation model, instead of selling trees from purchased or planted plantations as standing timber, we either sell the logs or vertically integrate them with our manufacturing facilities to produce value-added wood products and lease the underlying land for replanting. Our integrated plantation model is essentially a combination of the purchased and planted plantation models.

The following table sets forth the location and approximate total hectares of our tree plantations under management as of December 31, 2009:

Tree Plantations Under Management

Location	Planted plantations (in hectares)	Purchased plantations (in hectares)	Total hectares (approximate)
Guangxi	12,600	138,500	151,100
Guangdong	39,100	9,400	48,500
Hunan	15,100	128,600	143,700
Yunnan	0	105,700	105,700
Fujian	400	100	500
Heilongjiang	0	5,500	5,500
Guizhou	0	20,600	20,600
Jiangxi	6,600	30,500	37,100
Total	73,800	438,900	512,700

As of December 31, 2009, our tree plantations under management consisted of approximately 512,700 hectares.

Access to Future Purchases of Tree Plantations

Pursuant to our strategy of acquiring plantations inland, where forests are denser and the acquisition of trees and leasing of underlying land tends to be more cost effective, we have entered into long-term master agreements as of December 31, 2009 in Hunan, Yunnan, Guangxi, Fujian and Jiangxi Provinces, giving us the right to acquire up to approximately 1.1 million to 1.3 million hectares of trees, of which approximately 411,600 hectares have been acquired as of December 31, 2009. A description of our main long-term master agreements is provided below.

Long-term Acquisition Agreement in Hunan

We entered into long-term master agreements in September and December 2006 through Sino-Panel (Asia) Inc. (“Sino-Panel”), one of our wholly-owned subsidiaries, with Hongjiang City Forestry Technology Integrated Development Services Company, which acted as the authorized agent for the original plantation rights holders, to acquire approximately 400,000 hectares of plantation trees for between RMB10.4 billion to RMB12.5 billion over 14 years in Hunan Province. The purchase price is not to exceed RMB260 per cubic meter. The plantations under this agreement include mature trees with an estimated yield of 100 to 120 cubic meters per hectare, or an aggregate 40 million to 48 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreements, Sino-Panel has the pre-emptive rights to lease the underlying plantation land for up to 50 years. We intend to annually re-plant approximately the same amount of hectares of trees harvested in the previous year over the 14-year period of the agreements. The terms of the lease are to be negotiated with Hongjiang City Forestry Technology Integrated Development Services Company, the counterparty of the master agreements, 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 accordance with PRC laws and regulations.

As of December 31, 2009, we have acquired approximately 183,500 hectares of plantation trees for US$696.2 million pursuant to the terms of the master agreements.

Long-term Acquisition Agreement in Yunnan

In March 2007, we, through Sino-Panel, entered into a master agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd. ("Gengma Forestry"), which is established in Lincang City, Yunnan Province, and acted as the authorized agent for the original plantation rights holders, to acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan Province for between RMB5.5 billion to RMB10.9 billion over a 10-year period. The purchase price is not to exceed RMB260 per cubic meter. The number of hectares to be acquired each year will be determined by our PRC subsidiaries by entering into specific purchase agreements with Gengma Forestry. The plantations under this agreement include mature trees with an estimated wood fibre yield of 105 to 210 cubic meters per hectare, or an aggregate 21 to 42 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has the pre-emptive rights to lease the underlying plantation land for up to 50 years. The final terms of the lease are to be further negotiated with Gengma Forestry and the lease is subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

As of December 31, 2009, we have acquired approximately 109,100 hectares of plantation trees for US$515.5 million under the terms of the master agreement.

Long-term Acquisition Agreement in Guangxi

In December 2007, we, through Sino-Panel, entered into a master agreement with Zhanjiang Bo Hu Wood Company Limited ("Bo Hu"), which acted as the authorized agent for the original plantation rights holders, to acquire approximately 150,000 hectares of plantation trees in Guangxi Province for between RMB5.7 billion to RMB6.8 billion, at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB380 per cubic meter over a five-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 to 120 cubic meters per hectare, or an aggregate 15.0 million to 18.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has pre-emptive rights to lease land at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB525 per hectare per annum for 30 years. The land lease can be for up to 50 years after harvesting as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are determined following the execution of definitive agreements between our PRC subsidiaries and Bo Hu 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.

As of December 31, 2009, we have acquired approximately 103,900 hectares of plantation trees for US$515.1 million under the terms of the master agreement.

Long-term Acquisition Agreement in Fujian

On August 11, 2008, we, through Sino-Panel, entered into a master agreement with Zhangzhou Lu Sheng Forestry Development Company Limited ("Lu Sheng") to acquire approximately 200,000 hectares of non-state-owned plantation trees in Fujian Province for approximately RMB7.0 billion at a price not to exceed RMB350 per cubic meter over a ten-year period. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The permissible land lease term after harvesting is up to 50 years under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between our PRC subsidiaries and Lu Sheng 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 plantations under this agreement include mature trees with an estimated wood fibre yield of approximately 100 cubic meters per hectare, or an aggregate 20.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

As of December 31, 2009, we have not acquired any hectares of plantation trees under the terms of the master agreement.

Long-term Acquisition Agreement in Jiangxi

On June 11, 2009, we, through our wholly-owned subsidiary Sino-Panel (China) Investments Limited ("Sino-Panel China"), entered into a master agreement with Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan") to acquire between 15.0 million and 18.0 million cubic meters of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we currently plan to acquire such amount of wood fibre within an area of between 150,000 and 300,000 hectares of plantation trees. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel China has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The permissible land lease term after harvesting is up to 50 years under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between our PRC subsidiaries and Jiangxi Zhonggan 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 plantations under this agreement include trees with an estimated average wood fibre yield of approximately 100 cubic meters per hectare. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

As of December 31, 2009, we have acquired approximately 15,100 hectares of plantation trees for US$39.9 million under the terms of the master agreement.

Recent Developments

Long-term Acquisition Agreement in Guizhou

On January 28, 2010, we, through Sino-Panel China, entered into a master agreement with Guizhou Sen Li Industry Company Limited ("Guizhou Sen Li") to acquire between 10.5 million and 16.5 million cubic meters of plantation wood fibre, within an area of 150,000 hectares of plantation trees that has an average yield of 70 to 110 cubic meters per hectare in Guizhou Province. Under the master agreement, the acquisition will take place over a three-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. In addition to securing the maximum tree acquisition price, we have pre-emptive rights to lease the underlying plantation land at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years. The land lease can also be extended to 50 years after harvesting 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 definitive agreements between our PRC subsidiaries and Guizhou Sen Li upon the authorisation of the original plantation rights holders, and subject to the requisite governmental approval and in compliance with the relevant PRC laws and regulations.

Acquisition of Mandra Forestry

On February 5, 2010, our acquisition of Mandra Holdings provided us with access to 155,600 hectares of relatively mature plantation trees representing approximately 14 million cubic meters of fibre primarily in Anhui Province. As a result of this strategic investment, we have further diversified our portfolio of plantations geographically and reduced our cost per cubic meter to less than half of the capped fibre prices under our master agreements.

Plantation Management

To optimize the yields on our planted plantations, we engage in intensive silviculture and a variety of advanced plantation management techniques. Our advanced management practices include detailed site assessments, site selection and preparation, terracing, use of improved planting materials, density and spacing control, fertilization, tending, monitoring and preventing damage to the trees. We generally engage third parties to perform the day-to-day management of the plantations.

We have developed a sustainable intensive plantation management system to work together with our management practices and environmental policies. This system and our other management practices are designed to produce fast-growing, high-quality sustainable forestry resources, optimize yields, improve resistance to disease, frost and fire, enhance environmental conservation and improve aesthetics. In addition, these practices result in more uniform tree plantations, which increase harvesting efficiency and reduce waste through peeling and sawing.

Plantation Service Providers

We engage third parties for all of the field operations of our tree plantations. During the course of the year, we typically engage approximately 10 to 20 third-party service providers for our planted plantations and our purchased plantations. The terms of our contracts with these service providers vary and can range from one or two years to one plantation cycle. The services to be provided by the plantation service providers must comply with our plantation management systems and operation guidelines. For areas with trees planted by us, the service providers perform all preparatory work and planting work such as clearance of plantation land, preparation for plowing or terracing, leveling of land, planting, fertilization and applying pesticides and other cultivation activities. We are generally responsible for providing seedlings and fertilizer and inspecting and supervising the different stages of work of the service providers. For our purchased plantations, depending on the age profile of the trees, the service provider is engaged to manage the trees, such as applying fertilizers and pesticides.

Domestic Wood Logs

Wood chips operations were ceased due to a lack of chipping capacity available to us. Therefore, from the third quarter 2007 onwards, the wood chips business has been reclassified to report as discontinued operations. The reportable revenue stream now primarily represents the sale of logs.

We now source logs from PRC suppliers, including pursuant to the Inner Mongolia master agreement referred to below, and sell them in the domestic PRC market. Wood logs sales comprised 0.4% of total revenue in 2009, compared to 1.5% of total revenue in 2008.

Imported Wood Products

We also engage in trading activities of wood-based products sourced from outside the PRC. These consist primarily of large diameter logs, sawn timber, veneer and other wood-based products sourced from Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. In these transactions, we purchase wood-based products that correspond to the requirements of wood dealers and sell directly to these dealers. Our customers in these transactions are primarily wood dealers in the PRC. The overseas suppliers generally ship the wood-based products to ports in the PRC designated by the wood dealers.

The purchase contracts and the sales contracts are generally short-term contracts, with delivery within one to two months from the date of the contracts. The sales are usually denominated in U.S. dollars. Payments are usually settled within 45 to 90 days of delivery.

Our Manufacturing and Other Operations

Overview

Our manufacturing operations complement our wood fibre operations by maximizing usage and adding value to upstream fibre.

In 2000, we began the process of developing our manufacturing plants to complement our tree plantation operations using small diameter logs to manufacture quality wood-based products that are traditionally made from large-diameter logs. To date, we produce engineered-wood flooring, finger-joint board, blockboard and other wood-based products in five provinces in the PRC. In addition, we have a greenery and nursery operations based in Jiangsu Province which was established to source, supply and manage landscaping products for property developers and other organizations. Details of our manufacturing operations are summarized in the following table:

PRC Province*	**Total Land Area / Total Building Area**	**Type of Products (Anticipated Annual Capacity)**	**Related Information**
Guangxi	54,669 m^2 / 108,672 m^2	1. Wood Flooring 2. Composite Flooring (500,000 m^2)	Annual capacity of 500,000 m^2 of wood flooring and composite flooring is anticipated for ramp up by 2010.
	137,340 m^2 / 13,334 m^2	3. Flooring Substrate 4. Plywood and Veneer (100,000 m^3)	The anticipated annual capacity of flooring substrate; plywood and veneer is 50,000 m^3 and 50,000 m^3, respectively.
Heilongjiang	88,464 m^2 / 24,821 m^2	1. Sawn Timber 2. Finger-joint Board (60,000 m^3)	The annual capacity of sawn timber and various products is expected to be 60,000 m^3.
Hunan	31,202 m^2 / 5,334 m^2	1. Blockboard 2. Finger-joint Board (20,000 m^3)	The anticipated annual capacity of blockboard and finger-joint board is maintained at 20,000 m^3.
Jiangsu	156,443 m^2 / 59,682 m^2	1. Solid Flooring 2. Laminated Flooring (7,000,000 m^2)	The flooring business was established in 2004 and we developed the Sino-Maple brand to market our engineering wood products. Sino-Maple flooring products are distributed through more than 300 outlets nationwide, including B&Q's large do-it-yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products for overseas market. Sino-Maple flooring products are also fast becoming a popular substitute for solid flooring in the PRC due to its environmentally conscious use of forest plantation logs instead of large diameter natural forest logs.
Yunnan	15,334 m^2 / 2,133 m^2	1. Sawn Timber 2. Flooring Material (20,000 m^3)	The anticipated annual capacity of sawn timber and flooring material is maintained at 20,000 m^3.

*Note: We ceased manufacturing operations in Guangdong Province in 2009.

