

MT. KEARSARGE MINERALS INC.

1994

NOTICE OF

ANNUAL AND SPECIAL MEETING

and

INFORMATION CIRCULAR

RESPECTING

ACQUISITION OF SINO-WOOD PARTNERS, LIMITED

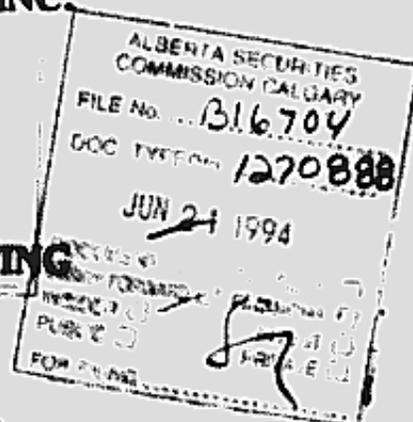
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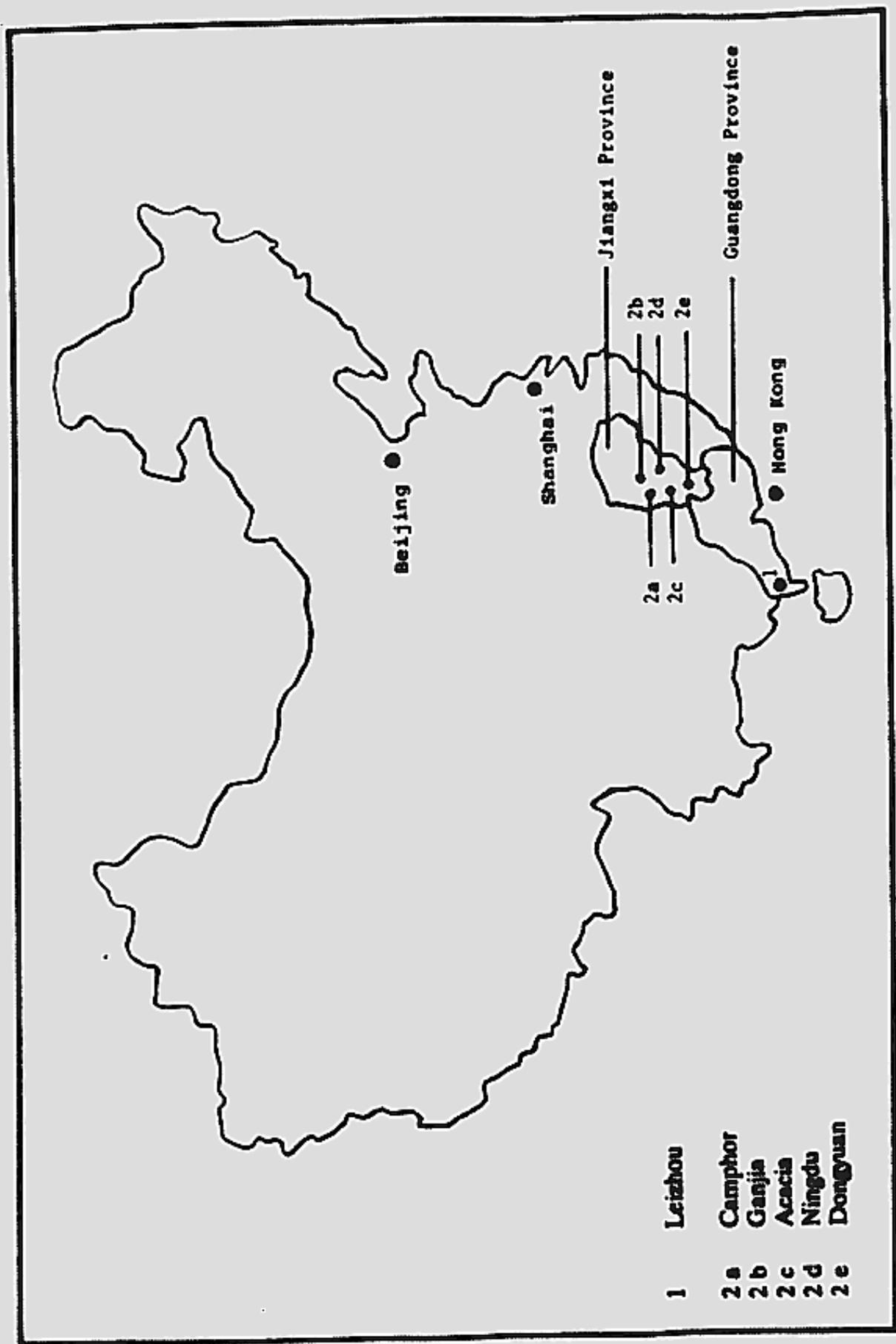
AMALGAMATION WITH 1028412 ONTARIO INC.

TO FORM

Sino-Forest Corporation

February 11, 1994





- 1 Leizhou
- 2 a Camphor
- 2 b Ganjin
- 2 c Acacia
- 2 d Ningdu
- 2 e Dongyuan

MAP OF PEOPLE'S REPUBLIC OF CHINA

MT. KEARSARGE MINERALS INC.

February 11, 1994

Dear Shareholder:

In the enclosed proxy circular we, the board of directors of Mt. Kearsarge Minerals Inc., are seeking your approval for the reorganization of your Company and the acquisition of Sino-Wood Partners, Limited, a Hong Kong corporation which has an interest in six joint ventures in the People's Republic of China engaged in the production and trading of forestry products.

Your board of directors acquired control of Mt. Kearsarge Minerals Inc. on December 31, 1994, with a view that shareholder value could be best maximized by causing your Company to acquire a new business. The proposed acquisition of Sino-Wood Partners, Limited is believed to fulfil this strategy.

The reorganized Company will maintain the quotation of its common shares on the Canadian Dealing Network, subject to satisfaction of all requirements.

The attached information circular contains important information. Please read its contents and if you have any questions, consult a professional adviser or call me at the number below.

The directors of Mt. Kearsarge are unanimous in their support of this transaction and we look forward to making the reorganized company into a significant integrated forest products company.

By Order of the Board,



President

200 King Street West
SunLife Centre, Suite 2004
P. O. Box 86
Toronto, Ontario
M5H 3T4
Tel: (416) 597-1100
Fax: (416) 597-2818

MT. KEARSARGE MINERALS INC.

NOTICE OF ANNUAL & SPECIAL MEETING OF SHAREHOLDERS

TAKE NOTICE that an Annual and Special Meeting of the Shareholders of Mt. Kearsarge Minerals Inc. ("Mt. Kearsarge") will be held at Suite 1000, 36 Toronto Street, Toronto, Ontario, M5C 2C5 on Friday, March 11, 1994 at 9:30 a.m., Toronto time, for the following purposes:

1. to receive the annual report, the financial statements for the year ended December 31, 1993 and the report of the auditors thereon;
2. to elect directors;
3. to appoint auditors;
4. to consider and, if thought fit, pass a Special Resolution approving the amalgamation of Mt. Kearsarge and 1028412 Ontario Inc. ("Ontco") and, for such purpose, approving the amalgamation agreement (the "Amalgamation Agreement") dated February 11, 1994 between Mt. Kearsarge and Ontco providing for the amalgamation of Mt. Kearsarge and Ontco on the terms and conditions set forth in the Amalgamation Agreement;
5. if the Special Resolution approving the Amalgamation Agreement is passed, to consider and, if thought fit, pass a Resolution approving the acquisition of all of the issued and outstanding shares in the capital of Sino-Wood Partners, Limited ("Sino-Wood") and, for such purpose approving the share purchase agreement (the "Acquisition Agreement") made as of the 1st day of January, 1994 among Mt. Kearsarge, CanAsia Partners Limited, Sino-Wood, the shareholders of Sino-Wood, Ontco and others; and
6. to transact such other business as may be properly brought before the meeting or any adjournment or adjournments thereof.

A copy of the financial statements of Mt. Kearsarge for the year ended December 31, 1993 and of Sino-Wood as at December 31, 1993 are annexed as Schedules A and B, respectively, to the accompanying Information Circular.

A copy of the text of the Special Resolution and Resolution referred above and of the Amalgamation Agreement are annexed as Schedules C, D and F, respectively, to the accompanying Information Circular.

Shareholders who are unable to attend the meeting or any adjournment thereof in person and who wish to ensure that their shares are voted are requested to complete, date and

sign the enclosed form of proxy and return it in the envelope provided for that purpose to The R-M Trust Company, 393 University Avenue, 5th Floor, Toronto, Ontario M5C 2W9 not later than 48 hours before the time appointed for the meeting or any adjournment thereof.

Shareholders have the right to dissent with respect to the amalgamation and to be paid the fair value of their shares in accordance with the provisions of Section 185 of the *Business Corporation Act* (Ontario). A shareholder's right to dissent is more particularly described in the accompanying Information Circular.

DATED the 11th day of February, 1994.

By Order of the Board

A handwritten signature in cursive script, appearing to read "John Thompson".

John Thompson
President & Secretary

SUMMARY OF THE INFORMATION CIRCULAR

The following is a summary of certain information contained elsewhere in this Information Circular and is qualified in its entirety by reference to the more detailed information contained in the Information Circular. Capitalized terms referred to in this Summary have the meanings attributed to them in the Information Circular.

The Reorganization

Shareholders will be asked to approve the Reorganization of Mt. Kearsarge and Ontco which involves three steps, namely:

- (1) the issue, by way of two separate Private Placements, of a total 12,800,000 common shares of Ontco and 11,900,000 Series A Share Purchase Warrants of Ontco for total proceeds of \$6,700,000;
- (2) the Amalgamation of Mt. Kearsarge with Ontco and their continuance as one company under the name Sino-Forest Corporation; and
- (3) the Acquisition by Sino-Forest of all of the issued and outstanding shares of Sino-Wood in consideration of the issue by Sino-Forest of 16,200,000 Class A Subordinate-Voting Shares, 6,000,000 Series A Preference Shares and 8,100,000 Series B Share Purchase Warrants.

Description of Sino-Wood

Sino-Wood is a Hong Kong company that has not commenced business operations except for entering into Joint Venture Agreements with certain PRC enterprises to establish and invest in six joint ventures in the PRC to engage in the production and sale of forestry products. Initially, Sino-Wood ownership of these joint ventures will be 53% in respect of one joint venture and 55% in respect of the other joint ventures. The net proceeds received from the Private Placements will be used to fund the initial instalments payable by Sino-Wood under the Joint Venture Agreements. Additional significant investments will be required by Sino-Wood over the next two years to maintain its interests. See "Sino-Wood Partners, Limited - Description of Joint Ventures".

The Private Placements

Pursuant to the GTL Underwriting Agreement, Ontco has agreed to sell and GTL Securities has agreed to purchase, subject to the terms and conditions set out therein, at a closing to be

held on March 11, 1994 an aggregate of 12,790,000 common shares of Ontco and 11,900,000 Series A Share Purchase Warrants for total gross proceeds of \$6,700,000.

Each Series A Share Purchase Warrant will initially entitle the registered holder thereof to purchase one common share of Ontco (and immediately following the Amalgamation, one Class A Subordinate-Voting Share of Sino-Forest) at a price of \$1.50 per share at any time after the earlier of (i) the conversion of all Series A Preference Shares controlled by the former shareholders of Sino-Wood and (ii) June 30, 1995 and on or before August 31, 1995. The Series A Share Purchase Warrants will be non-transferable prior to July 1, 1995 and transferable thereafter. In the event that the Series B Share Purchase Warrants (to be issued to the shareholders of Sino-Wood under the Acquisition Agreement) are not fully exercised on or before their expiry date of June 30, 1995, the holders of Series A Share Purchase Warrants shall be entitled to purchase, on a pro-rata basis, such number of additional Class A Subordinate-Voting Shares as is equal to the number of Class A Subordinate-Voting Shares that were not purchased pursuant to the Series B Share Purchase Warrants prior to the expiry thereof.

GTL Securities will receive a commission equal to 5% of the total proceeds received by Ontco under the Private Placements in consideration of services rendered in connection therewith. GTL Securities will also be entitled to receive, from time to time, a fee equal to 3% of the total proceeds received by Sino-Forest from the exercise of the Series A Share Purchase Warrants.

The Amalgamation

Pursuant to the Amalgamation Agreement, Mt. Kearsarge and Ontco have agreed to amalgamate and continue as one company under the name Sino-Forest Corporation. If approved, the Amalgamation is expected to be completed on or about March 17, 1994.

Ontco was incorporated in 1993 and has not carried on any active business and has no liabilities. It is a condition of the Amalgamation that the Private Placements be completed.

On the Amalgamation, shareholders of Mt. Kearsarge will receive one Class A Subordinate-Voting Share of Amalco for each 10 common shares of Mt. Kearsarge and shareholders of Ontco will receive one Class A Subordinate-Voting Share of Amalco for each common share of Ontco. No fractional shares will be issued, instead all fractional shares will be rounded up to the next whole number. Also, the Series A Share Purchase Warrants to be issued under the Private Placements will be exercisable into Subordinate-Voting Shares of Sino-Forest, rather than common shares of Ontco.

Upon completion of the Amalgamation (and prior to the Acquisition), Amalco will have 15,800,000 Class A Subordinate-Voting Shares issued and outstanding as fully paid and non-

assessable. In addition, 11,900,000 Series A Share Purchase Warrants will be issued and outstanding.

The Acquisition

Pursuant to the Acquisition Agreement, the shareholders of Sino-Wood have agreed to sell all of the issued and outstanding common shares in the capital of Sino-Wood to Amalco at a closing to be held on March 17, 1994. In consideration thereof, Sino-Forest will issue a total of 16,200,000 Class A Subordinate-Voting Shares, 6,000,000 Series A Preference Shares and 8,100,000 Series B Share Purchase Warrants. Following the Acquisition the issued capital of Amalco shall consist of 32,000,000 Class A Subordinate-Voting Shares (subject to rounding adjustments) and 6,000,000 Series A Preference Shares. In addition, 11,900,000 Series A Share Purchase Warrants and 8,100,000 Series B Share Purchase Warrants will have been issued and will be outstanding.

The Series A Preference Shares are convertible into Class B Multiple-Voting Shares of Sino-Forest at any time prior to March 31, 1996 on a share-for-share basis, provided that either (i) the closing prices of the Subordinate-Voting Shares of Sino-Forest on the Canadian Dealing Network (or if listed on a Canadian stock exchange, on that stock exchange) for 45 consecutive trading days have exceeded \$1.67 per share, or \$2.25 per share if and after at least 50% of the Series A Share Purchase Warrants have been exercised or (ii) Sino-Forest has reported net income after taxes of not less than \$4,000,000 on its audited financial statements for the year ending December 31, 1994. After March 31, 1996 the Series A Preference Shares will be redeemable at the option of Sino-Forest at a price of \$0.01 per share.

The Series B Share Purchase Warrants will be non-transferable except to other Sellers or companies controlled by Sellers. Each Series B Share Purchase Warrant will entitle the registered holder thereof to purchase one Subordinate-Voting Share of Sino-Forest at a price of \$1.50 per share at any time on or before June 30, 1995.

Completion of the transactions provided for in the Acquisition Agreement is subject to a number of conditions, including, the following:

- (a) completion of the Private Placements by Ontco;
- (b) completion of the Amalgamation; and
- (c) all material approvals from relevant PRC government authorities have been obtained to (i) amend the joint venture documents of the Joint Ventures to limit the joint venture parties' obligations thereunder in respect of capital contribution and (ii) to postpone the deadline for making the balance of their respective capital contributions to two years from the respective issuance dates

of the business licences. See "Sino-Wood Partners, Limited - "Description of Joint Ventures".

Recommendation of the Board of Directors

The Board of Directors of Mt. Kearsarge recommends that shareholders vote in favour of the Special Resolution approving the Amalgamation and in favour of the Resolution approving the Acquisition.

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Schedules

Schedule A	-	Audited Financial Statements of Mt. Kearsarge Minerals Inc. for the year ended December 31, 1993
Schedule B	-	Audited Financial Statements of Sino-Wood Partners, Limited as at December 31, 1993
Schedule C	-	Special Resolution approving the Amalgamation Agreement
Schedule D	-	Resolution approving the Acquisition of Sino-Wood Partners, Limited
Schedule E	-	Amalgamation Agreement
Schedule F	-	Compilation report and pro forma combined statements of operating income of the Joint Ventures for each of the years in the three year period ended December 31, 1993
Schedule G	-	Compilation report and pro forma consolidated balance sheet of Sino-Forest Corporation as at December 31, 1993
Schedule H	-	Compilation report and pro forma consolidated balance sheet of Sino-Wood Partners, Limited as at December 31, 1993
Schedule I	-	Rights of Dissent
Schedule J	-	Notice of Change of Auditors together with letters of such notice of T.H. Bernholtz and Co., Chartered Accountants, and Ernst & Young, Chartered Accountants, and Confirmation Letter of Mt. Kearsarge.

MT. KEARSARGE MINERALS INC.
MANAGEMENT INFORMATION CIRCULAR
GENERAL PROXY MATERIAL

Solicitation of Proxies

THIS INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION BY THE MANAGEMENT OF MT. KEARSARGE MINERALS INC. ("MT. KEARSARGE") OF PROXIES TO BE USED AT THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF MT. KEARSARGE TO BE HELD AT THE TIME AND PLACE AND FOR THE PURPOSES SET FORTH IN THE ACCOMPANYING NOTICE OF MEETING. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally by regular employees of Mt. Kearsarge at nominal cost. The cost of solicitation by management will be borne directly by Mt. Kearsarge.

Appointment and Revocation of Proxies

The persons named in the enclosed form of proxy are directors of Mt. Kearsarge. EACH SHAREHOLDER IS ENTITLED TO APPOINT A PERSON TO REPRESENT HIM AT THE MEETING OTHER THAN THE PERSONS NAMED IN THE FORM OF PROXY ENCLOSED. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT HIM AT THE MEETING MAY DO SO either by inserting such person's name in the blank space provided in that form of proxy or by completing another proper form of proxy and, in either case, depositing the completed proxy at the office of the transfer agent indicated on the enclosed envelope not later than 48 hours (excluding Saturdays and holidays) before the time of holding the meeting or with the chairman of the meeting on the date of the meeting.

A proxy given pursuant to this solicitation may be revoked by instrument in writing, including another proxy bearing a later date, executed by the shareholder or by his attorney authorized in writing, and deposited either at the registered offices of Mt. Kearsarge or the offices of the transfer agent at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of such meeting on the day of the meeting, or adjournment thereof, or in any other manner permitted by law. A proxy may be revoked by the shareholder personally attending at the meeting and voting his shares.

Voting of Proxies

Shares represented by properly executed proxies in favour of persons designated in the printed portion of the enclosed form of proxy WILL BE VOTED IN ACCORDANCE WITH THE INSTRUCTIONS THEREON. IF NO CHOICE IS SPECIFIED, SUCH SHARES WILL BE VOTED FOR EACH OF THE MATTERS REFERRED TO IN THE FORM OF PROXY.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, or other matters which may properly come before the meeting. As of the date hereof, management of Mt. Kearsarge knows of no such amendments, variations or other matters to come before the meeting. However, if any other matters which are not now known to management should properly come before the Meeting, the proxy will be voted on such matters in accordance with the best judgment of the named proxies.

Voting Shares and Principal Holders Thereof

As of the date hereof, Mt. Kearsarge had outstanding 30,000,000 common shares each carrying the right to one vote per share. Any shareholder registered on the books of Mt. Kearsarge at the close of business on January 20, 1994 will be entitled to vote the shares registered in his name in person or by proxy, unless such shares are transferred after such date and the new owner establishes that he owns such shares and requests, not later than 48 hours prior to the meeting, the Secretary of Mt. Kearsarge or the transfer agent to include his name in the list of shareholders entitled to vote at the Meeting, in which case the new owner shall be entitled to vote such shares at the Meeting.

To the knowledge of the directors and senior officers of Mt. Kearsarge, no person or company beneficially owns, directly or indirectly, or exercises control or direction over shares carrying more than 10% of the voting rights attached to all outstanding voting securities of Mt. Kearsarge except as indicated below:

<u>Name of Shareholder</u>	<u>Number of Shares</u>	<u>Percentage of Outstanding Shares</u>
Northern Star Reinsurance Company Limited	20,000,000 shs	66.7%
GTL Investments Corporation	<u>942,773 shs</u>	<u>3.1%</u>
Total	20,942,773 shs	69.8%

These companies are affiliates of Messrs. Gornitzki, Thompson and Little, the directors of Mt. Kearsarge.

ELECTION OF DIRECTORS

Election of Directors

Shareholders will be requested to elect three directors. The persons named in the enclosed form of proxy intend to vote for the election of the Nominees whose names are set forth below, all of whom are now members of the Board of Directors and have been since the dates indicated. Management does not contemplate that any of the Nominees will be unable to serve as a director. Each director elected will hold office until his successor is elected at the next annual meeting of Mt. Kearsarge, or at any adjournment thereof, unless his office is earlier vacated under any of the relevant provisions of the charter documents of Mt. Kearsarge.

The following table states the names of the persons proposed to be nominated for election as directors and information concerning them. Each of the persons named became directors of Mt. Kearsarge on January 1, 1994.

<u>Name & Municipality of Residence</u>	<u>Office Held</u>	<u>Number of Common Shares Beneficially Owned or Over Which Control is Exercised</u>
John Thompson(1),(2) Etobicoke, Ontario	President, Secretary & Director	(3)
Jacob Gornitzki(1),(2) Toronto, Ontario	Director	(3)
Paul F. Little(1),(2) Toronto, Ontario	Director	(3)

- (1) Member of Audit Committee.
- (2) Messrs. Thompson, Gornitzki and Little are principals of Gornitzki, Thompson & Little, a merchant banking group.
- (3) Companies affiliated with Messrs. Thompson, Gornitzki and Little own in aggregate 20,942,773 common shares of Mt. Kearsarge representing 69.8% of the issued common shares. See "Voting Shares and Principal Holders Thereof".

In the event that the shareholders of Mt. Kearsarge approve the special resolution regarding the amalgamation of Mt. Kearsarge and Outco, then, upon the Amalgamation becoming effective, the directors of the amalgamated corporation will be those listed under "Sino-Forest-Directors and Officers".

Statement of Executive Compensation

During the last completed financial year, Mt. Kearsarge had three executive officers. No compensation, cash or otherwise, was paid to these executive officers by Mt. Kearsarge for services rendered during the last completed financial year except for the payment of \$22,000 in management fees paid to a company controlled by the former President of Mt. Kearsarge.

During the last completed financial year, the directors of Mt. Kearsarge also received a total of \$1,000 as directors fees.

APPOINTMENT OF AUDITORS

The persons named in the accompanying form of proxy intend to vote for the appointment of Ernst & Young, Chartered Accountants, Toronto, Ontario as auditors of Mt. Kearsarge and to authorize the directors to fix the remuneration of such auditors.

T.H. Bernholtz and Co., Chartered Accountants, Toronto, Ontario were the previous auditors of Mt. Kearsarge. See the Notice of Change of Auditors set out in Schedule J.

THE REORGANIZATION

Change of Control

Effective January 1, 1994, GTL Investments Corp. ("GTL Investments") and a related company, were issued for a total of 20,742,773 common shares of Mt. Kearsarge in consideration for the payment of \$155,571 and purchased from third parties an additional 200,000 common shares so that they hold 69.8% of the issued and outstanding common shares of Mt. Kearsarge. See "General Proxy Material-Voting Shares and Principal Holders Thereof" and "Mt. Kearsarge - Prior Sales".

As part of the change of control, the former directors and officers of Mt. Kearsarge resigned and Jacob Gornitzki, John Thompson and Paul Little were appointed to the board of directors and John Thompson was appointed President and Secretary of Mt. Kearsarge.

Messrs. Gornitzki, Thompson and Little are the directors, officers and shareholders of GTL Investments and are principals of Gornitzki, Thompson & Little, a Toronto based merchant banking group. Gornitzki, Thompson & Little offers merchant banking services to owner operated businesses wishing to access the public market for development capital.

The new management of Mt. Kearsarge has examined various opportunities which involve the acquisition of a new business by Mt. Kearsarge and has determined to proceed with a reorganization (the "Reorganization") as described herein. The goal has been to seek a new business which maximizes shareholders' value. It has been determined that an investment in the forestry industry in the Peoples' Republic of China (the "PRC" or "China") through Sino-Wood Partners, Limited ("Sino-Wood") would meet this goal. Sino-Wood has entered into joint venture agreements with certain PRC enterprises to establish and invest in six Chinese foreign equity joint ventures in Guangdong and Jiangxi Provinces. These joint ventures will principally engage in the production and sale of forestry products.

Summary of Reorganization

The Reorganization will involve the following three steps:

- (1) In the first step of the Reorganization, Ontco will issue on a private placement (the "Private Placements") basis a total of 12,790,000 common shares of Ontco and 11,900,000 Series A Share Purchase Warrants for total gross proceeds of \$6,700,000. The proceeds of the Private Placements will be used to fund the initial instalment obligations of Sino-Wood under the Joint Venture Agreements. See "Private Placements".
- (2) The Amalgamation is the second step in the Reorganization. Mt. Kearsarge and Ontco will amalgamate (the "Amalgamation") and continue as one corporation under the name Sino-Forest Corporation ("Sino-Forest" or "Amalco"). On the effective date of the Amalgamation:
 - (i) shareholders of Mt. Kearsarge will receive one Class A Subordinate-Voting Shares of Sino-Forest in exchange for each 10 common shares of Mt. Kearsarge then held. Fractional Shares will not be issued but all shareholdings in Mt. Kearsarge will be rounded up to the next whole number;
 - (ii) shareholders of Ontco will receive one Class A Subordinate-Voting Share of Sino-Forest for each common share of Ontco then held; and
 - (iii) holders of the Series A Share Purchase Warrants issued by Ontco will be entitled to purchase thereunder Class A Subordinate-Voting Shares of Sino-Forest rather than common shares of Ontco.See "The Amalgamation".
- (3) In the third step of the Reorganization, Sino-Forest will purchase all of the issued and outstanding shares in the capital of Sino-Wood, in consideration for

the issue to the shareholders of Sino-Wood of 16,200,000 Class A Subordinate Voting Shares, 6,000,000 Series A Preference Shares and 8,100,000 Series B Share Purchase Warrants. See "The Acquisition" and "Description of Sino-Wood Partners, Limited".

Upon completion of the Reorganization:

- (a) shareholders of Mt. Kearsarge, if none dissent, will receive 3,000,000 Class A Subordinate-Voting Shares of Sino-Forest, subject to adjustment for fractional shares (representing approximately 9.4% of the number of Class A Subordinate-Voting Shares to be outstanding);
- (b) shareholders of Ontco will receive 12,800,000 Class A Subordinate-Voting Shares of Sino-Forest (representing 40.0% of the number of Class A Subordinate-Voting Shares to be outstanding) and 11,900,000 Series A Share Purchase Warrants;
- (c) shareholders of Sino-Wood will receive 6,000,000 Series A Preference Shares, 16,200,000 Class A Subordinate-Voting Shares (representing approximately 50.6% of number of Class A Subordinate-Voting Shares to be outstanding) and 8,100,000 Series B Share Purchase Warrants; and
- (d) Sino-Wood will become a wholly-owned subsidiary of Sino-Forest.

Votes Required

The Special Resolution approving Amalgamation, to be passed, must obtain the affirmative vote of at least 66 2/3% of the votes cast at the Meeting and the Resolution approving the Acquisition Agreement, to be passed, must obtain the affirmative vote of a majority of the votes cast at the Meeting.

Interest of Management

Messrs. John Thompson, Jacob Gornitzki and Paul Little, directors and/or officers of Mt. Kearsarge will have interests in certain agreements and transactions to be completed in connection with the Reorganization. They, or companies associated or affiliated with them, will participate in the Private Placements by Ontco, both as underwriter and as purchasers. CanAsia Partners Limited ("CanAsia") of Hong Kong, an affiliate of Messrs. Thompson, Gornitzki and Little, will be appointed co-fiscal agent of Sino-Forest under the Fiscal Agency Agreement and a consultant of Sino-Forest under the Investors' Relations Agreement, referred to under "Sino-Forest - Fiscal Agency Agreement and Investors' Relations Agreement". In addition CanAsia will receive an option to purchase 600,000 Series A

Preference Shares from the existing shareholders of Sino-Wood under the Option Agreement referred to under "The Acquisition - Option Agreement".

Recommendation by the Board of Directors

The Board of Directors of Mt. Kearsarge has concluded that the Amalgamation and the Acquisition are in the best interests of the Shareholders and are fair to Shareholders from a financial point of view and recommends that Shareholders vote for the Special Resolutions approving the Amalgamation Agreement and the Resolution approving the Acquisition Agreement.

THE PRIVATE PLACEMENTS

General

Ontco was incorporated under the laws of Ontario by articles of incorporation filed on April 30, 1993. The sole shareholder of Ontco is William Burton of Toronto, Ontario. On February 11, 1994, Ontco issued to Mr. Burton 10,000 common shares for \$1,000.

Although Ontco has not previously carried on business, it has entered into the GTL Underwriting Agreement which provides for the issue under two separate private placements of a total of 12,790,000 common shares of Ontco and 11,900,000 Series A Share Purchase Warrants for total proceeds of \$6,700,000. Ontco has no liabilities.

GTL Underwriting Agreement

Pursuant to an underwriting agreement (the "GTL Underwriting Agreement") dated February 11, 1994 between Ontco and GTL Securities Inc. ("GTL Securities"), Ontco has agreed to sell and GTL Securities has agreed to purchase in two separate private placements (the "Private Placements") an aggregate of 12,790,000 common shares of Ontco and 11,900,000 Series A Share Purchase Warrants for total proceeds of \$6,700,000 at a closing to be held on or before March 11, 1994 or such other date as may be agreed upon by Ontco and GTL Securities.

The obligation of GTL Securities under the GTL Underwriting Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets and may be terminated upon the occurrence of certain stated events. Pursuant to the GTL Underwriting Agreement, GTL Securities is obligated to take up and pay for all of the securities of Ontco under the Private Placements if any of such securities are not purchased by outside investors.

Ontco has agreed to pay to GTL Securities at closing a total fee equal to \$335,000, being 5% of the total proceeds to be received by Ontco for its services performed under the Private Placements and any out of pocket cost incurred in connection with the Private Placements. In addition, Ontco has agreed to pay to GTL Securities a fee of 3% of the gross proceeds received by Sino-Forest from the exercise of the Series A Share Purchase Warrants.

The net proceeds to be received by Ontco from the Private Placements will amount to \$6,335,000 after payment of fees payable to GTL Securities and expenses of the issue estimated at \$30,000. Such proceeds will be advanced to Sino-Wood following the Acquisition and will be used to fund the initial investment in the amount of US\$3.96 million (approximately \$5,240,000) in the six Joint Ventures.

It is a condition of the Amalgamation and the Acquisition that the Private Placements be successfully completed.

Description of Series A Warrants

Each Series A Share Purchase Warrant will initially entitle the registered holder thereof to purchase one common share of Ontco (and immediately following the Amalgamation, one Class A Subordinate-Voting Share of Amalco) at a price of \$1.50 per share at any time after the earlier of (i) the conversion of all Series A Preference Shares controlled by the Sellers; and (ii) June 30, 1995 and on or before August 31, 1995. The Series A Share Purchase Warrants will be non-transferable prior to July 1, 1995 and transferable thereafter. In the event that the Series B Share Purchase Warrants (to be issued in connection with the Acquisition) are not fully exercised on or before their expiry date of June 30, 1995, holders of Series A Share Purchase Warrants shall be entitled to purchase on a pro-rata basis such number of additional Class A Subordinate-Voting Shares as is equal to number Class A Subordinate-Voting Shares that were not purchased by the Series B Share Purchase Warrants prior to the expiry thereof.

Capitalization of Ontco

The following table sets out the capitalization of Ontco as at February 11, 1994 and the pro forma capitalization as at that date after giving effect to the issue of 12,790,000 common shares pursuant to the GTL Underwriting Agreement.

<u>Designation of Security</u>	<u>Amount Authorized</u>	<u>Outstanding as at February 11, 1994</u>	<u>Pro Forma Amount outstanding as at February 11, 1994 (1)</u>
Common Shares	unlimited	10,000 shs. (\$1,000)	12,800,000 shs. (\$6,700,000)

(1) Gives effect to the issue of 12,790,000 common shares pursuant to the Private Placements.

THE AMALGAMATION

Summary of the Amalgamation Agreement

The following description of the Amalgamation Agreement is qualified in its entirety by reference to the full text of the Amalgamation Agreement which is attached hereto as Schedule E.

The Amalgamation Agreement provides that, subject to the satisfaction of certain conditions, including approval of the Amalgamation by the shareholders of Mt. Kearsarge and of Ontco, Mt. Kearsarge and Ontco will amalgamate and continue as one corporation pursuant to the Business Corporations Act, Ontario (the "OBCA") to be known as Sino-Forest Corporation ("Amalco" or "Sino-Forest").

The Amalgamation Agreement also provides that:

- (a) the issued and outstanding common shares without par value in the capital of Mt. Kearsarge shall be converted into issued and fully paid Class A Subordinate-Voting Shares without par value in the capital of Sino-Forest on the basis of one Class A Subordinate-Voting Share of Sino-Forest for each 10 common shares of Mt. Kearsarge. Fractional Class A Subordinate-Voting Shares of Sino-Forest will not be issued. A holder of common shares of Mt. Kearsarge who would otherwise be entitled to receive a fraction of a Class A Subordinate-Voting Share shall be issued a whole Class A Subordinate-Voting Share of Sino-Forest.
- (b) the issued and outstanding common shares without par value in the capital of Ontco shall be converted into issued and fully paid Class A Subordinate-Voting Shares without par value in capital of Sino-Forest on the basis of one Class A Subordinate-Voting Share of Sino-Forest for each one common share of Ontco; and

- (c) the outstanding Class A Share Purchase Warrants of Ontco will be convertible into Class A Subordinate-Voting Shares of Sino-Forest (in lieu of one common share of Ontco) on the same terms and conditions as set out therein.