Our Greenery and Nursery Operations

According to the PRC State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the 10 most polluted cities in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape management and supply of tree nursery products, we decided to pursue opportunities in this forest product business segment. With our plantation resources and expertise, we established a greenery and nursery operation in Jiangsu Province to source, supply and manage landscaping products for property developers and other organizations.

Other Information

Sales and Marketing

Substantially all of our sales are made in the PRC. In the year ended December 31, 2009, sales to customers in the PRC, including discontinued operations, were US$1,229.8 million and sales to customers located in other countries were US$9.5 million. In the years ended December 31, 2007, 2008 and 2009, our domestic sales of wood-based products, wood logs and standing timber accounted for virtually all of our revenue.

One of our marketing strategies is to develop long-term relationships with wood dealers that will engage in sales transactions and trading activities with us year after year. These long-term relationships will enable us to better understand their needs and to take advantage of our competitive strengths, including our market expertise and advanced plantation management practices.

We engage in trading of logs and wood-based products both in the PRC and overseas, generally under short-term contracts. Sales are usually denominated in Renminbi, with payments usually settled within 60 days of delivery.

With respect to trading activities involving the export of wood-based products overseas, the delivery period of wood-based products is usually one to two months from the date of the contract. The sales are mainly denominated in U.S. dollars and are made pursuant to letter of credit arrangements or through open accounts. Payments are usually settled within 45 to 90 days of delivery. In cases where we purchase imported logs for sale in the PRC, we issue letters of credit for the purchase of the logs. The purchases and sales are denominated in U.S. dollars, with payments usually settled within 45 to 90 days of delivery.

With respect to sales of standing timber, we generally grant buyers a credit period of up to nine months from the date of the contract, with sales generally denominated in Renminbi. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. Pursuant to the sales contract, the buyer is required to harvest the standing timber within 18 months from the date of the contract.

Our wood-based product manufacturing plants currently consist primarily of sales of wood-based panel to distributors, which engage in further processing before sale to end-user customers, and sales of flooring products to distributors, property developers and contractors. These sales are generally under short- to medium-term contracts and are denominated in Renminbi. Payments are usually settled within 120 days.

Suppliers

The supply of wood logs and wood-based products for our trading activities is sourced primarily from local suppliers of logs and wood-based products in the PRC. We also source logs and wood-based products for our trading activities overseas, primarily from Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. The credit terms granted by our suppliers of logs and wood-based products generally range from one to three months on open account and by letters of credit.

In the years ended December 31, 2007, 2008 and 2009, our five largest suppliers accounted for approximately 55.4%, 46.1% and 55.6% of our total costs of sales, respectively. The largest supplier accounted for approximately 32.5%, 16.7% and 15.2% of our total costs of sales, respectively, during such periods. See “Risk Factors—Risks Related to Our Business.”

Transportation

Historically, we have not transported logs and wood-based products to customers ourselves, as we mainly engaged in sales of timber from our planted plantations and purchased plantations. In these sales transactions, the customer is responsible for harvesting and transporting the logs out of the forested areas.

With respect to our trading activities of logs and wood-based products sourced from overseas, we generally arrange for the shipping of the logs and wood-based products to ports in the PRC for the customers of the products, who arrange for the transportation of the products once they are unloaded at the port. The logs and wood-based products are generally shipped to ports in the southern region of the PRC.

Customers

Our customers and AIs are mostly wood dealers and panel manufacturers. We intend to expand our customer base to include more end-user customers, such as pulp and panel mills, and, with respect to our wood-based product manufacturing plants, large furniture manufacturers.

In the years ended December 31, 2007, 2008 and 2009, our five largest customers (including AIs) accounted for approximately 59.1%, 56.0% and 71.9% of our revenue, respectively. In the same periods, our largest customer (including AIs) accounted for approximately 15.9%, 14.0% and 15.9% of our revenue, respectively. See “Risk Factors—Risks Related to Our Business.”

Competition

The market for logs and wood-based products in the PRC is highly fragmented, with a large number of small operators of tree plantations. There are also large operators of tree plantations in the PRC. These operators normally operate their own plantations and, in certain cases, replant and utilize these plantations as a source for their downstream operations.

The market for wood-based panels in the PRC is also highly fragmented, with a large number of small manufacturers and no dominant manufacturers. We expect that our principal competitors in the wood-based product manufacturing industry will be large domestic and foreign manufacturers of wood-based panels and engineered floorings. A number of domestic and foreign mills have commenced or announced plans to build wood-based panel mills in the PRC, which are expected to increase competition in the wood-based panels market in the PRC. We may also face competition from imports of wood-based panels. The primary competitive factors in the wood-based panels industry are product quality, level of technology in the manufacturing process, product innovation, product mix, price and logistics.

The markets for forest products in the PRC are highly competitive in terms of price and quality. In addition, wood-based products are subject to increasing competition from a variety of substitutes, including non-wood and engineered-wood based products, as well as import competition from other worldwide suppliers. See "Risk Factors—Risks Related to Our Business."

Environmental Matters

Our tree plantation and manufacturing operations are subject to PRC laws and regulations relating to the protection of the environment. We believe that our operations are in substantial compliance with these laws and regulations. We are not currently involved in any significant environmental proceedings.

Tree Plantations

We maintain an environmental management system designed to ensure sustainable and responsible resource management. It sets out policies on the social, ecological and environmental aspects of our tree plantation operations and detailed operating procedures on environmental compliance. Some of our plantation operations are managed in accordance with the environmental standards of two of the most recognized international forest certification systems. Besides the environmental requirements of International Organization for Standardization ISO14001, we have also been working since 2000 to integrate Forest Stewardship Council ("FSC") principles and criteria into our tree plantation management and operations, which cover all recognized environmental and relevant issues such as the control of soil and water erosion, the conservation of biodiversity and natural habitats, the improvement of environmental conditions, the maintenance of production continuity, health and protection of forests, local community development, etc. We obtained an ISO14001 certificate in 2002 for one of our plantation companies in Guangxi Province, and an FSC Forest Management ("FM") certificate in 2004 for another in Gaoyao, Guangdong Province (SW-FM/COC-001146). We aim to expand our success in FSC to all of our plantation forests.

In the past five years, we have gone through stringent annual assessments and re-assessments by SmartWood, an FSC-authorized, US-based auditor for our FSC and ISO operations, continuously improving our environmental performance through the recurrence of prescribed operation, monitoring and inspection, technological development and correction of plantation management. Our efforts in addressing all main environmental concerns or issues are well recognized by the independent assessors.

Besides our commitment to managing our plantation forests in an environmentally-friendly manner, we are also actively involved in various activities relevant to environmental protection or enhancement. On July 20, 2007, the PRC launched its first China Green Carbon Foundation, spearheaded by the State Forestry Administration, to develop carbon credit trading, forest bio-fuels and renewable energy through large-scale tree plantation in a sustainable manner, which will also mitigate greenhouse gas emissions. We are one of the founding members and the only member from the forestry sector.

In 2008, we donated approximately US$769,000 to the establishment of "Applied Research Centre for Pearl River Delta Environment" at Hong Kong Baptist University. A primary goal of the research centre is to develop a competent team to study the pollution problems and provide solutions for industries in the Pearl River Delta Region.

We believe that, with our commitment to corporate responsibility, we will steadily and effectively improve our sustainable plantation management, from economic, environmental and social perspectives.

Manufacturing

We began manufacturing engineered-wood products to complement our tree plantation operations in 2000, and now produce mainly flooring, blockboard, finger-joint board, plywood and veneer, which generally cause relatively minor environmental problems. Environmental issues may include, but are not limited to, sawdust emissions, air pollution, glue waste, water pollution, toxic chemical content, fire, health & safety and raw material sourcing. We strive to integrate international standards into our wood product manufacturing by updating our management system and operation procedures in a timely manner.

We are committed to fully utilizing certified and legal raw wood material in our manufacturing, which is considered to be a significant way of protecting regional and even global environments from deforestation. We have obtained FSC Chain-of-Custody ("FSC CoC") certificates (SW-COC-003299; GFA-COC-001561) for our key factories that produce flooring, veneer, etc. We intend on making all of our wood product manufacturing subject to the FSC CoC certification system, which involves regular stringent inspections carried out by accredited and independent third-parties. Wood products with an FSC CoC certificate must be made from FSC-certified raw materials.

We have acquired advanced facilities and equipment that fully meet the demands of environmental protection, to keep hazardous substance emissions under acceptable levels. We have various procedures in place for controlling environmental issues. All environmental matters associated with our wood product manufacturing are regularly or periodically inspected and assessed by local authorities or relevant parties.

With our wood product manufacturing, some environmental accidents may still occur from daily operation or at old facilities. As with most other labor-intensive companies in China, we often have inexperienced or outsourced workers in our labor force, who may inadvertently cause environmental and safety accidents, even though professional training is always first provided. We strive to implement an integrated training and monitoring system to avoid or minimize accidents. In addition, old inefficient facilities or equipment may emit hazardous chemicals or contaminated materials and as a consequence, timely replacement and effective maintenance of outdated facilities, equipment or their parts are necessary to control environmental accidents in manufacturing operations.

Environmental Regulation

As disclosed under "Risk Factors—Risks Related to the PRC", our tree plantations and manufacturing plants are subject to certain 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. We 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 we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. Any failure by us 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 our business, financial condition and results of operations.

Research and Development

Research and development is an important function of our tree plantation operations. The goal of our research and development efforts is to improve tree plantation yields and the quality of the trees grown on our tree plantations. We have developed a sustainable intensive plantation management system in order to optimize investment efficiency. The system comprises standardized plantation management operation procedures, genetic improvements, cultivation techniques and inspection and monitoring.

We perform research and development on a wide range of activities, including:

- genetic breeding research;
- vegetative propagation technology;
- site and nutrition management and fertilizer application for different soil types and developing methods to optimize fertilizer application;
- improved silviculture practices;
- development of sustainable management system of commercial plantation ecosystems, merging timber production, environmental conservation and social care;
- wood properties and processing and value-added products; and
- ecological and environmental technology, including the monitoring and evaluation of ecological and environmental conditions in short-rotation eucalyptus plantations.

In order to maximize all aspects of the forest product supply chain, it is important for us to continue investing in research and development activities. On January 4, 2010, we acquired HOMIX for an aggregate amount of US$7.1 million to enhance our research and development portfolio. HOMIX has a research and development laboratory and two engineered-wood production operations based in Guangdong and Jiangsu Provinces, covering eastern and southern China wood product markets. HOMIX has developed a number of new technologies with patent rights, specifically suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered-wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environmentally-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue.

In performing our research and development activities, from time to time we also collaborate with, and receive assistance from, research and academic institutions in the PRC.

In the years ended December 31, 2007, 2008 and 2009, we spent approximately US$412,000, US$1,071,000 and US$2,726,000, respectively, on research and development activities.

Other Tree Plantation Contractual Arrangements

Inner Mongolia Wood Fibre Supply

On July 31, 2006, we entered into a master agreement with Inner Mongolia Forest and Timber Resources Co., Ltd., an equity joint venture company in the PRC, and Erlianhot Lianhe Forestry Bureau in the Inner Mongolia Autonomous Region, to secure a minimum of 1.5 million cubic meters annually of long-term supply of wood fibre over a period of 12 years by managing a program of secondary forests.

We continue to experience delays in the supply of wood logs from the local partner in Inner Mongolia due to the possible increase in export tariff from 25% to 80% planned by the Russian government. Given the proximity of Inner Mongolia to Russia, and the similarity of certain tree species in those regions, the local partner has decided to delay harvesting in anticipation of higher log prices in the future.

Sino-Forest (Guangzhou) Trading Co., Ltd., which entered into the Inner Mongolia master agreement, is in the process of deregistration. We intend to transfer its rights and obligations under the agreement to another PRC subsidiary before its deregistration.

Mandra Forestry

In 2005, we formed an alliance with Mandra Holdings and Mandra Finance by investing US$15.0 million in Mandra Holdings in the form of a subordinated loan and acquiring a 15% equity interest in Mandra Holdings, with the goal of gaining access to timber in Anhui Province close to the strategically important Yangtze River Delta. Leveraging on our track record and expertise in plantation operations, we were to provide plantation management services for an annual management fee of US$1.0 million and were to have access to an inventory of Chinese fir and pine trees while earning a margin of 3% on the sales of timber delivered by Mandra Finance.

On May 11, 2005, we, through our wholly-owned subsidiary, Sino-Forest Investments Limited, entered into a shareholders agreement with Mandra Holdings, Morgan Stanley Dean Witter Equity Funding, Inc. (“Morgan Stanley”) and Mandra Resources Limited (the “Mandra Shareholders Agreement”). The Mandra Shareholders Agreement governs the relationship between shareholders of Mandra Holdings until such time as we hold all of the issued shares of Mandra Holdings, and among other things, granted us an option to purchase, subject to certain conditions, all of the outstanding equity securities of Mandra Holdings from the other shareholders of Mandra Holdings and all of the shares represented by warrants held by warrant holders, exercisable at any time until one day prior to the fifth anniversary of the Mandra Shareholders Agreement, being May 11, 2010. On February 5, 2010, we completed the acquisition of substantially all of the outstanding equity securities of Mandra Holdings from the shareholders of Mandra Holdings. On March 8, 2010, we subsequently issued a notice of our election to exercise our option to purchase the remaining equity securities and the shares represented by the outstanding warrants of Mandra Holdings. At any time between the expiry of 30 days from such notice, being April 7, 2010 and the date not later than 120 days from such notice, being July 6, 2010, we intend to purchase the remaining equity securities of Mandra Holdings, as well as all of the shares of Mandra Holdings issued or issuable upon exercise of the warrants at a fair market value to be determined by a third party valuer, whereupon we expect that Mandra Holdings will become our wholly-owned subsidiary.

Concurrently with the Mandra Holdings acquisition on February 5, 2010, we completed an exchange with holders of 99.7% of the US$195 million 12% guaranteed senior notes due 2013 issued by Mandra Finance (the “Mandra Notes”) and 96.7% of warrants issued by Mandra Holdings, for New 2014 Senior Notes in the aggregate principal amount of $187,177,375. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged all such notes for additional 2014 Senior Notes issued by us in the aggregate principal amount of $187,187,000. On March 5, 2010, we made an offer to purchase the remaining 0.3% of the Mandra Notes in accordance with the terms of the indenture governing the Mandra Notes.

Pursuant to the terms of a contingency payment agreement dated February 5, 2010 that we entered into with Mandra Forestry Limited and Sino-Forest Investments Limited, we paid initial cash consideration of US$2 million and will pay an additional US$2 million on August 5, 2010. Additional contingent consideration amounts of US$5 million will be payable within ten days of June 30, 2010 and December 31, 2010 respectively, based on achieving certain agreed milestones. Each amount will be paid by the issuance of Common Shares at an issuance price per share based on the volume-weighted average price for the preceding ten trading days, subject to a minimum per-share price of CDN$7.00. These amounts may be reduced by negotiation if any of the milestones are not met, subject to a maximum reduction of 50%.

Investment in Greenheart and Omnicorp

In July 2007, we signed a master sale and purchase agreement with Greenheart Resources Holdings Limited ("Greenheart"), a natural forest concession owner and operator in Suriname, South America, to secure 34,285 cubic meters of logs from Suriname for US$175 per cubic meter up to January 2009. We are currently reviewing the terms for extending this master agreement. In addition, we invested US$6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp, a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to us consisting of 7,860,000 Omnicorp ordinary shares, 4% convertible bonds at a principal amount of US$4.0 million issued by Omnicorp, and cash in the amount of US$302,000. In October 2007, we acquired convertible bonds issued by Omnicorp for US$1.8 million from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp ordinary share.

On February 6, 2009, we acquired 55,000,000 Omnicorp ordinary shares and 4% convertible bonds with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and the issuance of 2,659,990 Common Shares at a price of Cdn.$10.00 per share. As a result of the completion of the transaction, our stake in Omnicorp has increased to approximately 20.0% of Omnicorp's outstanding shares as well as 89.6% of the outstanding convertible bonds. Assuming the full conversion by us of the acquired convertible bonds, subject to certain terms and conditions of the convertible bonds, we would own approximately 40.2% of Omnicorp's outstanding shares.

On October 3, 2009, Omnicorp issued a proposed supplemental deed poll pursuant to which the conditions of the Omnicorp convertible bonds have been modified to the effect that (i) the maturity date of the convertible bonds will be extended from November 9, 2009 to November 8, 2010 and (ii) a control restriction will be removed allowing a holder of the convertible bonds to exercise the conversion rights attached to the convertible bonds even if such holder and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")) with it would become obliged to make a mandatory offer under Rule 26 of the Takeovers Code as a result of such conversion.

On November 6, 2009, the proposed modifications were approved at a special general meeting held by Omnicorp.

Insurance

We maintain insurance policies against risks of loss of our tree plantations. These policies cover all our planted plantations and the indemnity will be on actual insured value of the hectares of damaged plantation after netting deductible. As for our purchased plantations, the coverage of our insurance policy is subject to an annual aggregate loss limit at 15% of the declared value of our total purchased plantation after netting deductible, with a per accident loss limit of RMB10 million. Accidents and disasters insured for our tree plantations include fire, lightning, explosion, flooding and windstorm. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our tree plantations are located in different provinces in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our tree plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

We also maintain property all risks and public liability insurance policies for our manufacturing facilities. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

Employees

As of December 31, 2009, we had 2,573 full-time employees in Canada, Hong Kong and the PRC. The following table sets forth the number and location of our employees according to category as of December 31, 2009:

	Canada	Hong Kong	PRC	Total
Executives and Senior Management	2	8	38	48
General Staff	1	69	2,455	2,525
Total	3	77	2,493	2,573

We believe that our relationships with our employees are generally good. We have not experienced any significant problems with the recruitment or retention of employees, nor suffered from any material disruption of our business operations as a result of any labor dispute, strike or employee dispute.

GOVERNMENT REGULATIONS

PLANTATION INDUSTRY

Development of the Plantation Industry

The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated The Notice on the Decision to Speed Up the Development of Plantation Industry (Zhong Fa (2003) No. 9) (中共中央國務院關於加快林業發展的決定) dated June 25, 2003. The Key Elements of the Policies in Forestry Industry (林業產業政策要點) were jointly promulgated by the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission on August 10, 2007 for implementing this notice.

The notice records the decisions of the PRC central government to pursue the following main goals:

- to develop the non-state owned plantation industry and to encourage the participation of foreign investors in the plantation industry, either solely or jointly with others;
- to strengthen plantation infrastructure in order to ensure the continued development of the economy of the PRC;
- to expedite and reform the development of the plantation industry;
- to emphasize the importance of the plantation industry in the development and preservation of the ecological environment;
- to increase forest resources and the supply of forest products;
- to promote the infrastructure development of the ecological environment;
- to further improve the system of plantation rights in respect of the plantation land and plantation trees;
- to assist in the processing of transfers, leases, mortgages and pledges and making investments in joint ventures for plantations; and
- to strengthen financial support of the development of the plantation industry by continuing to provide long-term and low interest rate credit facilities and encouraging plantation operators to raise funds from the public.

The Key Elements of the Policies in Forestry Industry describe the following main goals:

- to insist on the consistency of the foreign investment policy, *i.e.*, to favor allocation of foreign investments in areas identified in the Catalog of Foreign-invested Industry Guidance (外商投資產業指導目錄) and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region (中西部地區外商投資優勢產業目錄);

- to encourage and facilitate development and use of critical technologies, equipment and products that favor the upgrade of industrial structure of forestry;
- to gradually establish the Timber Industrial Zone composed of the Southeast Coastal Area, Southern Timberland and Huang-Huai-Hai Plain;
- to encourage the development of non-public-owned forestry, eliminate institutional obstacles to such development and introduce advanced international technologies and management experiences;
- to establish a sound product quality inspection and monitoring system and help forestry corporations obtain the ISO 9000 and ISO 14000 certifications;
- to strictly follow the released tax policy and provide insurance and financial services to companies and individuals in the forestry industry;
- to establish a platform for transactions of plantation land use rights;
- to improve forest harvesting management and facilitate harvesting of artificial commercial plantations, in particular at plantations supplying industrial raw materials, and to strengthen the operators' rights to cultivate the plantations; and
- to create a favorable environment for development of the forestry industry.

On July 14, 2008, the PRC State Council promulgated the Opinions on Comprehensively Promoting the Reform of the Collectively Owned Plantation Right System (中共中央國務院關於全面推進集體林權制度改革的意見) dated June 8, 2008 in order to further liberalize and modernize the forestry industry, develop the productivity of the forestry industry, increase farmers' income and develop the ecological system in the PRC. Such opinions provide that, among others, in accordance with applicable laws and regulations, the farmers with contractual rights over the collectively owned PRC commercial plantations may, without change of the plantation usage, dispose of such rights relating to plantation operations and plantation tree ownership rights through sub-contracts, leases, transfers, mortgages, or as contributions in capital or under cooperative structures.

On October 29, 2009, the PRC State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce and State Administration of Taxation jointly promulgated the Plan of Revitalizing Forestry Industry (2010-2012) (林業產業振興規劃 (2010-2012 年)) as guidance to confront the global financial crisis, which sets forth targets such as, among others, increasing domestic demand and supporting the exportation of forestry products, improving quality of wood products, upgrading forestry technology, promoting international cooperation and developing industrial material plantations. The Plan of Revitalizing Forestry Industry also provides a series of policies and measures to develop the forestry industry, including strengthening financial support to the forestry industry and lowering the standard of reforestation fund from 20% of the forestry products sales income to 10%, commencing from July 1, 2009.

Permits and Approvals Necessary for the Operation of our Plantation Business

We are required to obtain the following permits and approvals for the operation of our tree plantation business:

- Plantation Rights Certificates in respect of the plantation land use rights and the ownership of our planted trees for our planted plantations;
- Plantation Rights Certificates in respect of the ownership of our purchased trees for our purchased plantations;
- timber logging permits; and
- timber transportation permits.

Plantation Rights Certificates for Our Planted Plantations

The PRC Forestry Law (中華人民共和國森林法) and the Implementation Regulations of the PRC Forestry Law (中華人民共和國森林法實施條例) implement the system of plantation rights registration and issuance of certificates. Pursuant to the Implementation Regulations, all entities should apply to the forestry bureau of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above is responsible for issuing the plantation rights certificates. Applicants for plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry bureau.

Plantation Rights Certificates for Our Purchased Plantations

For our purchased plantations, we have applied for the corresponding Plantation Rights Certificates with the applicable local forestry bureaus. As the relevant locations where we purchased our purchased plantations have not fully implemented the new form of Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our purchased plantations. Instead, we obtained confirmation of our ownership of our purchased plantations from the local forestry bureaus. Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations.

Timber Logging Permits and Logging Quotas

The Implementation Regulations stipulate that for foreign invested plantation projects, the logging quota will be allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. The WFOEs with planted tree operations will be able to obtain the logging permits within the timber logging quota allocated by the provincial forestry departments.

The logging quota of our purchased plantations have been confirmed by the relevant forestry bureaus where the purchased plantations are located.

Timber Transportation Permit

Upon obtaining the timber logging permit and provision of certain supporting documents required by the local forestry bureaus, such as the quarantine certification, there should not be any legal constraints for the WFOEs to obtain timber transportation permits.

MANUFACTURING

Engaging in the Timber Business

The Implementation Regulations stipulate that any entity engaged in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau of the local PRC government at the county level or above. Certain PRC provinces impose further requirements for granting permission to engage in the timber business, which means that any entity engaged in the timber operations and processing business within the relevant provinces must also apply for a timber business permit from the forestry bureau of the appropriate jurisdiction.

Regulations that Apply Nationwide

The Implementation Regulations provide that corporations that engage in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau at the county level or above. Any violation of this regulation will result in confiscation of the timber and any illegal gains and payment of a fine of up to twice the amount of the illegal gain.