The following is a summary of other material provisions of the Amalgamation Agreement:

- (a) the address of the registered office of Sino-Forest shall be Suite 2004, Sun Life Centre, West Tower, 200 King Street West, Toronto, Ontario or at such other place in Toronto as may be determined by the directors;
- (b) the authorized capital of Sino-Forest shall consist of:
 - (i) an unlimited number of Class A Subordinate-Voting Shares;
 - (ii) 6,000,000 Class B Multiple-Voting Shares; and
 - (iii) an unlimited number of Preference Shares, issuable in series, the first series thereof shall consist of 6,000,000 Series A Preference Shares;

See "Description of Share Capital of Sino-Forest" for a description of the rights, restriction and conditions attaching to the Class A Subordinate-Voting Shares, the Class B Multiple-Voting Shares, the Preference Shares as a class and the Series A Preference Shares;

- (c) the number of directors of Sino-Forest shall be a minimum of three (3) and a maximum of ten (10), provided that the directors will be empowered to determine by resolution the number of directors of Sino-Forest from time to time and the number of directors to be elected at each annual meeting of shareholders. The board of directors of Sino-Forest shall initially be fixed at five (5) directors, unless otherwise changed by the directors, and the first directors of Amalco shall be the persons set forth under "Sino-Forest - Directors and Officers";
- (d) the holders of shares of any class or series of Sino-Forest shall not be entitled to dissent and shall not be entitled to vote separately as a class or series upon a proposal to amend the Articles of Sino-Forest to effect an exchange, reclassification or cancellation of shares of such class or series thereof or to create a new class or series of shares equal or superior to the shares of such class or series;
- (e) the directors of either Ontco or Mt. Kearsarge are authorized to terminate the Amalgamation Agreement at any time prior to the endorsement by the Director appointed under the OBCA of a certificate of articles of Amalgamation in

respect of the Amalgamation Agreement without the further approval of the shareholders of Ontco or Mt. Kearsarge; and

- (f) the by-laws of Ontco shall be the by-laws of Sino-Forest.

The OBCA contemplates that the articles of a corporation may provide that the holders of shares of any class or series of a corporation shall not be entitled to dissent and shall not be entitled to vote separately as a class or series upon a proposal to amend the articles to reflect an exchange, reclassification or cancellation of shares of such class or series or to create a new class or series of shares equal or superior to the shares of such class or series. The management of Mt. Kearsarge and Ontco have concluded that a restriction on the entitlement to dissent and class vote will provide Sino-Forest with flexibility in future capital and corporate restructuring and will, therefore, be in the best interests of Sino-Forest.

If the shareholders approve the Amalgamation, subject to the satisfaction of other conditions, articles of amalgamation will be filed with the Director under the OBCA. The OBCA provides that, upon receipt of such articles, the Director shall issue a certificate of amalgamation and the Amalgamation becomes effective on the date shown in such certificate.

Description of Share Capital of Sino-Forest

The authorized capital of Sino-Forest shall consist of: (i) an unlimited number of Class A Subordinate-Voting Shares; (ii) 6,000,000 Class B Multiple-Voting Shares; and (iii) an unlimited number of Preference Shares, issuable in series, the first series thereof shall consist of 6,000,000 Series A Preference Shares. The description of these shares are set out below.

Description of Class A Subordinate-Voting Shares and Class B Multiple-Voting Shares

The following is a summary of the rights, privileges, restrictions and conditions attaching to the Class A Subordinate-Voting Shares and the Class B Multiple-Voting Shares of Sino-Forest:

Rank. Except with respect to voting, dividends and the rights of conversion described below, each Class A Subordinate-Voting Share and each Class B Multiple-Voting Shares has the same rights and is equal in all respects.

Voting. The holders of Class A Subordinate-Voting Shares and Class B Multiple-Voting Shares are entitled to receive notice of and to attend meetings of shareholders of Amalco (other than separate meetings of the holders of shares of any other class required by regulatory requirements). At such meetings, each holder of Class B Multiple-Voting Shares will be entitled to five (5) votes per share and each holder of Class A Subordinate-Voting Shares will be entitled to one (1) vote per share.

Dividends. The Class A Subordinate-Voting Shares rank in priority to the Class B Multiple-Voting Shares as to the payment of dividends. No dividends may be declared or paid on the Class B Multiple-Voting Shares in any fiscal year unless in the same fiscal year dividends in an amount per share at least equal to the amount of dividends per share proposed to be declared or paid on outstanding Class B Multiple-Voting Shares have been declared or paid on the Class A Subordinate-Voting Shares.

Conversion of Class B Multiple-Voting Shares into Class A Subordinate-Voting Shares. Each holder of Class B Multiple-Voting Shares shall be entitled at any time and from time to time to have all or any part of the Class B Multiple-Voting Shares held converted into Class A Subordinate-Voting Shares on a share-for-share basis. This conversion right shall be exercised by notice in writing to the transfer agent at its principal office in Toronto accompanied by the certificate(s) representing the Class B Multiple-Voting Shares in respect of which such right is exercised.

Take-over Bid Protection. The holders of the Class A Subordinate-Voting Shares are provided with certain rights relating to take-over bids. The Articles of Amalco will incorporate the terms of an agreement (the "Coattail Agreement") to be entered into among Amalco, the R-M Trust Company and the holders of the Class B Multiple-Voting Shares. Under the terms of the Coattail Agreement, if a beneficial owner of Class B Multiple-Voting Shares transfers any of such shares to a purchaser who has made an offer for all the outstanding Class B Multiple-Voting Shares and who has not made an identical offer for all or substantially all of the Class A Subordinate-Voting Shares or transfers Class B Multiple-Voting Shares to a purchaser who is not otherwise a permitted transferee under the Coattail Agreement, then all of the Class B Multiple-Voting Shares so transferred shall, after notice is sent by the Trustee to the holders thereof, automatically be converted into Class A Subordinate-Voting Shares. The Coattail Agreement does not restrict the ability of the beneficial holder of the Class B Multiple-Voting Shares to convert any of the Class B Multiple-Voting Shares into Class A Subordinate-Voting Shares or, subject to compliance with applicable securities laws, to subsequently transfer such Class A Subordinate-Voting Shares to third parties. A permitted transferee includes a person who at the time of transfer holds Class B Multiple-Voting Shares or a corporation which is wholly owned directly or indirectly, by a person who at the time of the transfer holds Class B Multiple-Voting Shares.

Dissolution. Upon the liquidation or dissolution of Amalco or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, the assets of Amalco available for payment or distribution, after giving effect to the preference of the holders of Preference Shares, shall be paid or distributed to the holders of Class A Subordinate-Voting Shares and the holders of Class B Multiple-Voting Shares in equal amounts per share without preference or distinction.

Subdivisions, Consolidations and Other Changes. In the event of (i) any subdivision, consolidation, reclassification or other change in the Class A Subordinate-Voting Shares or the Class B Multiple-Voting Shares, or (ii) any reorganization of the share capital of Sino-Forest affecting the Class A Subordinate-Voting Shares or the Class B Multiple-Voting Shares, or (iii) any amalgamation of the Company with another company, appropriate adjustments shall be made to the dividend rights, the voting rights, the dissolution rights and the conversion rights attaching to the Class A Subordinate-Voting Shares and the Class B Multiple-Voting Shares so as to preserve their respective rights inter se in all respects.

Preference Shares

The Preference Shares may from time to time be issued in one or more series, each series of which shall have the designations, rights, privileges, restrictions and conditions fixed by the directors. The Preference Shares of each series shall rank on a parity with the Preference Shares of every other series with respect to priority in payment of dividends and return of capital in the event of the liquidation, dissolution or winding-up of Sino-Forest and have a preference over the Class A Subordinate-Voting Shares, the Class B Multiple-Voting Shares and any other shares of Sino-Forest ranking junior to the Preference Shares.

Series A Preference Shares

Voting. Except as otherwise required by the OBCA, the holders of the Series A Preference Shares shall not be entitled to receive notice of or to attend any meetings of shareholders of Sino-Forest or to vote at any such meeting.

Dividends. The holders of Series A Preference Shares shall not be entitled to receive any dividends.

Distribution of Assets on Liquidation. In the event Sino-Forest shall be liquidated, dissolved or wound up, whether voluntary or involuntary, the holders of the Series A Preference Shares shall be entitled to receive out of the assets of Sino-Forest available for distribution to shareholders, an amount equal to the Redemption Price (as hereinafter defined) of their shares, the whole being paid before any amount is paid or any assets of Sino-Forest are distributed to the holders of any Class B Multiple-Voting Shares, Class A Subordinate-Voting Shares or any shares of any other class ranking junior to the Series A Preference Shares. Upon payment to the holders of the Series A Preference Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of assets of Sino-Forest.

Redemption. Subject to the OBCA, Sino-Forest may at any time after March 31, 1996 redeem the whole, but not part of, the issued Series A Preference Shares on

payment for each share to be redeemed of an amount equal to \$0.01 per share (in lawful money of Canada) (the "Redemption Price").

Unless all the holders of the Series A Preference Shares to be redeemed have waived notice of such redemption, Sino-Forest shall give not less than 30 days' notice in writing of the redemption, specifying the date and place of redemption. If this notice is given or waived, and the Redemption Price is paid to such holders, or is deposited with any chartered bank or trust company in Canada, as specified in the notice, on or before the date fixed for redemption, the holders of the shares to be redeemed shall from then on have no rights against Sino-Forest in respect of those shares except to receive payment of the Redemption Price. Any Series A Preference Shares redeemed shall be cancelled and will not be reissued, sold or transferred.

Conversion Rights. Each holder of a Series A Preference Share shall be entitled at any time and from time to time prior to March 31, 1996 to have all or any part of the Series A Preference Shares held converted into fully paid and non-assessable Class B Multiple-Voting Shares upon the basis of one (1) Class B Multiple-Voting Share for each Series A Preference Share in respect of which the conversion right is exercised, provided that such conversion rights shall be conditional upon and shall not come into effect unless:

- (a) the closing price of the Class A Subordinate-Voting Shares on the Canadian Dealing Network the ("CDN") (or if such shares are listed on a stock exchange in Canada, on such stock exchange) for forty-five (45) consecutive trading days (i) shall have exceeded \$1.67 per share; or (ii) in the event that on the date the notice of conversion is given an aggregate of 50% or more of the Series A Share Purchase Warrants of Sino-Forest shall have been validly exercised, shall have exceeded \$2.25 per share; or
- (b) Sino-Forest has reported net income after taxes of not less than \$4,000,000 on the audited financial statements of Sino-Forest for the year ended December 31, 1994.

For the purpose of determining the closing price of the Class A Subordinate-Voting Shares on any day on which no Class A Subordinate-Voting Shares have traded, the closing prices shall be deemed to be the average of the bid and ask prices at the end of such day on the CDN or such other stock exchange.

Subject to the foregoing, the conversion privilege herein provided for may be exercised by notice in writing given to a transfer agent of Sino-Forest accompanied by the certificate or certificates representing the Series A Preference Shares in respect of which the holder desires to exercise such right of conversion and such notice shall be signed by the person registered on the books of Sino-Forest as the holder of Series A Preference Shares in respect of which such right is being exercised or by his duly authorized attorney and shall specify the number of Series A Preference Shares which the holder desires to have converted. The holder shall

also pay any governmental or other tax imposed in respect of such transaction. Upon receipt of such notice Sino-Forest shall issue, or cause to be issued, certificates representing fully paid Class B Multiple-Voting Shares upon the basis above prescribed and in accordance with the provisions hereof to the holder of Series A Preference Shares represented by the certificate or certificates accompanying such notice if less than all the Series A Preference Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate for the Series A Preference Shares representing the shares comprised in the original certificate that are not to be converted.

In the event the Series A Preference Shares and/or the Class B Multiple-Voting Shares are at any time subdivided, consolidated, converted (except for the conversion of Series A Preference Shares into Class B Multiple-Voting Shares pursuant to paragraph (v) hereof) or exchanged for a greater or lesser number of shares in the same or another class, appropriate adjustment shall be made in the rights and conditions attached to Series A Preference Shares and to the Class B Multiple-Voting Shares so as to maintain and preserve the relative rights of the holder of the shares of each of the said classes.

Variation of Rights. The holders of the Series A Preference Shares shall not be entitled to vote separately as a class or series upon a proposal to amend the articles:

- (1) to increase or decrease any maximum number of authorized shares of such class or series or increase any maximum number of authorized shares of any other class or series having rights or privileges equal or superior to the shares of such class or series; or
- (2) to create a new class or series of shares equal or superior to the shares of such class or series.

Directors and Officers of Sino-Forest

The table presented below provides the names of and related information concerning the directors and officers of Sino-Forest.

<u>Name and Municipality of Residence</u>	<u>Office Held</u>	<u>Number of Shares Beneficially Owned or Over Which Control is Exercised</u>	
		<u>Class A Subordinate-Voting Shares</u>	<u>Series A Preference Shares</u>
Tak Yuen Chan Hong Kong	Chairman, Chief Executive Officer & Director	(1)	(1)
Kai Kit Poon Hong Kong	President & Director	(2)	(2)

John Thompson Toronto, Ontario	Secretary & Director	(3)	(3)
Edmund Mak Vancouver, British Columbia	Director	nil	nil
James Francis O'Donnell Toronto, Ontario	Director	nil	nil

- (1) Mr. Tak Yuen Chan and Ms. Wai Ling Chan are directors of ADS Holdings (BVI) Limited which upon completion of the Acquisition will own 6,075,000 Class A Subordinate-Voting Shares, 2,250,000 Series A Preference Shares and 3,037,500 Series B Share Purchase Warrants. ADS Holdings (BVI) Limited is owned by three family trusts under which family members and associates of Mr. Tak Yuen Chan and Ms. Wai Ling Chan are beneficiaries.
- (2) Kai Kit Poon beneficially owns all of the issued and outstanding shares of Natural Forest Limited which upon completion of the Acquisition, will hold 6,075,000 Class A Subordinate-Voting Shares, 2,250,000 Series A Preference Shares and 3,037,500 Series B Share Purchase Warrants.
- (3) Companies affiliated with Messrs. Thompson and Little, will own 2,094,278 Class A Subordinate-Voting Shares and will have an option to purchase 600,000 Series A Preference Shares from the former shareholders of Sino-Wood and are expected to purchase at least 1,790,000 Class A Subordinate-Voting Shares and 900,000 Series A Share Purchase Warrants under the Private Placements.

Tak Yuen Chan, aged 42, is the Chairman of the Board of Directors and Chief Executive Officer of Sino-Wood. He has over 10 years of experience in structuring joint ventures in the PRC in the following industries: hotel, health care, oil and gas, real estate, restaurant and garment manufacturing. He served as a senior economic advisor to the Ministry of Foreign Economic Relations and Trade, PRC (now known as the Ministry of Foreign Trade and Economic Co-operation) from 1986-1988 for its investment banking activities. He graduated from Hong Kong Baptist College.

Kai Kit Poon, aged 53, is the President of Sino-Wood and a Director. He has over 31 years of experience in the PRC forestry industry. From 1962 to 1979, he was employed as a scaling engineer by Guangdong Forestry Bureau. From 1979, he was engaged in the trading and manufacture of forest products in the PRC and Hong Kong. Mr. Poon graduated from Guangzhou Chungnam Forestry University, Guangdong, PRC in 1962.

John Thompson is a principal of Gornitzki, Thompson & Little, a merchant banking group.

Mr. Mak has twenty years of business and management experience with large multi national and small local companies in a variety of industries: manufacturing, servicing, transportation, construction, oil and gas, and fabric. He is currently engaged in the real estate industry in Vancouver. He is a graduate of the University of Toronto with an MBA degree.

Mr. O'Donnell is President of O'Donnell Capital Corp. and Chairman of O'Donnell Management (fund manager). Prior to May, 1993, Mr. O'Donnell was President of Mackenzie Financial Corp. (mutual fund dealer).

Pro Forma Consolidated Balance Sheet

Attached hereto as Schedule G is a pro-forma consolidated balance sheet of Sino-Forest as at December 31, 1993.