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council (國務院辦公廳關於加強森林資源保護管理工作的通知) implemented on May 16, 1994, provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant forestry bureaus, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and complying with the business objectives as stated on the license.

The Administration of Standardization of Forestry Regulations (林業標準化管理辦法) implemented on September 1, 2003, provides that the technical requirements of forestry products, quality of timber saplings, safety, hygiene standards, testing, packaging, storing and transportation practices and inspection methods, must be standardized.

In October 2006, the PRC State Forestry Administration promulgated the Notice for Further Strengthening the Administration and Supervision of the Timber Operation and Processing (關於進一步加強木材經營加工監督管理的通知) and adopted a series of rules for the administration and supervision of the timber processing and operating business.

Eleventh Five-Year Plan

The Eleventh Five-Year Plan (2006-2010), implemented during the Tenth National People's Congress held in March 2006, stipulated plans to improve "three rural problems" in the agricultural sector in relation to agricultural, rural areas and farmers. Top priority has been given to solving the issues of rural poverty with an aim to narrow the poverty gap between urban and rural dwellers. The Eleventh Five-Year Plan calls for infrastructure improvement, social development in rural areas, and creation of regional markets to promote a "new socialist countryside." On the forestry front, the State Forestry Administration plans to speed up the development of fast-growing, high-yield plantation and forestry integration by creating synergy between upstream tree plantations and downstream pulp mills and manufacturing operations.

RISK FACTORS

Risks Related to Our Business

The cyclical nature of the forest products industry and price fluctuations could adversely affect our results of operations

Our 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 our 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 our products and the other factors described above, could have a material adverse effect on our business, financial condition and results of operations.

Expanding our tree plantations and manufacturing operations requires substantial future capital expenditures and we may be unable to obtain adequate financing to fund our capital and other requirements

Expanding our tree plantations and manufacturing operations requires intensive capital investment. During the years ended December 31, 2007, 2008 and 2009, we incurred approximately US$647.0 million, US$672.5 million and US$1,052.7 million, respectively, in capital expenditures to acquire tree plantations. In recent years, we have expanded our 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. We have financed our expansion of tree plantations and manufacturing operations primarily from internal cash flows and debt and equity financing and, if we require additional debt or equity financing for future capital expenditures, we can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, we currently have substantial indebtedness, including the following principal amounts of indebtedness outstanding: US$87.7 million of 2011 Senior Notes, US$399.5 million of 2014 Senior Notes, US$345 million 5% convertible senior notes due 2013 (the "2013 Convertible Senior Notes") and US$460 million of 2016 Convertible Senior Notes, the terms of which restrict our ability to raise additional debt financing. Such restrictions could affect our ability to raise financing in the future. We may incur additional indebtedness from domestic PRC lenders to supplement the funding of our proposed investments with SOPs. See "General Development of the Business—Historical Milestones" If we are not able to obtain financing for expanding our tree plantations and/or manufacturing operations and/or other capital requirements, our business, financial condition and results of operations may be materially and adversely affected.

Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights

Our ability to further expand and develop our tree plantations and successfully implement our tree plantation models depends on, among other things, our ability to purchase trees with respect to which we have 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 our purchased plantations, we have 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. Our decision and ability to purchase the trees and exercise our contractual rights with respect to our tree plantations will depend on, among other factors, our business strategy and the availability of future financing, our ability to negotiate a final price, whether the area is desirable for tree plantations and the availability of tree plantations for expansion.

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

Our integrated plantation model has a short operating history and may not be successful

We commenced set-up and operations of our integrated plantation model in the fourth quarter of 2006, which consists of selling trees from our plantations as logs or using the wood fibre for producing value-added wood products at our own manufacturing facilities. The integrated plantation model is in an early business stage and has a short operating history. We 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 our 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 us to obtain the requisite governmental approvals and complete the related registration procedures. In addition, we 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 our tree plantations with our 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, 2009 exceeded management's guidance, such results are not necessarily indicative of results that may be achievable in the future. We may be subject to operational and execution risks of integrating our upstream plantation activities to our downstream manufacturing operations, among other things.

Our expansion in new regions may pose certain implementation risks

We commenced plantation operations in new regions in recent years. We are exposed to certain risks relating to our ability to successfully operate our plantations in these new regions, primarily because we have no operating history in such regions, and also because we do 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 we face with respect to our integrated plantation model as aforesaid.

We are subject to risks presented by fluctuations in exchange rates

We publish our financial statements and incur substantially all of our indebtedness in U.S. dollars, while substantially all of our 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 31, 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 our results of operations and financial condition and may result in foreign exchange losses because we have substantial foreign currency-denominated indebtedness, expenses and other requirements, while most of our revenues are denominated in Renminbi. In addition, we may not be able to increase the Renminbi prices of our 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 us to finance the expansion of our plantations in the PRC through equity or non-Renminbi borrowings.

As at December 31, 2009, our total long-term debt was US$925.5 million, all of which was denominated in U.S. dollars. We do 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 our results of operations and may adversely affect the value, translated or converted into U.S. dollars, Canadian dollars or otherwise, of our revenue and net income.

The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of our control

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

- unfavorable 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. 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 our tree plantations are located, or otherwise disrupt our trading activities, which may adversely affect our business, financial condition and results of operations.

We may not be able to meet our expectations for the yields of our tree plantations

The success of our business depends upon the productivity of our tree plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our 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 our control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that we may obtain in the future.

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

We may not be able to effectively manage our tree plantations if we do not hire additional employees and improve our management systems and internal controls

As of December 31, 2009, we had 2,573 permanent employees based in Canada, Hong Kong and the PRC to manage our operations. We also engage third parties to perform the day-to-day operations of our tree plantations. However, as we expand the area of our tree plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our tree plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary to strengthen our internal controls and corporate governance as we continue to build our business. Should we fail to take the measures described in this paragraph, we may not be able to implement our expansion strategy or to manage our growth effectively and our 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 our tree plantations and standing timber and wood-based products trading activities, we are 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. We also compete with a number of overseas forestry companies selling wood logs and wood-based products in the PRC.

Our 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. We may not be able to compete effectively against these and other potential competitors. If we are not able to compete effectively in our different business lines, or if competition significantly increases, our business, financial condition and results of operations could be materially and adversely affected.

We rely on our relationships with local plantation landowners and/or plantation land use rights holders

The conversion of the legal structure of all four of our 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 we will be able to secure all the plantation land use rights that we 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 we 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 our former CJVs or to obtain additional tree plantations.

In addition, we rely on our 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 our purchased plantations. We cannot give any assurance that we will be able to enter into any such agreements on commercially acceptable terms.

The loss of business from a major customer could reduce our sales and harm our business and prospects

A few large customers account for a significant percentage of our total revenue. During the years ended December 31, 2007, 2008 and 2009, our five largest customers accounted for approximately 59.1%, 56.0% and 71.9%, respectively, of our total revenue. For the same periods, our largest customer accounted for approximately 15.9%, 14.0% and 15.9%, respectively, of our total revenue. These major customers are all wood dealers and our AIs who sell logs and wood-based products to end-user customers of these products. As a result, we expect 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 our total revenue. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

Disruptions in our supply of raw timber could adversely affect our business, financial condition and results of operations

A few large suppliers account for a significant percentage of our timber supply. For the years ended December 31, 2007, 2008 and 2009, our five largest timber suppliers accounted for approximately 55.4%, 46.1% and 55.6%, respectively, of our total costs of sales. For the same periods, our largest supplier of timber accounted for approximately 32.5%, 16.7% and 15.2%, respectively, of our total costs of sales. These major suppliers are all wood dealers and our AIs. We have not entered into any long-term supply contract for the supply of raw timber. Dependence on a limited number of suppliers exposes us to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on our business, financial condition and results of operations.

We depend on services provided by third party service providers

We rely to a significant extent on third party service providers for day-to-day operation of our tree plantations. The operations performed by third party service providers include: site preparation, planting, plantation management, fertilization and harvesting. We occasionally experience seasonal labor shortages in May and September as farmers become fully engaged in the planting and harvesting of rice. If we are 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, our business, financial condition and results of operations would be materially adversely affected.

If we lose any of our key personnel, our operations and business may suffer

We are heavily dependent upon our 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 our major customers and others. We have no long-term contracts with any of our senior management. We do, however, have key person life insurance policies for two of our executive officers. In addition, we have life insurance policies covering many of our employees, including senior management. The departure, or otherwise loss of service, of any of our senior management could materially and adversely affect our business, financial condition and results of operations.

We may face difficulties during the transitional stages of our expansion; we may experience difficulties in managing future growth and potential acquisitions

Our organic growth, as well as growth arising from acquisitions or joint ventures, could place a significant strain on our managerial, operational and financial resources. Our ability to manage our future growth will depend on our 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 our ability to integrate our existing workforce with that of any businesses that we may acquire. Failure to effectively manage our expansion may lead to increased costs, a decline in sales and reduced profitability.

We may also seek to achieve our growth targets through joint ventures or acquisitions of local businesses providing access to new markets and/or creating synergies with our existing business. We 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 our business, financial condition and results of operations. There can be no assurance that we will be able to achieve our growth objectives.

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

Our manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures. Our ability to conduct and expand our manufacturing plants will depend upon our 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.

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

Our insurance coverage may be insufficient to cover losses

Consistent with PRC forestry industry practice, we have a policy of obtaining external insurance coverage for key insurable risks relating to our tree plantations and the operation of our manufacturing facilities. As a general matter, most of our insurance policies include a coverage limit that applies either per claim or per claim and per year, in particular for the purchased plantations. See "Business—Insurance."

We insure our 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. We do not, however, insure our plantations against losses from all natural and other disasters, such as pest and disease, and we do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on our tree plantations. If we were to suffer an uninsured loss or a loss in excess of our insurance coverage to the tree plantations, our business, financial condition and results of operations could be materially and adversely affected. We also maintain property all risk and public liability insurance policies for our manufacturing facilities. We maintain a level of fire insurance in amounts that we consider to be appropriate for such risks. Such insurance is subject to deductibles that we consider reasonable and not excessive given the current insurance market environment. The occurrence of a loss at our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business, financial condition and results of operations.

Our manufacturing plants are subject to operational risks for which we 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 our 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 our business, financial condition and results of operations.

We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts that we have estimated and for which we have provisioned

Our 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 on a deemed profit basis. 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 December 31, 2009 is the balance of the tax provision for the tax related contingency amounting to $98,863,000 (2008 – $89,909,000) provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

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 judgment 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 and administrative practice 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 four to six years in practice (including the current year). 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.

The Corporation's BVI Subsidiaries deriving income from sources in the PRC are subject to PRC enterprise income tax on a deemed profit basis. The deemed profit percentage applied by the Corporation to plantation fibre sales is 10% for 2009 and prior years. The PRC tax authorities issued a circular in February 2010 which states that the deemed profit percentage for certain activities should be a minimum of 15%. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. The scope of the application of this provision is uncertain.

Increases in the export tax on logs in Russia may have an impact on our imported logs business 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 no impact on our revenue from sales of imported wood products, which increased by 67.2% in the year ended December 31, 2009 compared to the year ended December 31, 2008. However, if the Russian government continues to increase export tariffs, taxes levied will be passed on to our customers and may have an adverse effect on our results of operations from our imported logs business.

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

We prepare our 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 our financial statements may have a considerable impact on a number of important areas. The preparation of our 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 our assets, especially our plantations, may be substantially affected by the application of IFRS to our financial statements.

Our tree plantations and wood-based products trading activities are subject to extensive PRC laws and regulations

We are subject to regulations 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 we may be subject to, including PRC environmental policies and programs that apply to our tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage 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 “Risks Related to the PRC.”

Any outbreak of severe communicable diseases may materially affect our operations and business

An outbreak of a communicable disease such as influenza A (H1N1), severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect our operations at one or more of our facilities. We cannot predict at this time the impact that the current or any future outbreak could have on our business, financial condition and results of operations.