Pro Forma Capitalization of Sino-Forest

The following table sets out the pro-forma capitalization of Sino-Forest after giving effect to the matters described in note (1) to the table:

<u>Designation of Securities</u>	<u>Authorized</u>	<u>Pro-Forma (1) Outstanding</u>
Preference Shares, issuable in series	unlimited	nil
Series A Preference Shares	6,000,000 shs	6,000,000 shs (\$3,600,000)
Class A Subordinate- Voting Shares	unlimited	32,000,000 shs (2)(3) (\$15,179,838)
Class B Multiple-Voting Shares	6,000,000 shs	nil

(1) Gives effect to: (i) the issue of 12,790,000 common shares of Ontco under the Private Placements, (ii) the Amalgamation, and (iii) the issue of 16,200,000 Class A Subordinate-Voting Shares and 6,000,000 Series A Preference Shares under the Acquisition.

(2) An additional 20,000,000 Class A Subordinate-Voting Shares of Sino-Forest will be subject to issue upon exercise of Series A Share Purchase Warrants and Series B Share Purchase Warrants issued in connection with the Private Placements and the Acquisition.

(3) Subject to adjustment for rounding up of shares to be issued to holders of shares in the capital of Mt. Kearsarge.

Fiscal Agency Agreement

At the closing of the Acquisition, Sino-Forest will enter into an agreement (the "Fiscal Agency Agreement") with CanAsia and Mackreath & Allen Partners Limited (collectively, the "Advisors") under which the Advisors will be appointed exclusive co-fiscal agents for Sino-Forest for a term of 12 months to be renewed automatically for further 12 months terms unless either of the Advisors or Sino-Forest elects to cancel the agreement by providing on 90 days' written notice.

During the term of the Fiscal Agency Agreement the Advisors will provide financial advice to Sino-Forest with respect to debt and equity financings, corporate transactions and acquisitions. Also, the Advisors will have the right to act as exclusive fiscal agents of Sino-Forest in connection with any financing, merger or acquisition transaction contemplated by Sino-Forest. Generally, the Advisors will be entitled to fees in respect of financing, merger or acquisition transactions that are customary in the financial services industry.

The Advisors will contribute equally in providing the services to Sino-Forest required under the Fiscal Agency Agreement and to share all fees earned thereunder on a 50/50 basis.

Investors' Relations Agreement

At the closing of the Acquisition, Sino-Forest will enter into an agreement (the "Investors' Relations Agreement") under which CanAsia will be appointed as consultant to Sino-Forest for a term of 12 months to be renewed automatically for further 12 month terms unless either party elects to cancel this agreement by providing 90 days' written notice.

During the term thereof, CanAsia will provide investor relations and related consulting advice to Sino-Forest. CanAsia will assist Sino-Forest in handling communications with the investment community.

For its services to be provided thereunder, CanAsia will be provided a fee of \$5,000 per month.

MT. KEARSARGE MINERALS INC.

History

Mt. Kearsarge was incorporated under the laws of Ontario by letters patent dated October 12, 1927, under the name, Rhyolite-Rouyn Mines, Limited. By articles of revival dated March 21, 1985, Mt. Kearsarge was revived. By articles of amendment dated July 31, 1985, the Company's name was changed to Deerfoot Resources Inc. By articles of

amendment dated December 14, 1989, Mt. Kearsarge's name was changed to Geneva Lake Minerals Corporation. By articles of amendment dated June 17, 1992, Mt. Kearsarge changed its name to its current form of name, "Mt. Kearsarge Minerals Inc."

The registered and principal office of Mt. Kearsarge is located at Suite 2004, 200 King Street West, Toronto, Ontario, M5H 3T4.

Business of Mt. Kearsarge

Mt. Kearsarge is a resource company previously involved in the exploration of minerals. The mining properties of Mt. Kearsarge consist of 100% interest in the mineral rights in 22 patented mining claims located in Hess Township, Ontario and a 100% interest in 25 unpatented mining claims located in Blakelock Township, Ontario. These assets have been assigned a nominal value.

Although the properties may have some merit as a gold exploration opportunity, there is presently no interest by financiers or potential joint venture partners. Accordingly, there are no foreseeable prospects of financing further exploration on these properties. If the Reorganization is approved, Mt. Kearsarge may sell its interest in its mineral properties.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the financial condition and results of operations of Mt. Kearsarge from January 1, 1992, to the date of this Information Circular. Audited financial statements of Mt. Kearsarge for the twelve months ended December 31, 1993 and 1992, together with the reports of the auditors thereon, are attached to this Proxy Circular as Schedule A.

Mt. Kearsarge has not engaged in any material operational activities over the past year, other than the administration of its mineral interests. Mt. Kearsarge's efforts to secure a joint venture on the Mt. Kearsarge gold property in Inyou County, California were abandoned, and associated advances of \$16,075 were written-off. The former management of Mt. Kearsarge has completed a critical review of its Hess Township and Blakelock Township mineral properties and has written them down to a value of \$2.00.

The operating losses which Mt. Kearsarge has incurred in prior years relate to mineral property writedowns, and administrative and general expenses.

Share and Loan Capital

<u>Designation of Securities</u>	<u>Number Authorized</u>	<u>Outstanding as at December 31, 1993 and the date hereof</u>
Common Shares	unlimited	30,000,000 shs. (\$1,999,838)

As December 31, 1993, Mt. Kearsarge had no significant debt and a deficit of \$1,823,500.

Public Market

Mt. Kearsarge is a reporting issuer in Ontario, and trading in its common shares is quoted on the Canadian Dealing Network, Toronto, Ontario, under the trading symbol, "MKMN". The common shares of Mt. Kearsarge have not traded in the past year except for the following trades:

<u>Date of Trade</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Volume</u>
January, 1993	.10	.10	.10	500
February, 1993	.10	.10	.10	1,700
March, 1993	.10	.10	.10	2,500
April, 1993	.10	.10	.10	6,000
May, 1993	.10	.10	.10	7,000
June, 1993	.10	.10	.10	2,700
July, 1993	.10	.10	.10	3,500
September, 1993	.10	.10	.10	3,000
October, 1993	.05	.05	.05	5,000
December 1993	.10	.10	.10	7,000

Trading of the common shares of Mt. Kearsarge has been halted on the Canadian Dealing Network in accordance with its policies until the Annual and Special Meeting.

Prior Sales

20,742,773 common shares were issued on December 31, 1993 by the previous directors of Mt. Kearsarge to affiliates of the current directors of Mt. Kearsarge for the purpose of providing Mt. Kearsarge with working capital. Except as aforementioned, no other common shares have been issued by Mt. Kearsarge within the past 12 months.

Escrowed Shares

No securities of Mt. Kearsarge are subject to escrow or similar restrictions, other than 750,000 common shares subject to escrow pursuant to an escrow agreement dated January 2, 1990, among Mt. Kearsarge, The R-M Trust Company and Bruce M. Young, the former President. Application has been made to release all of these shares from escrow.

Transfer Agent and Registrar

The transfer agent and registrar for Mt. Kearsarge is The R-M Trust Company, 393 University Ave., 5th Floor, Toronto, Ontario, M5G 1E6. The transfer fee for transfers of common shares is \$3.00 per certificate.

THE ACQUISITION

General

Under the Acquisition Agreement the shareholders of Sino-Wood (the "Sellers") have agreed to sell to Sino-Forest all of the issued and outstanding shares of Sino-Wood in consideration for the issue to the Sellers of 16,200,000 Class A Subordinate-Voting Shares, 6,000,000 Series A Preference Shares and 8,100,000 Class B Share Purchase Warrants at a closing to be held on March 17, 1994. The transactions provided for in the Acquisition Agreement are subject to the conditions set out therein, including the completion of the Private Placements by Ontco, the approval by shareholders of Mt. Kearsarge and Ontco of the Amalgamation Agreement and the Acquisition Agreement and obtaining approval of PRC governmental authorities of certain amendments to the Joint Venture Documents (See "Sino-Wood Partners, Limited - Description of Joint Ventures").

Under the Acquisition Agreement the parties thereto have agreed that for as long as CanAsia and/or associates and affiliates of CanAsia collectively own more than 5% of the Class A Subordinate-Voting Shares of Sino-Forest, they will use their respective reasonable best efforts to cause a board of directors of Sino-Forest to be composed of at least five members, of which (i) two or more will be nominees of the holders of the Series A Preference Shares and/or Class B Multiple-Voting Shares, (ii) one will be a nominee of CanAsia who will also serve as chairman of the audit committee and (iii) at least one additional nominee of management who will be a person who is independent of management.

Escrow Agreement

The 16,200,000 Class A Subordinate-Voting Shares and the 6,000,000 Series A Preference Shares of Sino-Forest to be issued to the Sellers under the Acquisition Agreement, will be

deposited with Equity Transfer Services Inc., as escrow agent, pursuant to the terms to an escrow agreement (the "Escrow Agreement") to be executed at closing.

Under the Escrow Agreement, 20% of the shares deposited hereunder shall be released from the terms of this escrow automatically on each of the first five anniversary dates of the closing of the Acquisition.

Option Agreement

At the closing of the Acquisition, the Sellers, CanAsia, Equity Transfer Services Inc. and Sino-Forest will enter into an agreement (the "Option Agreement") under which the Sellers will grant to CanAsia an option to buy 600,000 Series A Preference Shares (the "Optioned Shares") for a period from the date of the Option Agreement until March 31, 1996 for a total price of \$100. The Optioned Shares will be subject to the Escrow Agreement.

DESCRIPTION OF SINO-WOOD PARTNERS, LIMITED

The information under this section has been provided to Mt. Kearsarge by Sino-Wood Partners, Limited for inclusion in this Proxy Circular.

THE PRC FORESTRY INDUSTRY

The following description of the PRC Forestry industry was prepared, without independent verification, by a general review of various published materials dealing with the forestry industry in the PRC.

Forest Resources

As a result of a lack of planned forestation, coupled with population growth, forest resources in China declined to a low level in 1949. By 1949, it was estimated that forest land in China declined to less than 100 million hectares and constituted less than 10% of total land area of China.

Since 1949, the PRC government embarked on massive plantation programs by mobilizing its large rural population. In 1989, forest land in the PRC comprised about 128 million hectares, which ranked sixth in the world. By 1991, forest land in the PRC had increased to about 13% of total land area of the PRC but, as shown below, forest cover of the PRC was still among the world's lowest in 1991.

World Forest in 1991

	Forest Area (Million hectares)	Forest Cover (Percentage)
CIS	740	33
Brazil	518	61
Canada	264	28
US	226	24
Zaire	178	78
China	128	13
Indonesia	119	65
Peru	71	55
Angola	53	43
Columbia	52	49

Source: China Forestry Yearbook 1991

Forests in the PRC are located primarily in three regions: northeastern, southwestern and southern China. Natural forests are found mostly in northeastern China, where the trees are primarily coniferous softwoods. Plantations are found mostly in southwestern and southern China, where the trees are primarily broad-leaved hardwoods.

As shown below, the PRC's massive plantation effort in 1990 was the most significant in the world in terms of both total plantation area and annual plantation rate.

World Forest Plantation

	Annual Plantation Rate (Million hectares per annum)	Total Plantation (Million hectares)
China	4.8	28
USA	1.8	10
CIS	1.3	22
India	0.4	2
Brazil	0.3	5
Indonesia	0.2	2
Japan	0.2	10

Source: Global Forest Resources, Alexander Mather, 1990

Forestry Production

The forestry production industry in the PRC has been subject to a high degree of central planning. Accordingly, wood prices were kept artificially low, without adequate differentials for species, quality, or dimension. Low prices weakened incentives for consumers to use wood efficiently and led producers to ignore customer needs.

Investments in the PRC forestry production industry has been neglected by the state and foreign investors. Profit remissions and tax payments by state forest enterprises to the central government treasury exceeded state investment in the industry.

Foreign investment in the forestry industry has been low relative to other industries, because the majority of forest resources is located in remote and inland regions. In addition, foreign companies were not encouraged to participate in the forestry industry until recently.

In recent years several forestry production joint ventures were announced. However, these joint ventures involve primarily technology transfer and focus on coastal regions, notably Guangdong and Fujian Provinces.

The PRC is a net importer of paper and board products. As shown below, in 1991 the PRC imported about 40% of its wood pulp consumption.

	Production	Import	Export
Plywood (1000 cubic meters)	1,567	1,942	256
Particle Board (1000 cubic meters)	657	123	1
Fibreboard (1000 cubic meters)	1,094	N/A	N/A
Wood Pulp (1000 tonnes)	1,744	1,184	76
Paper & Board (1000 tonnes)	18,534	1,808	734
Forest Products (US\$ Million)		3,904	829

Source: United Nations FAO, Forest Products Yearbook, 1991

Demand for Forest Products

As a result of a lack of quality products and a shortage of supply, the PRC's per capita consumption of forest products is low relative to developed countries.

Cubic Meters	China	Japan
Fuelwood	0.16	0.01
Sawlogs	0.06	0.36
Pulpwood	0.008	0.304
All Roundwood	0.23	0.67

Source: United Nations FAO, Forest Products Yearbook, 1991

However, the demand for forest products is projected to grow significantly in the PRC in the 1990s due to the following factors:

- There is a strong correlation between GNP growth and paper and board products consumption. GNP of the PRC has grown at a compound rate of 9.4% from 1980-1991, and is expected to grow at a high rate in the 1990s.
- A rising standard of living will result in increasing consumption of paper and board products. Accordingly, per capita consumption is projected to increase.
- Only about one-third of China's pulp fibre is wood, the remainder is low-quality wood substitutes such as straw. As China will continue to demand higher-quality forest products, demand for wood is expected to increase.

Regulatory Framework

The central governing authority in the PRC for the forestry industry is the Ministry of Forestry, which is under the jurisdiction of the State Council. The governing legislation is the Forestry Law which was officially promulgated by the People's Congress in 1984 to take effect on January 1, 1985.

The Ministry of Forestry issues annual policy pertaining to harvesting quotas and production targets. Provincial, city and town forestry authorities implement the policies of the Ministry of Forestry and supervise the day-to-day operations. Other than the Ministry of Forestry, other ministries also have certain responsibilities for the management of forests and plantations, such as the Ministries of Water Conservation, Land Reclamation, Railway and Light Industry.

The World Bank in the PRC

In 1989, the PRC launched the National Afforestation Project, which was supported in part by the World Bank. The project sets a comprehensive list of targets for the PRC forestry

industry to be achieved by the year 2000. Two of the project's important targets were (1) to achieve plantation area of 4.8 million hectares per annum; and (2) to increase forest cover from 13% to 17%.

Prior to 1990, the World Bank's support for forestry projects in the PRC was comparatively small. However, in 1990, the World Bank provided loans amounting to US\$300 million in support of the National Afforestation Project. The World Bank expects to provide loans of about US\$747 million to various projects in China in the near term.

**World Bank Lending for the PRC
Forestry Projects**

	<u>US\$ million</u>
1985	47
1987	40
1988	57
1990	300
1993/95F	747

Source: World Bank

PRC LAWS ON CHINESE-FOREIGN EQUITY JOINT VENTURES

I. Overview

Joint ventures in PRC between Chinese and foreign parties take two basic forms: equity joint ventures and co-operative joint ventures, the former governed by the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures, its Implementing Regulations, and other related rules, regulations and administrative orders (collectively the "Joint Venture Law") and the latter by the Law of the People's Republic of China on Chinese-Foreign Cooperative Joint Ventures.

The establishment of a joint venture by a foreign party in the PRC, whether an equity joint venture or a cooperative joint venture, as well as the contents of its constituting documents, must be approved by the Ministry of Foreign Trade and Economic Cooperation ("MOFTEC"), or its local counterpart in the applicable province or city. The constituting documents of a joint venture are the joint venture contract and its articles of association. All joint venture constituting documents must be governed by PRC laws. A joint venture must also obtain a business licence from the local office of the State Administration of Industries and Commerce before it can commence its business.

2. Chinese-Foreign Equity Joint Ventures

The following discussion relates only to PRC laws on equity joint ventures.

(a) **Capital Contribution**

An equity joint venture in the PRC is an independent legal entity having the form of a limited liability company. It is a "legal person" under PRC laws and has the right to own, use and dispose of property rights. The parties to the equity joint venture agree to share profits, risks and losses in the same proportion as their respective capital contributions to the equity joint venture. The operations of equity joint ventures are subject to an extensive body of law governing such matters as registration, capital, profit distributions, accounting, taxation, foreign exchange, and labour management.

In the constituting documents, an equity joint venture must specify a total investment, which limits the scale of its development, and a registered capital which must be contributed by the parties to the equity joint venture. The Joint Venture Law prescribes ratios between the amount of registered capital and the amount of total investment: where the amount of total investment is US\$3 million or below, the registered capital shall not be less than 70% of the total investment; and where the registered capital is between US\$3 million and US\$10 million, the amount of registered capital shall not be less than one-half of the total investment (in the event that the total investment is less than US\$4.2 million, the registered capital shall not be less than US\$2.1 million) and where the total investment is between US\$10 million and US\$30 million, the amount of the registered capital shall not be less than 40% of the total investment (in the event that the total investment is less than US\$12.5 million, the registered capital shall not be less than US\$5 million). The difference between the registered capital and total investment may be obtained through outside financing or other legal mechanisms.

The liability of a joint venture party to the equity joint venture is limited to the amount of registered capital it has agreed to contribute under the joint venture contract. The registered capital must be fully paid in accordance with the terms of the joint venture contract, and payment may take the form of cash, land, equipment or technology. The proportion of the registered capital subscribed for by the foreign party to an equity joint venture must not be less than 25%.

Each joint venture party must contribute an amount of capital to the joint venture equal to the portion of the registered capital for which it subscribed strictly in the manner and within the time limitation specified in the joint venture contract. Once a capital contribution has been made by a joint venture party and verified by a PRC registered accountant, the equity joint venture shall issue a capital contribution certificate to the contributing party specifying, among other matters, the amount and date of the contribution and the party making the contribution. Where the joint venture contract stipulates that the capital contribution is to be

made in one payment, the payment is required by law to be made within six months of the date of issuance of the business licence. Where payment of the capital contribution by instalments is permitted by the joint venture contract, the first instalment is required by law to be made in an amount not less than 15% of the party's total subscription of the registered capital and within three months of the date of issuance of the business licence. In the event a joint venture party fails to meet the aforesaid statutory requirements within the periods specified by law, the equity joint venture shall by law automatically cease to be effective. Where the joint venture parties have met their obligations to make the first instalment of capital contribution but have failed to meet the deadlines for subsequent contributions for over three months after a contribution is due, relevant government authorities shall issue notices demanding that the joint venture parties make the full capital contribution within one month. If the joint venture parties fail to comply with the demand, the government authority has the right to revoke the approval certificate of the equity joint venture, thereby forcing the equity joint venture to undergo winding-up proceedings.

As between the joint venture parties, in the event one party is in default of its obligation to make capital contribution, the Joint Venture Law permits the non-defaulting party to demand compliance within one month, and failing compliance by the defaulting party, it shall be deemed to have forfeited all its rights in the equity joint venture and voluntarily withdrawn from the equity joint venture.

(b) Shareholder Control

The Joint Venture Law does not provide for meetings of the joint venture parties nor for specific rights and powers of a joint venture party against the equity joint venture. The Joint Venture Law does not impose on the directors of an equity joint venture a fiduciary duty to the equity joint venture or to the joint venture parties as a whole. Directors appointed by a joint venture party are expected to represent the interests of that joint venture party in the operation of the business of the equity joint venture. The board of directors exercises authority over all major corporate decisions of an equity joint venture including the appointment of officers, strategic planning and budgeting, employee compensation and welfare, distribution of after tax profits and dissolution. The day-to-day management of an equity joint venture is conducted by a management group headed by a general manager who is required to act in accordance with the directions and guidance of the board of directors. The Joint Venture Law stipulates that certain matters (amendment to the articles of association, termination and dissolution of the equity joint venture, increase or transfer of registered capital, merger) must have the unanimous approval of the directors present in a directors meeting. Quorum for a board meeting is set at two-thirds of all board members.

(c) Profit Distribution

The Joint Venture Law provides that after payment of taxes, an equity joint venture must contribute to three reserve funds for enterprise expansion, employee welfare and bonuses and a general reserve, before profits of the equity joint venture may be distributed to the joint

venture parties. The amount of after tax profits allocated to the three funds is determined at the discretion of the board of directors of the equity joint venture. Profits of an equity joint venture, when distributed, must be distributed to the joint venture parties according to the ratio of the amounts of the registered capital to which they subscribed.

(d) Termination

Pursuant to the Joint Venture Law, an equity joint venture may be liquidated or terminated in certain circumstances, including expiration of the joint venture term, inability of the equity joint venture to conduct its business owing to heavy losses, a breach by or insolvency of one of its parties, force majeure and confiscation of the equity joint venture's assets by the PRC government. Upon termination, the board of directors is required to establish a liquidation committee to dissolve the equity joint venture, which dissolution is subject to the review and approval by MOFTEC.

Liquidation procedures for equity joint ventures are not well-developed in the PRC, and there has been little precedent on how liquidation procedures work in practice. Generally after satisfaction of its debts, all of an equity joint venture's remaining assets are to be distributed to the joint venture parties in accordance with the ratio of their contributions to the registered capital, unless otherwise specified in the joint venture contract.

3. Taxation

The major PRC taxes applicable on the net income of an equity joint venture are summarised below.

(a) Income Tax for Equity Joint Ventures

Since the promulgation of the Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and its Implementation Rules in 1991 (the "Income Tax Law"), the income tax rate for equity joint ventures has become uniform.

The standard income tax rate for equity joint ventures is thirty-three per cent (33%) comprising a national income tax of thirty per cent (30%) and a local surtax of three per cent (3%). All equity joint ventures established in the five special economic zones of the PRC are entitled to a reduced national income tax rate of fifteen per cent (15%). Reduced income tax rates are also available to, amongst others, equity joint ventures of a production nature and located in one of the designated "open economic zones" in the coastal regions of the PRC or "economic and technological development zones". The three per cent (3%) local surtax may be reduced or waived by the local government of the place in which the equity joint venture is located.

Equity joint ventures of a productive nature with terms of at least ten years are exempt from income tax for their first two profit-making years and are entitled to a 50% reduction of the otherwise applicable income tax rate during the next three years. The 50% tax reduction is extended further for equity joint ventures of a productive nature if they employ advanced technology or export 70% or more of their products. It should be noted that none of the Jiangxi Joint Ventures is located in a special economic zone, an open economic zone, or an economic and technological development zone.

(b) Taxation of Profits distributed by Equity Joint Ventures

PRC tax law also provides that no income tax will be chargeable on the share of profits the foreign joint venture party receives from an equity joint venture. Previously a 10% withholding tax was levied on such profits when remitted overseas, except in respect of profits derived from certain types of joint ventures and joint ventures located in the special economic zones and certain other areas.

SINO-WOOD PARTNERS, LIMITED

Sino-Wood was incorporated as a limited company under the Companies Ordinance of Hong Kong on September 24, 1992 under the name of Perfect Trend Investment Limited. During May, 1993, Sino-Wood changed its name to Leadership Resources Centre Limited, and during August, 1993, Sino-Wood adopted its current name. The objectives of Sino-Wood as stated in its memorandum of association permit Sino-Wood to undertake, among others, the manufacture, sales and distribution of timber products, forestry products and chemical products and acquisition of timber and forestry estates as well as interests in real estate.

The authorized share capital of Sino-Wood is HK\$10,000.00, made up of 10,000 common shares each having a par value of HK\$1.00, all of which have been issued, outstanding, and fully paid up. ADS Holdings (BVI) Ltd., Natural Forest Limited, Forest Investment Partners Ltd. and Well Conduct Corporation own 37.5%, 37.5%, 20% and 5%, respectively, of the issued common shares of Sino-Wood. These companies were incorporated under the laws of the British Virgin Islands. ADS Holdings (BVI) Ltd. is controlled by Mr. Tak Yuen Chan and Ms. Wai Ling Chan; Natural Forest Limited is controlled by Mr. Kai Kit Poon; Forest Investment Partners Ltd. is controlled by Wai Tak Cheung; and Well Conduct Corporation is controlled by Mr. Michael Cheng.

Joint Ventures

Sino-Wood has executed six agreements to acquire interests varying between 53% and 55% in six Chinese foreign equity joint ventures in Guangdong and Jiangxi Provinces (the "Joint Venture" or "Joint Ventures"). Please refer to the organizational chart and map on the inside cover of this document.

The Joint Ventures were established during December, 1993 and January, 1994 and commenced business as of January 1, 1994; all are engaged in forest products businesses.

In connection with the establishment of the Joint Ventures certain approved assets are to be transferred from the PRC joint venture parties to the Joint Ventures. No debt obligations are to be assumed by the Joint Ventures.

Sino-Wood's contribution to the Joint Ventures will be capital contribution in the form of cash payments as described below under "Description of Joint Ventures". The operations to be acquired by the Leizhou Joint Venture contributed approximately 73%, 70%, 62% of the revenues and a substantial portion of the profits of the combined operations to be acquired by the Joint Ventures for the years 1993, 1992 and 1991, respectively.

Financial Results

Attached as Schedule F to this Information Circular are the pro-forma combined statements of operating income of the Joint Ventures for each of the years in the three year period ended December 31, 1993.

Description of Joint Ventures

In September 1993, Sino-Wood executed five sets of Joint Venture Documents, each consisting of a joint venture contract and articles of association, with various PRC enterprises in Jiangxi Province and with Jiangxi Provincial Forestry Economic and Technology Company to form five Chinese-foreign equity joint ventures (the "Jiangxi Joint Ventures") in Jiangxi Province, the PRC. On December 8, 1993, Sino-Wood executed a similar set of Joint Venture Documents with State-owned Leizhou Forestry Bureau to form a Chinese-foreign equity joint venture (the "Leizhou Joint Venture") in Leizhou, Guangdong Province. The Jiangxi Joint Ventures and the Leizhou Joint Venture are herein collectively referred to as the Joint Ventures, and individually a Joint Venture.

In February, 1994, the parties to the Joint Ventures executed six "Memorandum on Implementation of Joint Venture Documents" (collectively the "Amending Memoranda" or singly an "Amending Memorandum") to clarify certain matters in the Joint Venture Documents and to record the parties' agreement to amend the Joint Venture Documents pending government approval.

The Joint Venture Documents and the Amending Memoranda are governed by the laws of the PRC, and the Joint Ventures are formed under the Joint Venture Law. The governing language for the Joint Venture Documents is Chinese. The Joint Venture Documents have been approved by appropriate government authorities and business licences for the Joint Ventures have been issued on various dates. Under the Joint Venture Law, a Chinese-

foreign equity joint venture is formally established from the date of the issuance of the business licence. To streamline the financial and accounting practices for the Joint Ventures and the parties thereto, the parties have by the Amending Memoranda agreed that businesses of the Joint Ventures shall commence on January 1, 1994 notwithstanding their various dates of establishment. Under the Joint Venture Documents, Sino-Wood is responsible for, among other things, providing guidance and training in the implementation within the Joint Ventures of ISO-9000 management standards, supplying the Joint Ventures with international product and market information, assisting in export sales and marketing and in foreign purchases, training of senior management and technical personnel, and other matters.

In the Joint Venture Documents, the parties agreed to contribute to the Joint Ventures the full amount of the combined total investment, namely US\$77,080,000. If the contractual obligations under the Joint Venture Documents are not amended as provided in the Amending Memoranda, Sino-Wood will have a contractual obligation to make total capital contribution to the Joint Venture, in cash, in the amount of US\$41,894,000, of which US\$3,960,000 must be made as the first instalment of Sino-Wood's contribution to the Joint Ventures, and US\$25,684,000 is due in various segments on various dates in December 1994, and January 1995, and US\$12,250,000 due on or before January 28, 1996. Similarly the PRC parties have contractual obligations to make total capital contribution to the Joint Ventures by cash or assets contribution or both in the amount of US\$35,186,000, of which US\$9,589,000 must be made as the first instalment of their capital contribution to the Joint Ventures, and the amount of US\$16,337,000 is due in various segments on various dates in December 1994 and January, 1995, and US\$9,260,000 due on or before January 28, 1996. Under the Amending Memoranda, all parties to the Joint Ventures have agreed to apply to the original government approval authorities to amend the Joint Venture Documents and the original approval documents to limit their respective capital contributions to the Joint Ventures to the registered capital of the Joint Venture Law, and further, to extend the deadline for contributing the entire registered capital to the end of December 1995. Management of Sino-Wood advised that the applications to achieve the above amendments have been commenced by the PRC joint venture parties and they have received indications that the applications will receive positive consideration. If the applications to amend the Joint Venture Documents are approved without variation, Sino-Wood's contractual obligation to make further capital contribution to the Joint Ventures after the first instalment will be reduced to US\$18,280,000, and similarly the PRC parties' contractual obligations to make further capital contribution to the Joint Ventures will be reduced to US\$8,971,000, both to be made before the end of December 1995. In calculating the total amount due from each party to the Joint Ventures as its first instalment of capital contributions, the amount payable under a Joint Venture by a party is taken to be the higher of the amount specified in the Joint Venture Documents of the Joint Venture and the amount required by the Joint Venture Law.

It is a condition precedent to the completion of acquisition of Sino-Wood that all approvals from relevant government authorities have been obtained prior to closing to amend the Joint Venture Documents of the Joint Ventures to (i) limit the joint venture parties' obligations thereunder in respect of capital contribution to the respective

amounts of registered capitals for which they each subscribed and (ii) postpone the deadline for making the balance of their respective capital contributions to two years from the respective issuance dates of the business licences.

Accordingly, information set out below with respect to the joint ventures gives effect to such amendments, including the reduction of the required capital contribution to be made by the joint venture parties.

Under the Joint Venture Documents, the PRC partners have agreed to transfer to the Joint Ventures principally their existing assets and businesses with small quantities of cash as their respective capital contributions to the Joint Ventures while Sino-Wood is to contribute cash in US dollars for its capital contributions to the Joint Ventures.

Valuation of the assets to be contributed by the PRC parties to the Joint Ventures is prepared by approved PRC registered accountants, agreed to by the parties to the Joint Ventures and approved by the State-owned Assets Administration Bureau. In the valuation, the tangible assets (including cash) of the PRC parties to be transferred to the Joint Ventures have been attributed with a value. Intangible assets such as existing contracts, goodwill and intellectual property rights of the PRC parties that are to be transferred have not been assigned a value.

Each of the Joint Ventures is governed by a board of directors which is the highest management body for the Joint Venture. On four of the boards of directors, Sino-Wood has the right to appoint one half of the board members and on the remaining two boards of directors, Sino-Wood has the power to appoint a simple majority of board members. Quorum for board meetings is two-thirds of all directors and various types of majority votes are required for board resolutions on significant matters touching upon the Joint Ventures.

At the operation level, each of the Joint Ventures has a general manager who is in charge of the entire operation of the Joint Venture. The general manager reports and is answerable directly to the board. The general manager is assisted by one or more deputy general managers. Under the Joint Venture Documents, the general manager and deputy general managers are appointed and removable by the board, and in four cases nominated by the PRC parties for approval by the board.

Under the Joint Venture Law, an equity joint venture must state in its constituting documents a definite duration not exceeding 70 years. In the Joint Ventures, five have a term of thirty years and one has a term of fifty years. Prior to the end of the joint venture term, parties to a Joint Venture may by agreement and unanimous board resolution apply to relevant government authorities for extension of the joint venture term. In the event the term of the Joint Venture is not extended, a liquidation committee is to be established in accordance with the Joint Venture Documents and the Joint Venture Law to liquidate the Joint Venture. The Joint Venture Law requires that all liabilities of an equity joint venture in liquidation should first be discharged and thereafter the net assets of the equity joint venture are to be distributed amongst the parties to the equity joint venture in accordance with the ratio of their

respective capital contributions. However, each of the Leizhou Joint Venture and Jiangxi Ningdu Joint Venture, by contractual agreement, stipulates that only moveable assets of the Joint Ventures will be distributed amongst the parties to the Joint Venture; as well in the Jiangxi Acacia Joint Venture, upon winding up, a PRC party will be given the right to use the trademarks previously belonging to the Joint Venture and to manufacture the same type of products as previously manufactured by the Joint Venture.

The following is a brief summary of each of the Joint Ventures:

1. Leizhou Joint Venture

Zhanjiang Leizhou Eucalypt Resources Development Company Limited (the "Leizhou Joint Venture") is owned 53% by Sino-Wood and 47% by State-owned Leizhou Forestry Bureau (the "Bureau"). The Bureau is a district forestry bureau of the forestry bureau of Guangdong Province and is located in the southern-most part of Guangdong Province.

Eucalypt is an important hardwood resource for the production of paper and board products. The PRC is second to Brazil in terms of land under plantation for eucalypt trees. Due to the climate requirements, most of the PRC's eucalypt plantation is located in southern PRC, which is on a latitude equivalent to Cuba.

Established in 1954, the Bureau operates a 53,000 hectares eucalypt tree plantation, wood chip processing facilities and manufactures related products.

The Bureau engages in extensive research and development in the prorogation and growing of eucalypt trees. This work has resulted in the opinion of the Bureau in achieving a high yield of tree prorogation (15-25 cubic meters per hectare per annum) and a short growth cycle (five to six years).

Under the Joint Venture Documents, as amended, the following assets, having an agreed value of US\$2.49 million, are to be transferred to the Leizhou Joint Venture by the Bureau as the first instalment of its capital contribution:

- about 3,500 hectares (or 190,345 cubic meters) of eucalypt plantation; and
- wood chip processing facilities with an annual capacity of 100,000 tonnes.

Additional capital contributions up to the Bureau's full obligation under the joint venture contract of US\$4.7 million will be made within two years from the date of the business licence and by injection of additional plantation and processing facilities.

Sino-Wood has agreed to make a total capital contribution of US\$5.3 million to the Leizhou Joint Venture, of which the first instalment of US\$1.0 million is to be made on or before April 28, 1994 and the balance before January 28, 1996.