The Pöyry Reports are subject to significant assumptions and limitations and actual values realized by us may differ

We have engaged Pöyry Forest Industry Pte. Ltd. (“Pöyry”) to prepare a report and provide its opinion annually since 2006 and four reports have been produced thus far on the value of our plantation forest crop assets as at December 31, 2006, 2007, 2008 and 2009 (the “Pöyry Reports”). The Pöyry Reports contain a discussion of the principal assumptions, limitations and other considerations utilized in their 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 the valuation, Pöyry has applied yield estimates that it has previously derived and that Pöyry made assumptions with respect to future costs and market prices.

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

Our ability to pay dividends to our shareholders is subject to restrictive covenants under the indentures pertaining to the 2011 Senior Notes and the 2014 Senior Notes

The indentures pertaining to the 2011 Senior Notes and the 2014 Senior Notes contain restrictive covenants limiting our ability and the ability of our subsidiaries to make certain restricted payments, including dividends. Such covenants in the indentures relating to the 2011 Senior Notes and the 2014 Senior Notes prevent us and our subsidiaries from making dividend payments, except under certain circumstances, unless our restricted payments under the indentures (including such dividends) shall not exceed a certain threshold based on financial aggregates such as our consolidated net income, net cash proceeds from asset sales or issuance or sale of equity securities, and net reductions in our consolidated investments due to, among other things, specific payments by us or certain of our subsidiaries. No assurance can be given that we will be able to make dividend payments from our Common Shares under these covenants should we ever decide to do so in the future.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries

As a holding company, we depend upon the receipt of dividends and the repayment of intercompany loans or advances from our subsidiaries and affiliates, including our PRC Subsidiaries, to satisfy our debt obligations. The ability of our direct and indirect subsidiaries to pay dividends and repay intercompany loans or advances to their shareholders (including us) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in debt instruments of such subsidiaries. Covenants in the debt instruments of certain of our direct and indirect subsidiaries limit their ability to pay dividends. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the debt obligations. These restrictions could reduce the amounts that we receive from our subsidiaries, which could restrict our ability to meet our payment under the debt obligations. Our ability to utilize cash resources we have from our 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 profits as determined in accordance with PRC accounting standards and regulations. Our 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 our 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 the tax arrangement between Hong Kong and the PRC.

In practice, our PRC Subsidiaries may declare dividends once a year at the end of each financial year. Certain of our 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 our PRC Subsidiaries to meet our 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 our PRC Subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. Our PRC Subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident and if it is the beneficial owner of the interest) withholding tax as well as a 5% business tax on our 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 we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our debt obligations or make dividend payments, if any, on our Common Shares.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect our financial health and ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We have a substantial amount of indebtedness. As of December 31, 2009, our total short- and long-term debt was approximately US$1,029.5 million.

Our substantial indebtedness could have important consequences. For example, it could:

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

In particular, the indentures governing the 2011 Senior Notes and the 2014 Senior Notes include restrictive covenants limiting our ability to incur additional debt. Such debt covenants in the foregoing indentures proscribe us from incurring new debt, except under certain circumstances, unless we meet a specified financial ratio. Further, the indentures governing the 2013 Convertible Senior Notes and the 2016 Convertible Senior Notes provide, in certain cases, restrictions against some of our subsidiaries providing additional guarantees.

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

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

In addition, certain of our financing arrangements impose operating and financial restrictions on our business. These provisions require us to, among other things, maintain a debt to equity ratio, an indebtedness to total asset ratio, a gearing ratio, an interest coverage ratio, a debt to EBITDA 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. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure that we will be able to meet these ratios. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, significantly increase research and development expenditures, or withstand a continuing or future downturn in our business. Any of these could materially and adversely affect our ability to satisfy our debt obligations.

If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could cause payment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in our 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 us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements contain cross- acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, or result in a default under our other debt agreements. If any of these events occur, we cannot assure that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure that it would be on terms that are favorable or acceptable to us.

Risks Related to the PRC

PRC economic, political and social conditions as well as government policies could adversely affect our business

All of our 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 us.

Our 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 2009, the PRC's GDP, based on current prices, increased from approximately RMB4.88 billion to approximately RMB33.5 trillion. The annual per capita GDP, based on current prices, also rose between 1994 and 2008, from RMB4,044 to RMB22,698. 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. We 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. In 2009, the PRC Central government launched an RMB4 trillion economic stimulus plan which was earmarked for infrastructure development, Sichuan earthquake rebuilding, construction of low-income housing and others, which significantly boosted the country's economy with GDP growth of 8.7% per annum, according to the National Bureau of Statistics of China. As such, demand for wood fibre rebounded and log prices are positioned in a steady upward trend.

However, other countries with which the PRC has maintained significant trade relationships, such as the United States and certain members of the European Union, may not have fully recovered from the financial crisis and this may affect economic growth in the PRC.

Our 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 us. Moreover, the PRC legal system is based partly 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, we may not be aware of any violation 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. We 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 as compared with 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 a certain extent of uncertainty. Such uncertainty may make it difficult for us to enforce our plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, we cannot be certain that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our 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. We 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, we cannot assure that the enforcement of such rules and regulations will not have a material adverse effect on our business, financial condition and results of operations.

Restrictions on foreign currency exchange may limit our ability to obtain foreign currency or to utilize our revenue effectively

We receive most of our revenues in Renminbi. As a result, any restrictions on currency exchange may limit our 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 our manufacturing plants;
- service and repay our indebtedness, including but not limited to the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Senior Notes and the 2016 Convertible Senior Notes; and
- pay out dividends to our shareholders.

Our 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, our WFOEs must purchase foreign currency from one of the PRC banks licensed to conduct foreign exchange.

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our 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 2016 Convertible Senior Notes, or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay us dividends, repay intercompany loans or to satisfy their other foreign currency requirements. Our capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at December 31, 2009, we had retained earnings of US$1,054 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 our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. We 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 our 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. We currently have the relevant business licenses for our subsidiaries in the PRC to engage in forestry activities and have received the requisite logging permits and transportation permits for our 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 we will continue to maintain the business licenses and obtain the relevant permits for our 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. We currently have the requisite business licenses for our subsidiary companies in the PRC to engage in timber manufacturing activities. However, there is no assurance that we will continue to maintain the business licenses or the Timber Operation (Processing) Permits for our 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. Our 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. We 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 we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our 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 us 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 our 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. We have 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 our management, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates.

We 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 our management and cultivation. Until official new form Plantation Rights Certificates are issued, there can be no assurance that our rights to our 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 our rights to any of our tree plantation lands are subject to dispute or challenge, our 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 our 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 taxes will not be levied and such forestry-related fees will not be increased in the future.

DIVIDEND RECORD AND POLICY

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

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preference shares issuable in series. Each holder of Common Shares is entitled to one vote at meetings of our shareholders 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 our board of directors. Holders of Common Shares are entitled to participate in any distribution of our 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.

Ratings

In August 2004, we issued the 2011 Senior Notes with a maturity date of August 17, 2011. In July and August 2008, we issued the 2013 Convertible Senior Notes with a maturity date of August 1, 2013. In July 2009, we completed the offer to eligible holders of the 2011 Senior Notes to exchange, subject to certain conditions, any and all of the outstanding 2011 Senior Notes for up to US$300,000,000 10.25% new guaranteed senior notes due 2014 and consent solicitation from holders of the 2011 Senior Notes to amend certain of the provisions of the indenture governing the 2011 Senior Notes. Accordingly, we issued the 2014 Senior Notes with a maturity date of July 28, 2014, representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes. The remaining principal amount of approximately US$87,670,000 of the 2011 Senior Notes will be repaid upon maturity in 2011. We received the requisite consents from holders of the 2011 Senior Notes and, as a result, the outstanding 2011 Senior Notes are subject to amended provisions of the indenture governing the 2011 Senior Notes. In December 2009, we issued the 2016 Senior Notes with a maturity date of December 15, 2016. In February 2010, we issued an additional US$187,187,000 principal amount of 2014 Senior Notes in connection with the Mandra Holdings acquisition (see "General Development of the Business – Historical Milestones").

The following table highlights our credit ratings and assigned outlooks with Moody's Investor Services, Inc. ("Moody's"), Standard & Poor's Rating Services ("S&P") and Fitch Ratings Ltd. ("Fitch Ratings") as of December 31, 2009, 2008 and 2007:

	December 31,		
	2009	**2008**	**2007**
Moody's			
Outlook	Stable	Stable	Stable
Corporate Family rating	Ba2	Ba2	Ba2
2011 Senior Notes	Ba2	Ba2	Ba2
2013 Convertible Senior Notes	Ba2	Ba2	N/A
2014 Senior Notes	Ba2	N/A	N/A
2016 Convertible Senior Notes	N/A	N/A	N/A
Standard & Poor's			
Outlook	Stable	Stable	Stable
Corporate Family rating	BB	BB	BB
2011 Senior Notes	BB	BB	BB
2013 Convertible Senior Notes	BB	BB	N/A
2014 Senior Notes	BB	N/A	N/A
2016 Convertible Senior Notes	BB	N/A	N/A
Fitch Ratings			
Outlook	Stable	Stable	N/A
Corporate Family rating	BB+	BB	N/A
2011 Senior Notes	N/A	N/A	N/A
2013 Convertible Senior Notes	N/A	N/A	N/A
2014 Senior Notes	N/A	N/A	N/A
2016 Convertible Senior Notes	BB+	N/A	N/A

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, obligations rated 'Ba' are judged to have speculative elements and are subject to substantial credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from AA through CAA in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Standard & Poor's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P's rating system, an obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The rates from AA to CCC may be modified by the addition of a + or – sign to show relative standing with the major rating categories.

Fitch's rating categories are on a relative rank order scale, from AAA, AA, A, BBB, BB... to D. There are modifiers "+" or "-" which may be appended to a rating to denote relative status within major rating categories (e.g. BB+, BB, BB-), except for the AAA category as well as CCC and below categories.

According to Fitch's rating system, an obligation rated 'BB' category indicates that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade and are one category below the minimum investment grade category of BBB.

An Outlook indicates the direction a rating is likely to move over a one to two-year period. Thus, the assignment of a Stable Outlook indicates that the rating is not likely to move over a one- to two-year period. However, if circumstances change and warrant a rating action, ratings for which outlooks are 'stable' could be upgraded or downgraded.

A rating is not a recommendation to buy, hold or sell securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the 2011 Senior Notes, 2013 Convertible Senior Notes, 2014 Senior Notes and 2016 Convertible Senior Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the aforementioned senior notes and convertible senior notes may adversely affect the market price of such senior notes and convertible senior notes, respectively.

MARKET FOR SECURITIES

Trading Price and Volume

Our Common Shares are listed on the TSX and trade under the stock symbol "TRE". The following table sets forth, for the periods indicated, the reported high and low prices and the average volume of trading of our Common Shares on the TSX:

Calendar Period	**High** (Cdn$)	**Low** (Cdn$)	**Average Daily Volume**
January 2009	10.90	8.46	331,801
February 2009	11.38	8.26	407,407
March 2009	9.05	6.52	576,805
April 2009	11.25	8.60	444,658
May 2009	13.10	10.39	1,049,875
June 2009	14.86	12.02	1,001,398
July 2009	15.08	11.04	861,043
August 2009	16.45	13.14	602,621
September 2009	18.97	13.44	759,785
October 2009	17.63	14.50	554,841
November 2009	19.70	15.25	574,338
December 2009	20.01	16.14	1,464,374

Prior Sales

On July 27, 2009, we issued an aggregate principal amount of US$212.3 million of 2014 Senior Notes.

On December 17, 2009, we issued the 2016 Convertible Senior Notes which are convertible into Common Shares at a conversion price of US$21.16 per share, equivalent to a conversion rate of 47.2619 shares per US$1,000 principal amount of 2016 Convertible Senior Notes, subject to customary adjustments. The 2016 Convertible Senior Notes mature on December 15, 2016 if they have not been converted prior to such date.