The Bureau has agreed to make available to the Leizhou Joint Venture the eucalypt tree proration technology.

The Bureau has wood chip sales contracts with two Japanese, one Taiwanese and one Hong Kong customers. One of these contracts (representing 50% of the total contracts) will be expiring in 1995. The other three contracts are subject to annual renewals. One of the Japanese customers has invested in the materials handling facilities at the port of Zhanjiang to process these orders. The Bureau will transfer all orders received in 1994 and 1995 under existing export contracts to Sino-Wood. Management is confident that it will be able to take over the export contracts when they are due for renewal.

The following were the production and sales of the operations being transferred by the Bureau to the Leizhou Joint Venture:

	<u>Production (Tonnes)</u>	<u>Sales (Tonnes)</u>
1993	85,000	100,499 ⁽¹⁾
1992	68,130	55,672
1991	73,566	73,566
1990	70,000	70,143 ⁽¹⁾
1989	61,000	60,022
1988	62,423	41,423

(1) In addition to its own plantations, the Bureau buys wood from plantations operated by the nearby areas.

All of the above sales were exported. Under the Joint Venture Agreement, 50% of the production of the Leizhou Joint Venture is to be exported and 50% is to be sold domestically.

Currently, the wood chips are being sold at an average price of US\$70-90 per tonne, depending on quality and market conditions.

Although the Leizhou Joint Venture does not have a non-compete agreement with the Bureau, management believes that the Bureau will not engage in practices that are detrimental to the Joint Venture.

Subject to receipt of a favourable feasibility study, the Leizhou Joint Venture is required to establish a 50,000 tonnes per year medium density fibreboard ("MDF") facilities at a cost of approximately US\$25 million.

Under the Joint Venture Documents, the balance of the capital contribution by Sino-Wood is to be used toward the establishment of MDF facilities.

The Leizhou Joint Venture has approximately 200 employees.

2. Jiangxi Joint Ventures

Sino-Wood has entered into a memorandum of understanding dated August 10, 1993 (the "Jiangxi Memorandum") with Jiangxi Forestry Economic and Technology Development Company ("Jiangxi Technology") with a view to developing and improving Jiangxi Province's forestry industry by bringing in foreign capital, technology, management systems and marketing techniques. Jiangxi Technology is wholly-owned by and under the administration of Jiangxi Forestry Bureau.

The Jiangxi Memorandum provides Sino-Wood with access to information pertaining to the forestry operations controlled by Jiangxi Province. As part of this Memorandum, Sino-Wood has initially selected five state-owned enterprises for transfer into joint venture companies. A co-ordination office has been established in Nanchang, the capital of the province. This office, staffed by six forestry engineers, will continue to evaluate prospects and to monitor the performance of the Jiangxi Joint Ventures.

Sino-Wood has entered into letters of intent for the establishment of seven additional joint ventures in a similar structure to the Joint Ventures. All of these joint ventures will be located in Jiangxi Province. The majority of these joint ventures will be engaged in the manufacture of plywood and particle board. All are currently operating at a low utilization rate due in the opinion of the state enterprises to a shortage of working capital.

2a. Jiangxi Ganjia Joint Venture

Jiangxi Ganjia Wood Industrial Company Limited ("Jiangxi Ganjia Joint Venture") is owned 55% by Sino-Wood and 45% by Jiangxi Technology.

The operations acquired by Jiangxi Ganjia Joint Venture were established in 1993. The Jiangxi Ganjia Joint Venture operates an integrated plywood and particle board manufacturing facility in Jiangshu City.

Under the Joint Venture Documents, as amended, the following assets, which are valued at US\$1.895 million, are to be transferred to the Jiangxi Ganjia Joint Venture by Jiangxi Technology as the first instalment of its capital contribution:

- particle board mill of an annual capacity of 15,400 cubic meters; and
- supporting facilities.

Additional facilities will be injected by Jiangxi Technology to the Jiangxi Ganjia Joint Venture to fulfill its obligations in respect to capital contributions totalling US\$4.5 million.

Sino-Wood has agreed to make a total capital contribution of US\$5.5 million to the Jiangxi Ganjia Joint Venture, of which US\$825,000 is to be made by March 22, 1994 and the balance by December 22, 1995.

Except for the steam production facility, the plant was completed in 1993 using modern Chinese technology. The plant is at a start-up stage.

Management intends to market the particle board overseas and in the PRC and has agreed to export 70% of its production.

The Jiangxi Ganjia Joint Venture has approximately 120 employees.

2b. Jiangxi Camphor Joint Venture

Jiangxi Xuesong Forest and Chemical Industry Company Limited ("Jiangxi Camphor Joint Venture") is owned 55% by the Company, 35% by Jiangxi Camphor Factory and 10% by Jiangxi Technology.

Under the Joint Venture Documents, as amended, the assets and operations of Jiangxi Camphor Factory are to be transferred to the Jiangxi Camphor Joint Venture by Jiangxi Camphor Factory at an agreed value of US\$3,265,000 and cash in the amount of US\$150,000 is to be transferred to the Jiangxi Camphor Joint Venture by Jiangxi Technology as their respective capital contributions. Additional assets will be injected by both parties to the Jiangxi Camphor Joint Venture to fulfill their respective obligations in respect of capital contributions totalling US\$4.5 million. Sino-Wood has agreed to make a total capital contribution of US\$5.5 million to the Jiangxi Camphor Joint Venture, of which US\$825,000 is to be made by March 26, 1994 and the balance by December 26, 1995. Established in 1950, Jiangxi Camphor Factory operates an integrated camphor processing facility in Ji'an City.

The principal products produced by the Jiangxi Camphor Joint Venture are natural camphor, synthetic camphor, gulonic acid, iso-bornyl acetate and ambreone. The main products are derived from camphor trees, which are supplied to the factory by independent farmers.

Jiangxi Camphor Factory has a long history of manufacturing natural, synthetic camphor and iso-bornyl acetate. Camphor is used as ingredient of medicine and the preservation of materials. Iso-bornyl acetate is used as raw material for synthetic camphor and ingredients of fragrances and favouring agents. The production of gulonic acid, an intermediate component for the manufacture of vitamin C, and ambreone, an ingredient of fragrances, are new products added in 1993.

In the opinion of management, Jiangxi Camphor Factory is operating at approximately 20% - 30% capacity due to a shortage of working capital.

Jiangxi Camphor Factory has received numerous awards for its quality and production. The majority of its products are exported.

The Jiangxi Camphor Joint Venture has approximately 900 employees.

2c. Jiangxi Acacia Joint Venture

Jiangxi Ganzhou Pencheng Chemical Industry Company Limited ("Jiangxi Acacia Joint Venture") is owned 55% by the Company, 35% by Gannan Acacia Gum Factory and 10% by Jiangxi Technology.

Under the Joint Venture Documents, as amended, the assets and operations of the Gannan Acacia Gum Factory are to be transferred to the Jiangxi Acacia Joint Venture by Gannan Acacia Gum Factory at an agreed value of US\$453,000 and cash in the amount of US\$45,000 is to be transferred to the Jiangxi Acacia Joint Venture by Jiangxi Technology as their respective capital contributions. Additional assets are to be injected by both parties to fulfill their respective obligations in respect of capital contributions totalling US\$1.35 million. Established in 1989, Gannan Acacia Gum Factory manufactures acacia gum from acacia trees and in 1994 will commence production of caffeine from tea leaves in Gannan City. It commenced production in August 1990.

Sino-Wood has agreed to make total capital contributions of US\$1.65 million to the Joint Venture, of which US\$600,000 is to be paid by March 23, 1994 and the balance by December 23, 1995.

The annual capacity of the Gannan Acacia Gum Factory is 1,000 tonnes for acacia gum (an essential component for the manufacture of leather) and 30 tonnes for caffeine. In the opinion of management, Gannan Acacia Gum Factory was operating at approximately 20% capacity due to a shortage of working capital and as a result suspended operations from January 1993 to November 1993. Operations were resumed in December 1993. Notwithstanding this curtailment Gannan Acacia Gum Factory was profitable in 1993.

The Jiangxi Acacia Joint Venture is dependent on the Ganzhou Forestry Bureau for the supply of acacia trees.

Gannan Acacia Gum Factory has received numerous awards for its quality and production.

The Jiangxi Acacia Joint Venture has approximately 90 employees.

2d. Jiangxi Ningdu Joint Venture

Jiangxi Chiugang Forest Products and Chemical Industry Company Limited ("Jiangxi Ningdu Joint Venture") is owned 55% by the Company, 35% by Jiangxi Province Ningdu County Chemical Factory ("Ningdu Chemical Factory") and 10% by Jiangxi Technology.

Under the Joint Venture Documents, as amended, the assets and operations of the Ningdu Chemical Factory are to be transferred to the Jiangxi Ningdu Joint Venture at an agreed value of US\$200,000 and cash in the amount of US\$57,000 is to be transferred to the Jiangxi Ningdu Joint Venture as their capital contributions. Additional assets are to be injected by both parties to fulfill their obligations in respect of capital contributions of US\$1.71 million. Sino-Wood has agreed to make a total capital contribution of US\$2.096 million to the Jiangxi Ningdu Joint Venture, of which US\$380,000 is to be made prior to March 20, 1994 and the balance by December 20, 1995. Established in 1956, Ningdu Chemical Factory manufactures rosin and turpentine oil from pine trees in Ningdu City.

Production for these products from pine oil is seasonal because pine oil can only be harvested at temperatures above 16°C. The management intends to introduce new products to dampen this seasonality.

The annual capacity of the Ningdu Chemical Factory is 5,000 tonnes for rosin and 1,200 tonnes for turpentine oil. In the opinion of management, the Ningdu Chemical Factory was operating at approximately 30% capacity due to a shortage of working capital. However, the factory is profitable at this utilization rate.

Ningdu Chemical Factory has supply arrangements with various parties for the supply of pine trees. It is anticipated that such supply arrangements will be taken over by the Jiangxi Ningdu Joint Venture.

The Ningdu Chemical Factory has approximately 235 employees.

2e. Jiangxi Dongyuan Joint Venture

Jiangxi Dongyuan Chemical Industry Company Limited ("Jiangxi Dongyuan Joint Venture") is owned 55% by Sino-Wood, 35% by Jiangxi Province Anyuan County Chemical Factory (the "Anyuan Chemical Factory"), and 10% by Jiangxi Technology.

Under the Joint Venture Documents, as amended, the assets and operations of the Anyuan Chemical Factory are to be transferred to the Jiangxi Dongyuan Joint Venture by the Anyuan Chemical Factory at an agreed value US\$974,000 and cash in the amount of US\$60,000 is to be transferred to the Jiangxi Dongyuan Joint Venture by Jiangxi Technology as their respective capital contributions. Additional assets are to be injected by Anyuan Chemical Factory and Jiangxi Technology to fulfill their respective obligations in respect of capital

contributions totalling US\$1.8 million. Sino-Wood has agreed to make total capital contributions of US\$2.2 million to the Jiangxi Dongyuan Joint Venture, of which US\$330,000 must be made by April 30, 1994 and the balance by January 30, 1996. Established in 1954, Anyuan Chemical Factory manufactures rosin and turpentine oil from pine trees in Anyuan City. Included in the assets to be transferred is a new production facility which has been built for the production of two related products, which will begin production in 1994.

Production for these products from pine oil is seasonal because pine oil can only be harvested at temperature above 16°C. The management intends to introduce new products to lessen this seasonality of production.

The annual capacity of the Anyuan Chemical Factory is 5,000 tonnes for rosin and 1,200 tonnes for turpentine oil. In the opinion of management, Anyuan Chemical Factory was operating at approximately 50% capacity due to a shortage of working capital. However, the factory is profitable at this utilization rate. The majority of its products is for export.

Anyuan Chemical Factory has supply arrangement with various parties for the supply of pine trees. It is anticipated that such supply arrangements will be assigned to the Jiangxi Dongyuan Joint Venture.

The Jiangxi Dongyuan Joint Venture has approximately 235 employees.

Pro Forma Consolidated Balance Sheet

Attached hereto as Schedule H is a compilation report and pro forma consolidated balance sheet of Sino-Wood as at December 31, 1993.

Management of Sino-Wood

Tak Yuen Chan, aged 42, is the Chairman of the Board of Directors and Chief Executive Officer of Sino-Wood. He has over 10 years of experience in structuring joint ventures in the PRC in the following industries: hotel, health care, oil and gas, real estate, restaurant and garment manufacturing. He served as a senior economic advisor to the Ministry of Foreign Economic Relations and Trade, PRC (now known as the Ministry of Foreign Trade and Economic Co-operation) from 1986-1988 for its investment banking activities. He graduated from Hong Kong Baptist College.

Kai Kit Poon, aged 53, is the President of the Company and a Director. He has over 31 years of experience in the PRC forestry industry. From 1962 to 1979, he was employed as a scaling engineer by Guangdong Forestry Bureau. From 1979, he has been engaged in the

trading and manufacture of forest products in the PRC and Hong Kong. Mr. Poon graduated from Guangzhou Chungnam Forestry University, Guandong, PRC in 1962.

Wai Ling Chan, is the Executive Director of the Company. She has over 10 years of general management experience with a multinational pharmaceutical company. Ms. Chan graduated with an undergraduate chemistry degree from West Liberty State College and a master chemistry degree from Ohio State University.

Wai Tak Cheung, aged 40, is Vice President of Finance of the Company. He is a Certified Public Accountant (California) and has over 10 years of experience in financial management. He graduated with an undergraduate computer science degree from Washington State University and an MBA degree from the University of California at Berkeley.

Sino-Wood's head office is located in Suite 2408, Sun Hung Kai Centre, Wanchai, Hong Kong, telephone (852) 827-6628.

Sino-Wood's operational head office is located in Hong Kong, which is responsible for providing: strategic direction, technology transfer, capital and financial control, marketing and sales support to the Joint Ventures, all of which will have their own board of directors, general managers and sales force for the PRC market.

Sino-Wood directs all export sales of the Joint Ventures, replacing state-owned export corporations.

Employee Relations

The Joint Ventures employed approximately 1,600 workers and 200 supervisors/managers as at January 1, 1994. Sino-Wood is currently in the process of reviewing the labour requirements of the Joint Ventures and will not necessarily maintain a similar number of employees in the future.

The Joint Ventures workers are paid on average approximately RMB 450 (Cdn\$70) per month, per person and the supervisors/managers RMB 800 (Cdn\$125) per month, per person.

The Ministry of Labour and other regulatory bodies in the PRC have issued guidelines pertaining to the treatment of employees employed by joint ventures. The current practices vary from locality to locality, but generally consist of the following:

- joint venture employees are to receive salaries of not less than 120% of that of state-owned companies;
- employee profit participation is encouraged;

- fringe benefits are the responsibility of the joint venture; and
- union activities are allowed.

Sino-Wood intends to follow these local practices, however, it has not outlined detailed conditions of employment with its employees. It expects to initiate a profit-sharing plan.

Management's Discussion and Analysis

1993 vs. 1992

Revenue increased 105% from RMB 58.1 million to RMB 119.2 million because of a 117% increase in revenues at Leizhou Forestry Bureau, a 73% increase in revenue at Jiangxi Camphor Factory, and a 168% increase in revenues at Anyuan Chemical Factory. Profit increased by 211% because of an increase in revenues.

1992 vs. 1991

Revenues decreased 25% from RMB 85.8 million to RMB 64.4 million because of a 42.7% decrease in revenues at Jiangxi Camphor Factory and a 54% decrease in revenues at Anyuan Chemical Factory, and a 13% decrease in revenues at Leizhou Forestry Bureau. The decrease in revenues was attributable to a lack of working capital. Profit decreased 36% because of a decrease in revenues.

Foreign Exchange Management

Sino-Wood intends to expand the sales of its products overseas generating revenues dominated in currencies other than RMB thereby reducing its exposure to any future devaluation of RMB. The management of Sino-Wood intends to establish mechanisms for foreign exchange management to maximize the benefits of its foreign exchange income.

RISK FACTORS

The shareholders of Mt. Kearsarge should be aware of certain risk factors associated with the underlying business of Sino-Wood.

Political Considerations. The PRC is a developing country and shares with other developing countries the characteristic of having a socio-political system that is prone to sudden and, to outsiders, unpredictable events and evolution. The policy for economic

reform in the PRC to change its economic system from a centrally-planned economy to a market-oriented economy with Chinese characteristics has been in place since 1978 and has been reaffirmed many times by the People's Congress of the PRC, the politburo of the Communist Party of the PRC, and the State Council. Though not without set-backs and hiatus, economic reform has had far reaching effects on the economic system of the PRC and has resulted in the PRC sustaining high economic growth for some fifteen years. Although there is little evidence to indicate any deviation from its existing economic policy, there is no guarantee that in the event of a major change of decision-makers at the most senior political level, the existing economic policy of the PRC will not be changed, or that the socio-political stability so crucial to the economic growth in the past decade will not suffer.