DIRECTORS AND EXECUTIVE OFFICERS

The table presented below provides the names of our current directors and executive officers, the offices held by them and the date of their first appointment, as of March 31, 2010:

Name and Place of Residence	**Position(s) Held**	**Principal Occupation**	**Director Since**[1]
Allen T.Y. Chan Hong Kong	Chairman, Chief Executive Officer and Director	Officer of the Corporation	1994
William E. Ardell[2][3][4] Ontario, Canada	Director	Consultant	2010
James M.E. Hyde[2][3][4] Ontario, Canada	Director	Consultant	2004
Edmund Mak[2][4] British Columbia, Canada	Director	Associate broker, Royal Pacific Realty Corporation, a real estate agency	1994
Judson Martin[2][3][4][5] Ontario, Canada	Director	Consultant	2006
Simon Murray[3] Hong Kong	Director	Chairman, General Enterprises Management Services (International) Limited, a private equity fund management company	1999
Peter D. H. Wang China	Director	General Manager, Hong Kong Resource Power Development Limited, a company importing machinery equipments into China.	2007
Kai Kit Poon Hong Kong	President	Officer of the Corporation	-
David J. Horsley Ontario, Canada	Senior Vice President and Chief Financial Officer	Officer of the Corporation	-
Albert Ip Hong Kong	Senior Vice President, Development and Operations, North East and South West China	Officer of the Corporation	-
Chen Hua China	Senior Vice President, China Operations and Finance	Officer of the Corporation	-
Zhao Wei Mao China	Senior Vice President, Development and Operations, South and East China	Officer of the Corporation	-
Thomas M. Maradin Ontario, Canada	Vice President, Risk Management	Officer of the Corporation	-
Xu Ni Hong Kong	Vice President, Legal Affairs	Officer of the Corporation	-
Alfred Hung Hong Kong	Vice President, Corporate Planning and Banking	Officer of the Corporation	-
George Ho Hong Kong	Vice President, Finance, China	Officer of the Corporation	-
Richard M. Kimel Ontario, Canada	Corporate Secretary	Partner, Aird & Berlis LLP Barristers & Solicitors	-

Notes:

(1) All of our directors serve until the next annual meeting of shareholders or until such director's successor is duly elected or appointed.
(2) Member of the Audit Committee.
(3) Member of the Compensation and Nominating Committee.
(4) Member of the Corporate Governance Committee.
(5) Lead Director.

A description of the business experience and present position of each director and executive officer of the Corporation is provided below:

Allen T.Y. Chan co-founded our company in 1992 and has been the Chairman, Chief Executive Officer and a director of our company since 1994. Mr. Chan is responsible for our overall strategic planning and management. Mr. Chan is a recognized leader in the field of sustainable development. Prior to co-founding our company, he worked for 12 years as a management consultant and project manager in China. He has also worked for the Hong Kong government in new town development and management programs. He spearheaded the Sustainable Development Leadership Program jointly organized by the School of Forestry and Environmental Studies at Yale University and the Nanjing Forestry University in the PRC. Mr. Chan is a well known writer, under the name of "管仲連", on culture, history and business issues and has published books in Hong Kong and the PRC. He regularly speaks at Hong Kong and Chinese universities. He graduated from the Sociology Department at the Hong Kong Baptist College (currently the Hong Kong Baptist University) in 1979 and was awarded with an Honorary University Fellowship from the Hong Kong Baptist University in 2008. In 2007, Mr. Chan joined the Jiangxi Committee of the Tenth Session of the Chinese People's Political Consultative Conference. Mr. Chan has also been appointed as Executive Director of Renmin University of China, also known as the People's University of China, for a three-year term effective from October 2007.

William Ardell has been a director of our company since 2010. He was President and Chief Executive Officer and a director of Southam Inc. from January 1992 to September 1996. Subsequent to his departure from Southam Inc. he has sat on a number of public and private sector boards as well as not for profit organizations, serving in varying capacities as Chairman, Senior Director and Director and as the Chair and/or member of many board committees. From 2005 to 2006, Mr. Ardell was the President and Chief Executive Officer of Spellread Inc., a start-up learning system company. During his career, Mr. Ardell has had experience in capital markets, acquisitions and divestures as well as strategic planning and implementation.

James M.E. Hyde has been a director of our company since 2004. Mr. Hyde is a Chartered Accountant and enjoyed a 24 year career with Ernst & Young LLP until October 2002, that included 12 years as a Partner. From October 2002 until April 2006, Mr. Hyde was the Vice President, Finance and Chief Financial Officer of the TSX-listed issuer GSW Inc., a manufacturer and distributor of consumer durable products. GSW Inc. was acquired by A.O. Smith Corporation in April 2006 and from April to December 2006, Mr. Hyde provided consulting assistance to A.O. Smith Corporation. From January 2007 to November 2008, Mr. Hyde was the Executive Vice President and Chief Financial Officer of Resolve Business Outsourcing Income Fund, a TSX-listed income trust fund. Since December 2008, Mr. Hyde has been a consultant.

Edmund Mak has been a director of our company since 1994. Mr. Mak has over 35 years of business and management experience with several multinational and private corporations in North America and Hong Kong in a variety of industries: real estate, computer and high technology, transportation, construction, oil and gas, textile and PRC trade. Mr. Mak is currently an associate broker of Royal Pacific Realty Corporation in Vancouver, Canada. He was an associate broker of Re/Max Select

Properties from January 1999 to October 2008. Mr. Mak is a graduate of the University of Toronto with an M.B.A. degree.

Judson Martin has been a director of our company since 2006 and lead director since 2007. Prior to joining our board of directors, Mr. Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis") from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the board of directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 until June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is also Chairman of SWEF Terrawinds Resources Corporation and Chair of its Audit Committee.

Simon Murray, CBE has been a director of our company since 1999. Mr. Murray was the Group Managing Director of Hutchison Whampoa Ltd. from 1984 to 1993 and the executive chairman in Asia Pacific of the Deutsche Bank group from 1993 to 1998, before establishing his own company, GEMS, a mid-sized investment group operation across Asia. He is the Chairman of this private equity fund management company. He is also a director of a number of public companies including Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited, Arnold Holdings Limited, USI Holdings Limited, Compagnie Financi`ere Richemont SA, and Vodafone Group Plc. Mr. Murray is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association. Mr. Murray has been awarded the CBE (Commander of the British Empire) by H.M. The Queen and the Order of Merit of the French Republic and is a "Chevalier de La Legion d'Honneur".

Peter D.H. Wang has been a director of our company since 2007. Mr. Wang also served as Senior Commercial Consultant of Zijin Copper, a subsidiary of Zijin Mining Group, a Hong Kong listed company, and is the Chief of China Far East International Tendering Company, Shanghai, one of PRC's major state-owned tendering companies. Mr. Wang has over 30 years' experience in Sino-foreign projects and business affairs, predominantly related to the petrochemical and mining industries, as well as wood-based panel industries. He was involved in a number of pioneering projects when the PRC first opened up its foreign markets in the late 1970s. He was a member of the Formulation Committee of Chinese-Foreign Contract, Guangdong Province and was also a member of the delegation team travelling with the PRC Premier Wen Jiabao to India in 2005 to execute contracts and projects related to highway and power stations, and to expand Sino-Indian bilateral trade and economic cooperative ties.

Kai Kit Poon has been the President of our company since 1994. Mr. Poon was also a director of our company from 1994 to May 2009. Mr. Poon is responsible for liaising and coordinating with various PRC provincial government authorities for us. Mr. Poon has more than 20 years of experience in the forestry industry. He is one of our founders and joined us in January 1994.

David J. Horsley is currently the Senior Vice President and Chief Financial Officer of our company. Prior to joining our company in 2005, Mr. Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent an 11-year career with Canadian General Capital

Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

Albert Ip is currently the Senior Vice President, Development and Operations, North East and South West China, of our company. Prior to joining our company in 1997, Mr. Ip was involved in the marketing, production management, project management and corporate business development and operations in the garment, electronics and wood-related industries for several corporations.

Chen Hua is currently the Senior Vice President, China Operations and Finance, of our company. Prior to joining our company in 2002, Ms. Chen was board chair of Suzhou New-Development Area Economic Development Group. Ms. Chen has been part of the management of several large corporations.

Zhao Wei Mao is currently the Senior Vice President, Development and Operations, South and East China, of our company. Prior to joining our company in 2002, Mr. Zhao was General Manager of Everbright Group Corp., where he received extensive experience in wood product manufacturing and knowledge of international wood material markets.

Thomas M. Maradin is currently our Vice President, Risk Management. Prior to joining our company, Mr. Maradin was a senior consultant to several multinational companies from January 1, 2001 until September 1, 2005, where his responsibilities included strategic planning, system implementations, restructuring of business units, financial reporting and internal control and regulatory compliance; he spent a 15-year career with Ernst & Young LLP, where, most recently, he served as Principal managing a professional services practice.

Xu Ni is currently the Vice President, Legal Affairs, of our company. From January 2007 to March 2009, Ms. Xu was the Assistant Vice President, Legal Affairs of our company. From April 2003 to December 2006, she was the Senior Manager, Legal Affairs of our company. Prior to joining our company, Ms. Xu was involved in PRC legal advising in connection with investments in the PRC market and worked for several international law firms based in Singapore.

Alfred Hung is currently the Vice President, Corporate Planning and Banking, of our company. Prior to joining our company in 1999, Mr. Hung was involved in investment research and management operations for several international firms.

George Ho is currently the Vice President, Finance, China of our company and the Vice President, Finance and CFO of Sino Panel (Asia), Inc. Prior to joining our company in October 2007, Mr. Ho was a Senior Manager in BDO McCabe Lo Limited, Certified Public Accountants, an international accounting and audit firm from October 2006 to October 2007. Mr. Ho also served as the Chief Financial Officer, China Operations of a NASDAQ listed merchant bank from January 2004 until September 2006, managing a portfolio of investments in the PRC including joint ventures with PRC hospitals, wind energy development, commodities trading and various merger and acquisition activities, including a potential merger with a major State-owned equipment manufacturing enterprise. Before January 2004, Mr. Ho spent 10 years providing professional services in a Canadian accounting and audit firm and most recently served in the capacity as a principal. The firm is involved in the audit of publicly listed companies on the TSX and TSX Venture Exchange as well as those listed on NASDAQ and quoted on the OTC board.

Richard M. Kimel is currently our Corporate Secretary. Mr. Kimel is also a partner of Aird & Berlis LLP, Barristers and Solicitors, and a member of its Corporate/Commercial and Corporate Finance Groups and Mergers & Acquisitions and Venture Capital Teams. Mr. Kimel practices in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, mergers and acquisitions and ongoing general corporate and commercial activities. Mr. Kimel also acts as corporate counsel for numerous companies listed on the TSX and the TSX Venture Exchange.

Shareholdings

As of March 31, 2010, our directors and executive officers as a group beneficially owned, or controlled or directed, directly or indirectly 6,976,718 Common Shares, representing approximately 2.88% of the issued and outstanding Common Shares.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below, none of our directors or executive officers, or persons or companies that beneficially own, or control or direct, directly or indirectly, more than 10% of our outstanding Common Shares, or any associate or affiliate of any of the foregoing, has any material interest, direct or indirect, in any transactions in which we have participated during the three financial years ending December 31, 2009 which has materially affected or is reasonably expected to materially affect the Corporation.

On February 6, 2009, we acquired 55,000,000 Omnicorp ordinary shares and 4% convertible bonds with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and the issuance of 2,659,990 Common Shares at a price of Cdn.$10.00 per share. The acquisition was completed in the secondary market from various third parties, as well as from Simon Murray, a director of the Corporation, and an entity he controls. The value of the Omnicorp ordinary shares and Omnicorp convertible bonds sold by Mr. Murray and the entity he controls to the Corporation represented approximately 5.5% of the aggregate value of the overall transaction.

CONFLICTS OF INTEREST

See above under the section entitled “Interest of Management and Others in Material Transactions”.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Common Shares has been changed from CIBC Mellon Trust Company to Valiant Trust Company at its principal offices in the city of Toronto, Ontario with effect from December 29, 2009.

MATERIAL CONTRACTS

The following are the contracts that are material to the Corporation that were entered into either (i) during the year ended December 31, 2009; or (ii) prior to January 1, 2009 that are still in effect, other than contracts entered into in the ordinary course of business:

1. Trust Indenture dated as of August 17, 2004 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$300,000,000 2011 Senior Notes, as amended and supplemented from time to time (the "2011 Indenture").

2. Purchase Agreement dated July 17, 2008 between the Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC in connection with the issuance of the US$345,000,000 2013 Convertible Senior Notes.

3. Trust Indenture dated as of July 23, 2008 between the Corporation, The Bank of New York Mellon, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$345,000,000 2013 Convertible Senior Notes.

4. Sale and Purchase Agreement dated February 6, 2009 between the Corporation and certain vendors, whereby the Corporation acquired 55,000,000 Omnicorp ordinary shares and 4% convertible bonds issued by Omnicorp with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and the issuance of 2,659,990 Common Shares at a price of Cdn.$10.00 per share.

5. Underwriting Agreement dated May 22, 2009 between the Corporation and a syndicate of underwriters co-led by Credit Suisse Securities (Canada) Inc. and Dundee Securities Corporation, and including Merrill Lynch Canada Inc., Scotia Capital Inc. and TD Securities Inc., whereby the Corporation issued an aggregate of 34,500,000 Common Shares at a price of Cdn$11.00 per share for gross proceeds of approximately Cdn$379.5 million.

6. Dealer Manager Agreement date June 24, 2009 between the Corporation and Credit Suisse Securities (USA) LLC in connection with an exchange offer pursuant to which we issued US$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes.

7. Solicitation Agent Agreement dated June 24, 2009 between the Corporation and Credit Suisse Securities (USA) LLC in connection with a consent solicitation with respect to the 2011 Senior Notes to amend the terms of such notes and the 2011 Indenture.

8. Trust Indenture dated as of July 27, 2009 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of US$212,330,000 2014 Senior Notes, as amended and supplemented from time to time (the "2014 Indenture").

9. Supplemental Indenture to the 2011 Indenture dated as of July 27, 2009 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation.

10. Memorandum of Understanding dated December 1, 2009, as amended, between the Corporation, Mandra Finance, Mandra Holdings and certain holders of the Mandra Notes and Mandra Warrants.

11. Underwriting Agreement dated December 10, 2009 between the Corporation and a syndicate of underwriters co-led by Credit Suisse Securities (Canada), Inc. and TD Securities Inc. and including 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., pursuant to which the Corporation issued an aggregate of 21,850,000 Common Shares at a price of Cdn.$16.80 per share for gross proceeds of approximately Cdn.$367 million.

12. Purchase Agreement dated December 10, 2009 between the Corporation, Credit Suisse Securities (USA) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and TD Securities Inc. in connection with the issuance of the US$460,000,000 2016 Convertible Senior Notes.

13. Trust Indenture dated as of December 17, 2009 between the Corporation, The Bank of New York Mellon, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$460,000,000 2016 Convertible Senior Notes.

INTERESTS OF EXPERTS

Pöyry, an independent forestry consultant, located at 2 Battery Road, #21-01 Maybank Tower, Singapore 049907, is considered an expert in valuing forest assets and is currently preparing a report to be dated on or about April 7, 2010 regarding the description and valuation of Sino-Forest's plantation forest assets in China, as of December 31, 2009. To our knowledge, the partners and associates of Pöyry Forest Industry Ltd., as a group, beneficially own, directly and indirectly, less than 1% of our outstanding Common Shares.

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants. The Corporation's consolidated financial statements as of December 31, 2009 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, Chartered Accountants, given their authority as experts in auditing and accounting. We have been advised that, as of the date hereof, Ernst & Young LLP, Chartered Accountants, is independent in accordance with the rules of professional conduct which govern its professional activities in the Province of British Columbia.

AUDIT COMMITTEE

Audit Committee's Charter

The charter (the "Charter") of our Audit Committee is reproduced as Exhibit "A".

Composition of Audit Committee

The Audit Committee is comprised of Mr. William Ardell, Mr. James Hyde, Mr. Edmund Mak and Mr. Judson Martin. Each member of the Audit Committee is "independent" and "financially literate" (as such terms are defined in National Instrument 52-110 - Audit Committees ("NI 52-110")).

Relevant Education and Experience

Mr. Ardell holds a Commerce degree from Sir George Williams University and is a graduate of Harvard University's Advanced Management Program. His career began in the accounting field and he currently serves as a member of the audit committee of the general partner of Public Storage Canadian Properties, a TSX-listed issuer. Mr. Hyde is a chartered accountant and has extensive experience in finance and accounting related positions with private and public companies. Mr. Mak is a member of the Certified General Accountants of British Columbia, holds a Masters in Business Administration from the University of Toronto and has extensive experience in financial management and corporate audit management for various Fortune 500 companies and a TSX listed company. Mr. Martin has obtained extensive experiences in finance and accounting related positions, including being a Chief Financial Officer at Alliance Atlantic, MDC Corporation, Brookfield Development Corporation and Trizec Corporation.

Reliance on Certain Exemptions

At no time since the commencement of our most recently completed financial year have we relied on any exemption described in items 4, 5 and 6 of Form 52-110F1 under NI 52-110.

Audit Committee Oversight

At no time since the commencement of our most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of our external auditors not been adopted by our board of directors.

Pre-Approval Policies and Procedures

The terms of the Charter state that all non-audit services to be provided by our external auditor to us or any of our subsidiaries must be pre-approved by our Audit Committee or by any of its members, if so delegated by the Audit Committee.

External Auditor Service Fees (By Category)

Audit Fees - Our external auditors billed us approximately Cdn.$1,150,000 and Cdn.$1,025,000 during the financial years ended December 31, 2008 and 2009, respectively, for audit fees.

Audit-Related Fees - Our external auditors billed us approximately Cdn.$413,000 and Cdn.$883,000 during the financial years ended December 31, 2008 and 2009, respectively for audit-related fees.

Tax Fees - Our external auditors billed us approximately Cdn.$299,000 and Cdn.$342,000 during the financial years ended December 31, 2008 and 2009, respectively for tax fees.

All Other Fees – We did not pay any other fees during the financial years ended December 31, 2008 and 2009, respectively, for services other than those reported above.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Additional information relating to the Corporation, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in our management information circular for our most recent annual meeting of shareholders.

Additional financial information is provided in our consolidated financial statements and MD&A for our most recently completed year ended December 31, 2009.

Exhibit "A"

SINO-FOREST CORPORATION

(the "Corporation")

AUDIT COMMITTEE CHARTER

STATEMENT OF PURPOSE

The Audit Committee (the "**Committee"**) will assist the Board of Directors of the Corporation (the "**Board"**) in fulfilling its stewardship responsibilities through the oversight of:

(a) the accounting and financial reporting processes of the Corporation, its subsidiaries and any other business entity controlled in fact by the Corporation (each an "**affiliate**") and their appropriateness in view of the Corporation's operations and current GAAP in Canada and other applicable jurisdictions;

(b) the adequacy and effectiveness of management's system of internal controls and procedures in the Corporation, its subsidiaries and affiliates;

(c) the quality and integrity of the Corporation's, its subsidiaries and affiliates' financial reporting and disclosure;

(d) the relationship with the external auditor (the "**Auditor**"), including the audit of the financial statements and any other audit and permitted non-audit services provided by the Auditor; and

(e) the compliance with laws, regulations and guidelines affecting the Corporation which relate to the duties and functions of the Audit Committee.

MEMBERSHIP

1. Number

The Board will appoint not fewer than three members to the Committee.

2. Composition

All members of the Committee must be members of the Board and "Independent" of management as that term is defined from time to time in relevant securities authorities governing the Corporation. The current independence definition for audit committee members is reproduced in Appendix I.

3. Qualifications

All Committee members must be "Financially Literate" as that term is defined in National Instrument 52-110 (and reproduced in Appendix I).

In addition to the foregoing, the composition of the Committee, and qualifications of its members, will comply with such additional requirements as may be imposed by those regulating bodies having jurisdiction over the Corporation.

4. **Training**

Committee members will participate in such training and orientation as may be determined by the Board or the Corporate Governance Committee to be necessary or appropriate in the circumstances.

5. **Chair**

The Board will appoint the chair of the Committee (the "**Committee Chair**") annually, to be selected from the members of the Committee. If, in any year, the Board does not make an appointment of the Committee Chair, the incumbent Committee Chair will continue in office until that Committee Chair's successor is appointed. In the Committee Chair's absence, or if the position is vacant, the Committee may select another member as Committee Chair.

6. **Director Attendance**

All Directors will be entitled to attend Committee meetings. Notice of the time and place of each meeting of the Committee will be given to each Director by telephone not less than 48 hours before the time of the meeting or by written notice (email or otherwise) not less than four days before the day of the meeting, and, subject to the requirements of any applicable law, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the Committee may be held at any time without notice if all the members have waived or are deemed to have waived notice of the meeting.

7. **Removal and Vacancies**

Any member of the Committee may be removed and replaced at any time by the Board and will automatically cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies in the Committee by election from among the members of the Board. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains in office.

8. **Tenure**

The Board will appoint members of the Committee annually following the Corporation's annual general meeting and may make such appointments pursuant to any recommendations (if any) from the Compensation and Nominating Committee. Each member of the Committee will hold office until the following annual general meeting or until his or her term as a member of the Board is terminated or until his or her successor is appointed.

9. **Residency**

At least 66 2/3% of the members of the Committee shall be resident Canadians, provided that the only exchange the Corporation is listed on is the Toronto Stock Exchange (TSX).

10. **Compensation**

Compensation to members of the Committee shall be limited to Directors' fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the Corporation (other than as members of the Board and Board committee members).

MEETINGS

1. Notice of Meetings

(a) The Committee Chair may call meetings of the Committee periodically and will do so at the request of any member of the Committee, the Auditor, or at the request of any of the Lead Director, Chairman of the Board, Chief Executive Officer (the "**CEO**"), the Chief Financial Officer (the "**CFO**") or any other Director of the Corporation. If any Director of the Corporation requests the Committee Chair to call a meeting of the Committee, that Director may attend such meeting to inform the Committee of a specific matter of concern that Director has, and may participate in such meeting to the extent permitted by the Committee Chair.

(b) The Auditor will be given notice of every meeting of the Committee and will be permitted to attend and be heard at such meeting on such matters relating to the Auditor's duties as Auditor.

(c) The Lead Director (if not a Committee member) will be given notice of every meeting.

(d) Notice of the time and place of each meeting of the Committee will be given to each member by telephone not less than 48 hours before the time of the meeting or by written notice (email or otherwise) not less than four days before the day of the meeting, and, subject to the requirements of any applicable law, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the Committee may be held at any time without notice if all the members have waived or are deemed to have waived notice of the meeting.

2. Times and Places of Meetings

The Committee will ordinarily meet at least quarterly each fiscal year, and at other times as necessary, at times and places to be determined by the Committee.

3. Agenda

The Committee Chair will, in consultation with management and the Auditor, establish the agenda of the meetings and, where possible, circulate materials in advance to provide sufficient time for study prior to the meeting.

4. Quorum

A quorum at any meeting will be a simple majority.

5. Procedure

The procedure at meetings will be determined by the Committee unless otherwise determined by the by-laws of the Corporation or by a resolution of the Board.

6. **Secretary**

The Secretary of the Corporation will, subject to any contrary direction of the Committee, act as secretary of the Committee.

7. **Minutes of Meetings**

The Committee will keep regular minutes of its proceedings and will report to the Board at each meeting of the Board. Minutes will be circulated to all Directors on a timely basis.

8. **Transaction of Business**

The powers of the Committee may be exercised at a meeting where quorum is present or by resolution in writing signed by all members of the Committee entitled to vote on that resolution at a meeting of the Committee.

9. **Exercise of Power Between Meetings**

Between meetings, the Committee Chair, or any member of the Committee designated for the purpose by the Committee Chair, may exercise any power delegated by the Committee.

DUTIES AND RESPONSIBILITIES

1. **Relations With the Auditor**

The Auditor will report directly to the Committee. The Committee shall be directly responsible for overseeing the work of the Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation, and in carrying out such oversight the Committee will:

(a) recommend to the Board, the appointment, compensation and retention of the Auditor;

(b) recommend to shareholders the appointment of the Auditor;

(c) review the Auditor's engagement letter, both for audit and non-audit services;

(d) review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor;

(e) review the audit plan of the Auditor with management and Auditor so that the Committee, can satisfy itself regarding the appropriate coverage of risks, understand the audit approach, including areas of reliance on internal controls, and understand how changes in the accounting policies of the Corporation might impact the audit approach;

(f) oversee the work the Auditor performs quarterly (whether review or specified procedures, as determined by the Committee), including resolution of disagreements with the Corporation's management;

(g) pre-approve all audit, review and attest services;

(h) approve on an annual basis, the pre-approval policy for audit, audit-related and non audit services that are permitted to be provided by the Auditor and satisfy itself that the

Committee receives regular updates of the services and fees being provided by the Auditor under this framework;

(i) consider whether any non-audit services performed for the Corporation by the Auditor could detract from the firm's independence in carrying out the audit function. The Committee may pre-approve the appointment of the Auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the Auditor for non-audit services;

(j) review the basis and amount of the Auditor fees in light of the number and nature of reports issued by the Auditor, the quality of the internal controls, the size, complexity and financial condition of the Corporation and the extent of other non-prohibited support provided to the Corporation by the Auditor;

(k) review all other non-audit fees and services of the Auditor or other accounting firms;

(l) review post-audit or management letters, containing recommendations of the Auditor and management's response, and oversee their implementation or resolution;

(m) provide the Auditor with the opportunity to meet with the Committee or the Board without management present, at each quarterly meeting of the Committee, for the purpose of discussing any issues which have arisen during that fiscal quarter or any previous fiscal quarter;

(n) meet regularly with the Auditor without management present to receive reports of any significant disagreements between management and the Auditor regarding financial reporting, the resolution of any such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the Auditor;

(o) approve the Corporation's hiring of current and former partners and employees of the present and former Auditor;

(p) satisfy itself that the rotation of the staff of the Auditor is in accordance with applicable laws and professional standards;

(q) meet with senior management not less than quarterly without the Auditor present for the purpose of discussing, among other things, the performance of the Auditor and any issues that may have arisen during the quarter;

(r) annually review the expertise, resources and overall performance of the Auditor and, if necessary, recommend to the Board the termination of the Auditor or the rotation of the audit partner in charge. In the case of a recommendation to terminate the Auditor, the Committee will enquire as to the qualifications and independence of the newly proposed Auditor before making its recommendations to the Board;

(s) at least annually, and in any event before the Auditor issues its report on the annual financial statements, obtain a formal written statement from the Auditor describing all of its relationships with the Corporation and discussing and resolving with the Auditor any relationships that may affect its objectivity and independence;

(t) have authority to satisfy itself that adequate provisions are made to fund the compensation to be paid to the Auditor;

(u) review, where there is to be a change of Auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, and the planned steps for an orderly transition; and

(v) review all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, on a routine basis, whether or not there is to be a change of Auditor.

2. **Audit and Financial Reporting**

The Committee will be primarily responsible for satisfying itself and on behalf of the Board, that the Corporation (including its subsidiaries) fulfils all of its audit and financial reporting obligations, and will:

(a) review all financial statements and the related MD&A which require approval by the Board, including, without limitation, interim statements, year end audited statements, statements for use in prospectuses or other offering documents and statements required by regulatory authorities; determine whether the financial statements are complete, accurate and are in accordance with GAAP in all material respects; review all variances between comparative reporting periods; and recommend such financial statements and related MD&A for Board approval;

(b) review all earnings press releases and other press releases disclosing financial information prior to their dissemination to the public, as well as financial information and written earnings guidance provided to analysts and rating agencies. No written earnings guidance will be provided to analysts unless the Committee has reviewed and approved such guidance. The Committee will also review the use of "pro forma" or "adjusted" non-GAAP information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

(c) review all public disclosure documents containing audited or unaudited financial information before release including (without limitation) any: Prospectus, Annual Report and or any other documents extracted or derived from the Corporation's financial statements filed with regulatory agencies and satisfy itself that all information is consistent with the financial statements and that such document or statement does not contain any untrue statement of any material fact or omit to state a material fact that is required or necessary to make the document or statement not misleading, in light of the circumstances under which it was made;

(d) review the disclosure in the Annual Information Form regarding details of the Committee's membership; exemptions relied on, if any; instances of the Board not accepting the Committee's recommendations, if any; summary of Auditor fees and services provided; and inclusion of the Audit Committee Terms of Reference;

(e) review the form of the audit report and the scope and quality of the audit work performed;

(f) review the audit results with the Auditor and management's proposed handling of audit adjustments;

(g) review and discuss the Auditor's report and the related MD&A for the audited annual financial statements with management and the Auditor;

(h) review with the Auditor and management any material changes in accounting practices or policies and the financial statement impact thereof, the presentation of the impact of significant risks and uncertainties, and judgments of management that may have a significant effect upon the financial statements;

(i) review with the Auditor, any disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements;

(j) review the co-operation received by the Auditor from the Corporation's personnel during the audit, any problems encountered by the Auditor and any restrictions on the Auditor's work;

(k) review with the Auditor and management;

   (i) critical accounting policies and practices used by the Corporation, including critical accounting estimates, the selection of major accounting policies, reasons why certain policies are not considered critical and how current and future events affect that determination;

   (ii) all alternative material accounting treatments that have been discussed with management, the ramifications of these alternative treatments and the Auditor's preferred method;

   (iii) all material written communications between the Auditor and management that would facilitate Auditor and management oversight by the audit committee such as management representation letters, reports on observations and internal control reports, schedules of material adjustments and proposed reclassifications, schedule of unadjusted audit differences and listings of adjustments and reclassifications not recorded, engagement letters and independence letters;

   (iv) the status of material contingent liabilities and legal matters as reported to the Committee by management;

   (v) the status of taxation matters of the Corporation; and

   (vi) any errors or omissions in the current or prior year's financial statements.

(l) discuss the effect of off-balance-sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;

(m) review with the Auditor and management all material related party transactions and the development of policies and procedures related to those transactions;

(n) review with the Auditor and management, the methods used to account for significant unusual transactions;

(o) establish and administer a "whistleblower" procedure for the receipt, retention and treatment of complaints regarding accounting, auditing matters, internal accounting controls and employees' confidential anonymous submission of concerns regarding accounting and auditing matters; and

(p) consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

3. **Risk Management**

The Vice-President of Risk Management will report directly to the CEO (with a dotted reporting line to the CFO and the Committee). The Committee will oversee the guidelines and policies to govern the process by which the Corporation undertakes risk assessment and management, and will:

(a) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, auditing matters or internal accounting controls, including the confidential and anonymous submission of complaints by employees including reviewing on an annual basis, the Corporation's Whistleblower Policy;

(b) review with management and bring to the attention of the Auditor any correspondence with regulators or government agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies;

(c) review with management, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of operating results, and the manner in which these matters have been disclosed in the financial statements;

(d) identify, assess and monitor the risks inherent in the business of the Corporation and establish and monitor compliance with policies and procedures necessary to address, as much as is reasonably possible, those identified risks;

(e) in conjunction with management, review on an annual basis all aspects of the Corporation's risk management program, including insurance coverage, foreign exchange exposures, and investments (including its use of financial risk management instruments), disaster recovery and business continuity plans;

(f) review with management the presentation and impact of significant risks and uncertainties associated with the business of the Corporation; and

(g) oversee the investigation of alleged fraud, illegal acts and conflicts of interest.

4. **Evaluation of Financial and Accounting Personnel**

The Committee may provide comments to the Compensation and Nominating Committee and the Board, concerning the following:

(a) a position description for the CFO, which would include the CFO's authority and responsibilities;

(b) the goals and objectives that are relevant to the CFO's compensation;

(c) the CFO's performance in meeting his or her goals and objectives;

(d) the performance of Corporation's financial and accounting personnel; and

(e) remedial action where necessary.

5. **Relations with Management**

The Committee will coordinate with management on audit and financial matters, and will:

(a) review decisions of the Corporation's Disclosure Committee in which unanimity was not achieved and in instances where the Disclosure Committee[1] deems appropriate;

(b) meet privately with senior management at least quarterly to discuss any areas of concern to the Committee or management;

(c) review with management and assess the results of instances, if any, where management seeks a second opinion on significant accounting or auditing matters; and

(d) where possible, consult on the appointment of and departure of individuals occupying senior financial positions.

6. **Authority to Engage Advisers**

The Committee will have the authority to engage and determine the funding for independent counsel and other advisors to assist it in carrying out its duties.

7. **Access to Records**

The Committee will be permitted access to all records and corporate information that it determines to be required in order to perform its duties.

[1] Provided the Disclosure Policy contemplates other such instances.

8. Other

The other duties of the Committee shall include:

(a) reviewing the Directors and Officers insurance policy prior to its renewal each year and reviewing from time to time the indemnification agreements provided to the Directors and Officers of the Corporation;

(b) reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;

(c) reviewing annual operating and capital budgets;

(d) reviewing the funding and administration of the Corporation’s compensation and pension plans, if any;

(e) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;

(f) inquiring of management and the Auditor as to any activities that may be or may appear to be illegal or unethical; and

(g) any other questions or matters referred to it by the Board.

9. Reporting

The Committee will regularly report to the Board on:

(a) the Auditor’s independence, engagement and fees;

(b) the performance of the Auditor and the Committee’s recommendations regarding its reappointment or termination;

(c) the adequacy of the Corporation’s internal controls and disclosure controls;

(d) the Corporation’s risk management procedures;

(e) its recommendations regarding the annual and interim financial statements of the Corporation, including any issues with respect to the quality or integrity of the financial statements;

(f) its review of the annual and interim MD&A;

(g) any validated complaints made under and the effectiveness of the Corporation’s Whistleblower Policy;

(h) the Corporation’s compliance with legal and regulatory requirements related to financial reporting; and

(i) all other significant matters it has addressed or reviewed and with respect to such other matters that are within its responsibilities, together with any associated recommendations.

APPENDIX I

DEFINITIONS

"**Financially Literate**" shall mean:

An individual who has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues expected to be raised by the issuer's financial statements. A comprehensive knowledge of GAAP and generally accepted auditing standards is not required.

"**Independent**" shall mean:

(a) a director may not, either directly or indirectly, other than in his or her capacity as a member of the Committee, the Board, or any other Board committee, accept any consulting, advisory or other compensatory fee from the Corporation. Indirect acceptance of compensatory payments includes payments to spouses, minor children or step-children and children or step-children sharing a home with the director as well as payments accepted by an entity in which the Committee member is a partner, member, officer such as a managing director occupying a comparable position or executive officer or occupies a similar position and which provides accounting, consulting, legal, investment banking or, financial advisory services to the issuer;

(b) a director may not be an "**affiliated person**" of the Corporation or any subsidiary of the Corporation. A director, who is also an employee of an affiliate, an executive officer of an affiliate or a general partner or managing member of an affiliate would be deemed to be an affiliate. An "**affiliate of**" or person "**affiliated**" with a specified person is defined as "a person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified". "**Control**" means "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise". A person is deemed not to control the issuer if the person is not an executive officer, or a shareholder of more than 10% of any class of voting equity securities of the issuer. Notwithstanding the foregoing, there is an exception to the affiliate prohibition for overlapping board relationships. If a member sits on the Board of the Corporation and on the board of an affiliate of the Corporation, the member is exempt from the "**affiliated person**" prohibition, if except for being on each board, that member otherwise meets the independence criteria.

(c) a Committee member may not have been employed by the Corporation or by any parent or subsidiary or have a family member who is or was an executive officer of the Corporation within the past three years;

(d) a Committee Member may not have been (nor have a family member who has been) employed as an executive officer of another entity where any of the executive officers of the Corporation serve or have served on the compensation committee of such other entity within the past three years; and

(e) a Committee member may not be a former partner or employee of the auditor who worked on the Corporation's audit engagement; have a family member who is a partner of the auditor or is an employee of the auditor and participates in the Corporation's audit, assurance or tax compliance or was within the last three years a partner or employee of the auditor and personally worked on the Corporation's audit.