Economic Considerations. The PRC economy has undergone successive high growth rates in the past years (1993, 13%; 1992, 12.8%; 1979-91, 9.4%) resulting in the general concern that the economy may be overheating. PRC government figures indicate a growth rate of approximately 9% for 1994. As a result of concern over inflation, an "austerity" program was announced in mid-1993 by the PRC government to employ macro-economic measures in an attempt to dampen its economic growth to a more manageable level. The austerity program has caused bank credit to tighten and may have a dampening effect on the various expansion plans of the Joint Ventures.

General Agreement on Tariffs and Trade ("GATT"). Discussion has taken place during the past few years between PRC foreign trade officials and governing members of GATT to allow the PRC to resurrect its status as a member of GATT. In addition to the many political factors that would affect the outcome of the discussion, a major item under discussion is an overall reduction of PRC import tariffs on almost all imported goods and materials. PRC's successful entry to GATT will likely result in cheaper imported products and more competition in domestic markets for products of the Joint Ventures.

Most Favoured Nation/USA. The PRC has been accorded the most favoured nation ("MFN") status by the United States of America subject however to annual review and renewal. The MFN status confers on the PRC certain trade-related benefits in its export trade with the United States of America, mainly in the form of lower import tariffs for PRC goods entering the United States of America. The government of the United States of America has announced that the renewal of MFN status to the PRC will depend on, among other factors, an improvement in human rights conditions in the PRC, while the PRC government has consistently insisted that human rights issues should be dealt with independent of the trade relation of the two countries. The loss of MFN status, will not have a serious direct impact on the Joint Ventures as the United States of America is not a significant recipient of their products, but may have indirect impact on the Joint Ventures as the loss of MFN status will likely have a measurable negative effect on the overall economy of the PRC.

Legal System and Enforcement. From 1949 until the early eighties, the PRC had given little attention to the development of a comprehensive system of commercial laws and their enforcement. Adjudication and settlement of any commercial dispute, when one did arise, had been carried out mainly through non-judicial mediation or administrative orders. Since the implementation of the economic reform, the PRC government has promulgated legislation covering a wide range of commercial activities, particularly those involving foreign investors. Much of the new legislation remains tentative in nature, vague and general. Interpretation of newly enacted legislation may vary from region to region and from government department to department. As well, adjudication of significant commercial disputes is new to the PRC judicial system and its judiciary will need time to refine its role in commercial disputes, particularly those involving foreign parties and state-related enterprises. The development by the PRC in the area of commercial law and enforcement during the past fifteen years, however, has increased significantly legal protection accorded to foreign investors in the PRC.

Environmental Considerations. The Environmental Protection Law of the PRC was adopted by the Standing Committee of the People's Congress of the PRC on December 26, 1989. Under the Environmental Protection Law, the division in the State Council responsible for environmental protection has the power to set national environmental quality standards and environmental protection agencies of lower levels of government have power to set local standards to supplement the national standards in areas where the national standards are silent. Due to the very short history of the Environmental Protection Law, national and local environmental protection standards are still in the process of being formulated, experimented and implemented. The management of the PRC joint venture parties has advised Sino-Wood that the Joint Ventures have no outstanding notices, orders or directives from central or local environmental protection agencies or local government authorities alleging any breach of national or local environmental quality standards by the Joint Ventures, and the Joint Ventures have complied with all existing environmental protection laws, regulations, administrative orders and standards. Given the nature of their businesses, there is a real possibility that the Joint Ventures will have to meet higher environmental quality standards as the economy of the PRC and its level of environmental consciousness increase in the coming years.

Product Liabilities. The products of the Joint Ventures are manufactured in accordance with "National Standards" of the PRC or quality standards set by relevant government ministries. All products of the Joint Ventures are inspected by and carry inspection certificates of the National Products Inspection Bureau. Where a consumer's complaint against the quality of a product is justified, the Joint Venture manufacturing the product must bear legal and economic liabilities. None of the Joint Ventures carries any product liability insurance and no assurance can be given that the Joint Ventures will not be opened to product liability claims in the future.

Industrial Risk. Timber, forestry and chemical products manufactured by the Joint Ventures carry a higher degree of fire and explosion hazards. All Joint Ventures carry fire insurance and have paid particular attention to fire prevention and safety in their daily production. Two of the Joint Ventures have on-the-site fire department with fire trucks and other fire safety facilities. Sino-Wood has engaged a professional insurance broker as consultant to review their insurance requirement and to secure sufficient insurance coverage.

Failure to make Capital Contribution. The Joint Venture Law stipulates that the first instalment of the capital contribution by a joint venture party shall not be less than 15% of the portion of the registered capital subscribed to by the joint venture party and must be made within three months of the issuance date of the business licence of the equity joint venture. In the event of a breach of the statutory requirement, the equity joint venture shall automatically cease to exist and all prior approvals are automatically revoked. The first of the business licences for the Joint Ventures has an issuance date of December 20, 1993 and the deadline for making the first instalment capital contribution for the Joint Venture is on or before March 20, 1994. Though it has not been known that any equity joint venture has been terminated by government authorities as a result solely of minor delay in meeting time limitation on capital contribution, the statutory requirement remains a significant and immediate risk.

Where joint venture parties have met their obligations on payment of the first instalment on capital contribution, the Joint Venture Law provides that where a joint venture party fails to meet its subsequent obligation to make capital contribution three months after it becomes due, relevant government authorities shall issue a notice to the joint venture parties demanding that all capital contribution be made within one month. Failure to comply with the demand will give government authorities right to revoke the business licence of the equity joint venture and all prior approvals, thereby forcing the equity joint venture into winding-up proceedings. Given that a very large portion of the capital contribution of the Joint Ventures subscribed to by Sino-Wood remains unpaid and will be due in December 1994 and January 1995, (or if the applications to amend the Joint Venture Documents are approved, in December 1995 and January 1996), the risk of governmental action in the event of Sino-Wood's inability to meet its contribution commitments is a significant risk.

Foreign Currency Control. The usage, movement and conversion of foreign currency in the PRC are subject to legislative and administrative restriction and control. The conversion of its national currency Renminbi ("RMB") into foreign currencies and remittance thereof out of the PRC must be conducted through the Bank of China or other financial institutions authorised by the State Administration of Foreign Exchange to deal in foreign currencies or, for conversion only, through the authorised foreign exchange adjustment centres (commonly known as "Swap Centres"). Prior to January 1, 1994, the PRC maintained a dual exchange rate system for its foreign currency management; it had a fixed official rate of conversion set by the government, and a Swap Centre rate which was floating and determined largely by

market forces. The People's Bank of China, the central bank of the PRC, announced sweeping measures effective January 1, 1994 to reform the foreign exchange system of the PRC. A principal feature of the reform is the abolishment of the fixed official rate of conversion. Instead, the People's Bank of China publishes daily a US dollar conversion rate which is the average rate of the rates quoted on the previous banking day on the PRC inter-bank foreign exchange market and the international money market. All banks in the PRC permitted to deal in foreign currencies can quote their own conversion rate for its customers so long as its quote remains within a permitted range of the rate set by the People's Bank of China. The daily rates set by the People's Bank of China have so far been consistent with those traded in the Swap Centres. If the reform works smoothly the Swap Centres are expected to be abolished in the first half of 1994.

The currency reform is generally accepted as a significant step by the PRC to make RMB a freely convertible currency which has been the goal acknowledged by the People's Bank of China.

At the current stage of foreign currency reform in the PRC, there is no guarantee that sufficient foreign currency will be available for conversion at the time required by the Joint Ventures. The devaluation of RMB during the past years, if the trend continues, may have a significant impact on the profitability of Sino-Wood as it is calculated in Canadian currency.

Development Stage. Sino-Wood is in the early stages of development and, accordingly, its business operations are subject to all of the risks inherent in the establishment and maintenance of a new business enterprise, such as competition and viable operations management. There can be no assurance that Sino-Wood will grow and be profitable.

Key Personnel. Sino-Wood is currently dependent upon a small number of key management personnel and success during its initial growth period will depend, in part, on their abilities. The loss of the services of certain of these key management personnel may adversely affect the performance of Sino-Wood.

Expansion. The expansion of the business of Sino-Wood will depend upon the ability of management to implement and successfully manage expansion as well as the ability of Sino-Wood to raise additional equity. The failure to raise such equity will have significant negative impact on the Joint Ventures.

Capital Requirements. Sino-Wood may require further Capital to finance the planned expansion of the Joint Ventures.

RIGHT OF DISSENTING SHAREHOLDERS

Any holder of common shares of Mt. Kearsarge is entitled to be paid the fair value of such shares in accordance with section 185 of the Business Corporations Act (Ontario) (the "OBCA") if the shareholder dissents to the Special Resolution approving the Amalgamation. A holder of common shares is not entitled to object with respect to his common shares if he votes any of such shares in favour of the Amalgamation.

The following is a brief summary of section 185 of the OBCA, the full text of which is attached as Schedule I to this Information Circular. A dissenting shareholder is required to send a written objection to the Special Resolution to Mt. Kearsarge at or prior to the shareholders' meeting. A vote against the Special Resolution or an abstention does not constitute a written objection. Within 10 days after the Special Resolution is adopted by the shareholders, Mt. Kearsarge must so notify the dissenting shareholder who is then required, within 20 days after receipt of such notice (or if he does not receive such notice within 20 days after he learns of the adoption of the Special Resolution), to send to Mt. Kearsarge a written notice containing his name and address, the number of common shares in respect of which he dissents and a demand for payment of the fair value of such shares and, within 30 days after sending such written notice, to send to Mt. Kearsarge the appropriate share certificate or certificates. If the Amalgamation contemplated in the Special Resolution becomes effective, Mt. Kearsarge is required to determine the fair value of the common shares and to make a written offer to pay such amount to the dissenting shareholder. If such offer is not made or not accepted, within 30 days either party may apply to the court to fix the fair value of the common shares. There is no obligation on Mt. Kearsarge to apply to the court. If an application is made by either party, the dissenting shareholder will be entitled to be paid the amount fixed by the court which may be greater or less than the value of the common shares prior to implementation of the Amalgamation.

All notices to Mt. Kearsarge pursuant to section 185 of the Ontario Act should be addressed to the registered office of Mt. Kearsarge, Suite 2004, 200 King Street West, M5H 3T4 to the attention of the President.

The foregoing summary does not purport to provide comprehensive statements of the procedures to be followed by a dissenting shareholder who seeks payment of the fair value of his common shares. Section 185 of the OBCA require strict adherence to the procedures established therein and failure to do so may result in the loss of all dissenters' rights. Accordingly, each shareholder who might desire to exercise the dissenters' rights should carefully consider and comply with the provisions of those sections, the full texts of which are set out in Schedule I to this Information Circular, and consult his legal adviser.

CANADIAN INCOME TAX CONSIDERATIONS

The following is a general summary of the principal Canadian federal income tax considerations generally applicable to shareholders of Mt. Kearsarge who are resident in Canada, deal at arm's length with Mt. Kearsarge and hold their shares as capital property, all for purposes of the *Income Tax Act* (Canada) (the "Tax Act"). This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "Regulations") and an understanding of the current administrative practice and assessing policies of Revenue Canada, Customs, Excise & Taxation ("Revenue Canada"). This summary takes into account specifically proposed amendments to the Tax Act and the Regulations publicly announced by the Minister of Finance prior to the date hereof. Otherwise, this summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action.

It is currently expected that there will be a federal budget tabled by the Minister of Finance in the House of Commons on or about February 22, 1994. This summary does not take into account or anticipate any changes to the Tax Act or the Regulations that may be proposed in such budget.

The summary is of a general nature only and does not take into account or consider the tax laws of any province or territory or of any jurisdiction outside Canada. The summary is not intended to be, nor should it be construed to be, legal or tax advice to any person. Shareholders are urged to consult with their own tax advisors.

On the amalgamation of Mt. Kearsarge and Ontco, each shareholder of Mt. Kearsarge will be deemed to have disposed of his or her common shares of Mt. Kearsarge for proceeds of disposition equal to the aggregate of the adjusted cost base to such shareholder of those shares immediately before the amalgamation and to have acquired the Class A Subordinate-Voting Shares of Sino-Forest at a cost equal to such deemed proceeds.

In accordance with the current administrative practice of Revenue Canada, a shareholder who dissents from the Amalgamation, and who receives a payment from Sino-Forest (other than a payment of interest) for his or her common shares of Mt. Kearsarge will generally be considered to have disposed of such shares and received proceeds of disposition of such shares as opposed to a deemed dividend. Such a shareholder will realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition of the common shares, net of reasonable expenses of disposition, exceed (or are exceeded by) the shareholder's adjusted cost base of such common shares. Three-quarters of any capital gain realized will be included in computing the income of a shareholder as a taxable capital gain and three-quarters of any capital loss sustained may be deducted as an allowable capital loss against taxable capital gains in accordance with the provisions of the Tax Act. For a shareholder that is a corporation, the amount of any capital loss otherwise determined on a disposition of common shares of Mt. Kearsarge will generally be reduced by the aggregate amount of

dividends received by such corporation on such common shares to the extent and in the circumstances provided in the Tax Act. Analogous rules apply where the shareholder is a partnership or a trust of which a corporation is a member or beneficiary. Depending on the circumstances, certain shareholders (who are individuals other than most trusts) may be entitled to a deduction in respect of taxable capital gains on the basis of the lifetime capital gains exemption in accordance with the detailed rules in the Tax Act in that regard. Regardless of whether the capital gains exemption applies, a shareholder who is an individual may be subject to alternative minimum tax in respect of any gain.

APPROVAL AND CERTIFICATE

The contents and the sending of this Information Circular have been approved by the board of directors of Mt. Kearsarge.

The foregoing contains no untrue statement of a material fact (as defined in the Securities Act (Ontario)), and does not omit to state a material fact that is required to be stated or that is necessary to make a statement contained herein no misleading in light of the circumstances in which it was made.

DATED at Toronto, Ontario, this 11th day of February, 1994.

Mt. Kearsarge Minerals Inc.

By: 
John Thompson
President & Director

By: 
Jacob Gornitzki
Director

SCHEDULE A

MT. KEARSARGE MINERALS INC.

REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 1993

T. H. BERNHOLTZ & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of Mt. Kearsarge Minerals Inc.

We have audited the balance sheets of Mt. Kearsarge Minerals Inc. as at December 31, 1993 and 1992 and the statements of operations and deficit, and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



T.H. Bernholtz & Co.
Chartered Accountants

Toronto, Ontario
January 14, 1994

T. H. BERNHOLTZ & CO.
CHARTERED ACCOUNTANTS

MT. KEARSARGE MINERALS INC.
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

1993

1992

Expenses			
Legal, accounting and audit	\$	4,951	\$ 11,120
Office rent		1,800	3,075
Bad debts		16,075	-
Corporate services		12,000	12,000
Transfer agent's fees and expenses		15,812	12,179
Shareholders' information		-	2,175
Directors' fees		1,000	1,100
Interest and bank charges		102	208
Writedown of property		653,995	137,802
Office and general		<u>797</u>	<u>1,520</u>
		706,532	181,249
Less: interest earned		<u>(1,181)</u>	<u>(6,165)</u>
Net loss		705,349	175,084
Deficit at the beginning of the year		<u>1,118,151</u>	<u>943,067</u>
Deficit at the end of the year	\$	<u>1,823,590</u>	\$ <u>1,118,151</u>
Loss per share	\$	<u>0.12</u>	\$ <u>0.02</u>

See Notes To Financial Statements

MT. KEARSARGE MINERALS INC.
(Incorporated Under the Laws of The Province of Ontario)
BALANCE SHEETS
AS AT DECEMBER 31

ASSETS

	1993	1992
Current		
Cash	\$ 24,854	\$ 66,722
Subscription receivable	155,571	-
Prepaid exploration expenses	<u>-</u>	<u>16,075</u>
	180,425	82,797
 Mining claims and deferred exploration expenditures (Note 2)	 <u>2</u>	 <u>642,824</u>
	\$ <u>180,427</u>	\$ <u>722,621</u>

LIABILITIES

Current		
Accounts payable	\$ <u>4,089</u>	\$ <u>6,505</u>

SHAREHOLDERS' EQUITY

Capital Stock (Note 2)		
Authorized:		
Unlimited common shares		
Issued and to be issued:		
30,000,000 common shares	1,999,838	1,844,267
Deficit	<u>(1,823,500)</u>	<u>(1,118,151)</u>
	<u>176,338</u>	<u>726,116</u>
	\$ <u>180,427</u>	\$ <u>722,621</u>

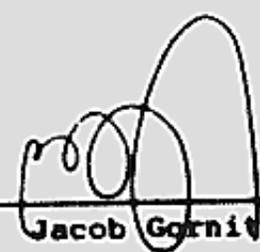
See Notes To Financial Statements

On Behalf Of The Board:



John Thompson

Director



Jacob Gornitzki

Director

MT. KEARSARGE MINERALS INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31

	1993	1992
Cash provided by (used in) operations	\$ (705,349)	\$ (175,084)
Add: items not affecting cash		
writedown of mining property	<u>653,995</u>	<u>137,802</u>
	(51,354)	(37,282)
Net change in working capital		
excluding cash	<u>(141,912)</u>	<u>(22,377)</u>
	<u>(193,266)</u>	<u>(59,659)</u>
Cash provided by financing activities		
Shares to be issued	<u>155,571</u>	<u>-</u>
Cash provided by investing activities		
Mining properties and related		
expenditures	<u>(4,173)</u>	<u>(42,831)</u>
Decrease in cash	(41,868)	(102,490)
Cash at the beginning of the year	<u>66,722</u>	<u>169,212</u>
Cash at the end of the year	<u>\$ 24,854</u>	<u>\$ 66,722</u>

See Notes To Financial Statements

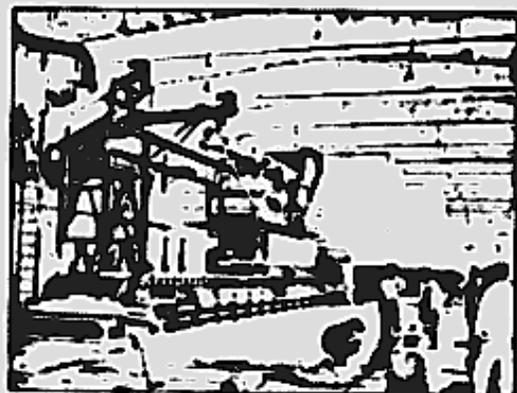
LEIZHOU JOINT VENTURE



Eucalypt Tree Plantation

POOR QUALITY ORIGINAL

GANJIA JOINT VENTURE



Interior View of Particleboard Plant

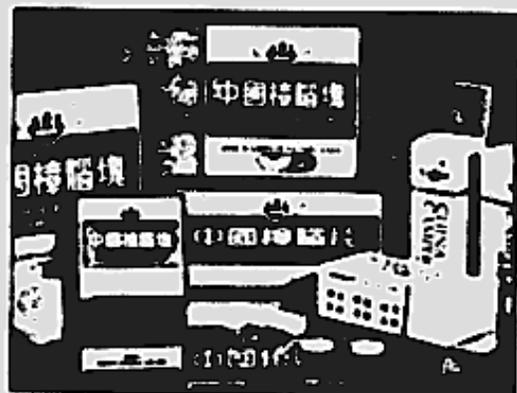


Wet End of Processing

CAMPHOR JOINT VENTURE



Site View



Products

ACACIA JOINT VENTURE



Acacia Gum Factory

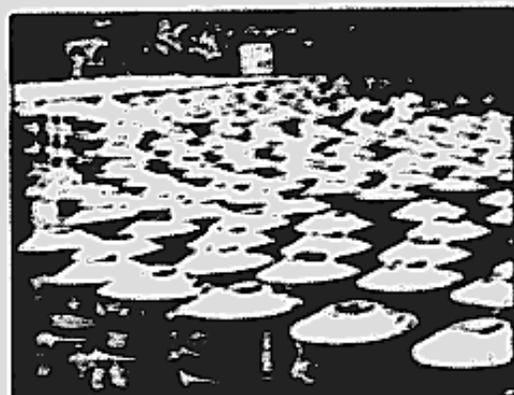


Acacia Trees

NINGDU JOINT VENTURE

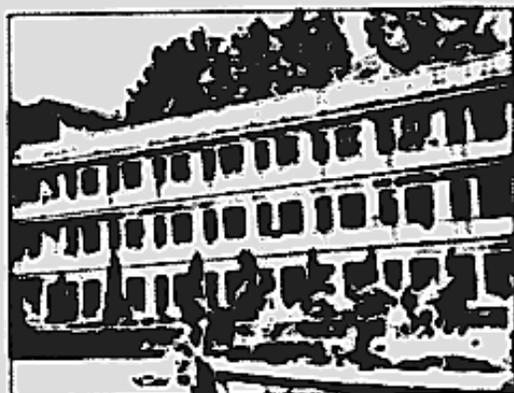


Ningdu Chemical Factory



Turpentine Shipments

DONGYUAN JOINT VENTURE



Administrative Offices



Production Facilities

**MT. KEARSAKE MINERALS INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993**

Note 1 Significant Accounting Policies
Administrative Expenses
 Administrative expenses are charged to operations in the year incurred.

Note 2 Mining Claims
 (a) Genova Lake Property
 The Company holds a 100% interest in the mineral rights in 22 patented mining claims located in Hess Township, Ontario. The claims are being carried at the nominal value of \$1.
 (b) Blakelock Township Property
 The Company holds a 100% interest in 25 unpatented mining claims located in Blakelock Township, Ontario. The claims are being carried at the nominal value of \$1.

Note 3 Capital Stock
Summary of Issued Capital

	<u>Shares</u>	<u>Value</u>
Common Shares		
Balance December 31, 1992	9,257,227	\$1,844,267
To be issued for cash	<u>20,742,773</u>	<u>155,571</u>
Balance December 31, 1993	<u>30,000,000</u>	<u>\$1,999,838</u>

Employees' and Directors' Options
 As at December 31, 1993 options were outstanding to employees and directors to purchase up to 592,000 common shares at 20 cents per share until November 28, 1994, and up to 333,723 shares at 20 cents per share until November 20, 1996. Subsequent to the year end the options were cancelled.

Note 4 Related Party Transactions
 During the year ended December 31, 1993 a company related to the Company's President was paid the sum of \$12,000 as management fees and \$1,800 as office rent.

Note 5 Income Taxes
 The Company has losses carried forward which are available to reduce future income for tax purposes and they expire as follows:

1994	20,363
1995	5,186
1996	32,342
1997	74,354
1998	45,367
1999	37,282
2000	<u>35,279</u>
	<u>\$250,173</u>

The Company has spent approximately \$464,601 on Canadian Exploration Expenses which are available to reduce future income for tax purposes.

Note

Subsequent Events

Subsequent to the year end the subscription receivable was fully paid and the shares were issued.

SCHEDULE B

Audited Financial Statements
Sino-Wood Partners, Limited

31 December 1993



NO-WOOD PARTNERS, LIMITED

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AUDITED FINANCIAL STATEMENTS	
Balance sheet	2
Notes to financial statements	3 - 4

AUDITORS' REPORT

To the Directors of
Sino-Wood Partners, Limited

We have audited the balance sheet of Sino-Wood Partners, Limited as at 31 December 1993. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of Sino-Wood Partners, Limited as at 31 December 1993 in accordance with generally accepted accounting principles in Canada.

Hong Kong,
11 February 1994.

Ernst & Young
Certified Public Accountants

BALANCE SHEET
(All numbers are in Hong Kong Dollars)

31 December 1993

ASSETS	
Cash	2,274
Other receivable	7,726
	<u>10,000</u>
SHAREHOLDERS' EQUITY	
Share capital <i>[note 3]</i>	10,000
	<u>10,000</u>

See accompanying notes

On behalf of the Board:


Director
Tak Yuen Chan


Director
Wai Ling Chan

NOTES TO BALANCE SHEET

[Unless otherwise stated, all numbers are in Hong Kong Dollars]

31 December 1993

1. INCORPORATION

Sino-Wood Partners, Limited (the "Company") was incorporated under the laws of Hong Kong on 24 September 1992 under the registered name of Perfect Trend Investment Limited. On 19 May 1993 and 11 August 1993, the shareholders approved the change of the Company's registered name to Leadership Resources Center Limited and to its current name, respectively.

The Company has not commenced any business operations since its incorporation except for entering into various agreements in September 1993 and December 1993 with certain state-owned enterprises in the People's Republic of China (the "PRC") to acquire 53% to 55% equity interests in six Sino-foreign equity joint ventures to be established in the PRC as more fully described in note 5 below.

2. BASIS OF PRESENTATION

As the Company has had no active business operations since its incorporation, statements of income and changes in financial position for the period ended 31 December 1993 have not been prepared. The balance sheet has been prepared in accordance with generally accepted accounting principles in Canada.

This special purpose balance sheet has been prepared specifically for inclusion in the Information Circular dated 11 February 1994 relating to the proposed acquisition of all the issued and outstanding common shares of the Company by Mt. Kearsarge Minerals Inc. ("Mt. Kearsarge"), a company incorporated in Ontario, Canada.

NOTES TO BALANCE SHEET

[Unless otherwise stated, all numbers are in Hong Kong Dollars]

31 December 1993

3. SHARE CAPITAL

Authorized

10,000 common shares of \$1.00 each

Issued

	Number of shares	Stated value
Issued for cash upon incorporation	2	2
Issued for cash on 19 April 1993	9,998	9,998
	10,000	\$10,000

4. RELATED PARTY TRANSACTIONS

All administrative expenses of the Company since the date of its incorporation have been borne by the shareholders of the Company.

5. COMMITMENTS AND SUBSEQUENT EVENTS

- (a) On 28 and 29 September 1993, the Company entered into five separate agreements with various state-owned enterprises in Jiangxi Province, the PRC, and Jiangxi Forestry Economic & Development Company, a state-owned enterprise in the PRC, to establish five Sino-foreign equity joint venture enterprises in Jiangxi Province, in each of which the Company will hold a 55% equity interest. In addition, on 8 December 1993, the Company entered into an agreement with State-owned Leizhou Forestry Bureau, a state-owned enterprise in Guangdong Province, the PRC, to establish a Sino-foreign equity joint venture enterprise in Guangdong Province, in which the Company will hold a 53% equity interest.

In February 1994, the parties to the six joint venture enterprises [collectively, the "Joint Ventures"] executed six separate memoranda of implementation [the

NOTES TO BALANCE SHEET

[Unless otherwise stated, all numbers are in Hong Kong Dollars]

31 December 1993

"Memoranda") to clarify certain matters in the joint venture agreements and to record the parties' agreement to amend the joint venture agreements - these Memoranda are subject to the PRC government's approval. The Memoranda stipulate, among others, that the business operations of the Joint Ventures commence on 1 January 1994. Accordingly, neither the acquisition nor operating results of the Joint Ventures from their respective dates of establishment to 31 December 1993 has been accounted for in these financial statements.

Provided that the contractual obligations set out in the joint venture agreements are amended as provided for in the Memoranda, the total cash contribution to be made by the Company in order to obtain the 53% to 55% equity interests in the Joint Ventures amounts to U.S.\$22,240,000 (approximately \$171.7 million) which, in accordance with the joint venture agreements and the Memoranda entered into with the state-owned enterprises, is to be payable in instalments with the final instalment due by 28 January 1996.

- (b) On 1 January 1994, the shareholders of the Company entered into a share purchase and sale agreement with Mt. Kearsarge to sell all the issued and outstanding common shares of the Company in exchange for shares of Mt. Kearsarge. The then existing shareholders of the Company will hold approximately 51% of the issued and outstanding share capital of Mt. Kearsarge after the transaction. This acquisition will be accounted for as a reverse takeover and for accounting purposes, the Company will be treated as the acquirer of Mt. Kearsarge.

SCHEDULE C

SPECIAL RESOLUTION OF THE SHAREHOLDERS OF MT. KEARSARGE MINERALS INC.

APPROVAL OF AMALGAMATION OF MT. KEARSARGE MINERALS INC. AND 1028412 ONTARIO INC.

BE IT RESOLVED THAT:

- 1. The amalgamation agreement dated February 11, 1994 (the "Amalgamation Agreement") made between Mt. Kearsarge Minerals Inc. ("Mt. Kearsarge") and 1028412 Ontario Inc. ("Ontco"), a copy of which is attached as Schedule C to the Information Circular of Mt. Kearsarge dated February 11, 1994 accompanying the notice of this meeting, and the transactions contemplated by the Amalgamation Agreement be and the same are hereby approved.**
- 2. Without limiting the generality of the foregoing, the amalgamation (the "Amalgamation") under the *Business Corporations Act* (Ontario) of Mt. Kearsarge and Ontco on the terms and conditions of the Amalgamation Agreement be and the same is hereby approved.**
- 3. The Board of Directors of Mt. Kearsarge be and they are hereby authorized to terminate the Amalgamation Agreement and determine not to proceed with the Amalgamation or amend the terms of the Amalgamation Agreement at any time prior to the issuance of a Certificate of Amalgamation giving effect to the Amalgamation without further authorization or approval of the shareholders.**
- 4. Any director or officer of Mt. Kearsarge be and is hereby authorized for and on behalf of Mt. Kearsarge to execute Articles of Amalgamation and to execute and, if appropriate, to deliver all other documents and do all other things, as in their opinion, may be necessary or desirable in connection with the foregoing.**

SCHEDULE D

RESOLUTION OF THE SHAREHOLDERS OF

MT. KEARSARGE MINERALS INC.

**APPROVAL OF ACQUISITION OF
SINO-WOOD PARTNERS, LIMITED**

BE IT RESOLVED THAT:

1. The share purchase agreement made as of January 1, 1994 (the "Acquisition Agreement") among Mt. Kearsarge Minerals Inc. ("Mt. Kearsarge"), CanAsia Partners Limited, GTL Investments Corp., Sino-Wood Partners, Limited ("Sino-Wood"), the shareholders of Sino-Wood, 1028412 Ontario Inc. and others described in the Information Circular of the Corporation dated February 11, 1994 accompanying the Notice of this Meeting and the transactions contemplated by the Acquisition Agreement be and the same are hereby approved.

2. Any director or officer of Mt. Kearsarge is hereby authorized to take all action and to execute and deliver all instruments, deeds and documents, as in the opinion of such director or officer may be necessary or desirable in order to implement the foregoing.

• • • •

SCHEDULE E
AMALGAMATION AGREEMENT

THIS AMALGAMATION AGREEMENT dated as of the 11th day of February, 1994.

BETWEEN:

1028412 ONTARIO INC., a corporation incorporated under the laws of Ontario

(hereinafter referred to as "Ontco")

OF THE FIRST PART

- and -

MT. KEARSARGE MINERALS INC., a corporation continued under the laws of Ontario

(hereinafter referred to as "Kearsarge")

OF THE SECOND PART

WHEREAS Ontco and Kearsarge were incorporated under the *Business Corporations Act* of Ontario and are governed by that Act;

AND WHEREAS Ontco and Kearsarge have agreed to amalgamate and continue as one corporation pursuant to the terms hereinafter set forth;

AND WHEREAS each of Ontco and Kearsarge has made full disclosure to the other of its known assets and liabilities.

NOW THEREFORE THIS AGREEMENT WITNESSETH AS FOLLOWS:

1. In this Agreement:

"Agreement" means this Amalgamation Agreement;

"Amalco" or the "Corporation" means the continuing corporation constituted upon the Amalgamation becoming effective;

"Amalgamation" means the amalgamation of Ontco and Kearsarge as contemplated by this Agreement;

"Business Day" means a day other than a Saturday, Sunday or statutory holiday in the City of Toronto;

"Certificate of Amalgamation" means the certificate of amalgamation issued by the Director in respect of the Amalgamation;

"Director" means the Director appointed under Section 278 of the Act;

"Effective Date" means the effective date set forth in the Certificate of Amalgamation issued pursuant to the Act with respect to the Amalgamation;

"Kearsarge" means Mt. Kearsarge Minerals Inc.;

"Multiple-Voting Shares" means the Class B Multiple-Voting Shares without nominal or par value in the capital of Amalco;

"OBCA" means the *Business Corporations Act* (Ontario);

"Ontco" means 1028412 Ontario Inc.;

"Series A Preference Shares" means the Series A Preference Shares without nominal or par value in the capital of Amalco; and

"Subordinate-Voting Shares" means the Class A Subordinate-Voting Shares without nominal or par value in the capital of Amalco.

2. Ontco and Kearsarge hereby agree to amalgamate and to continue as one corporation pursuant to the provisions of the Act on the terms and conditions set for in this Agreement.

3. The name of Amalco shall be **SINO-FOREST CORPORATION**.

4. The registered office of Amalco shall be in the Municipality of Metropolitan Toronto in the Province of Ontario. Until changed by the board of directors, the address of the registered office of Amalco shall be Suite 2004, P.O. Box 86, 200 King Street West, Toronto, Ontario, M5H 3T4.

5. **The authorized capital of the Corporation shall consist of the following:**
- (a) **An unlimited number of Class A Subordinate-Voting Shares (hereinafter referred to as the "Subordinate-Voting Shares");**
 - (b) **6,000,000 Class B Multiple-Voting Shares (hereinafter referred to as the "Multiple-Voting Shares"); and**
 - (c) **An unlimited number of Preference Shares issuable in series, of which the first series consists of 6,000,000 Series A Preference Shares.**

6. **The Multiple-Voting Shares and the Subordinate-Voting Shares shall have attached thereto the following rights, privileges, restrictions and conditions:**

(a) **Dividends**

The Subordinate-Voting Shares shall rank in priority to the Multiple-Voting Shares as to the payment of dividends. No dividends shall be declared or paid on the Multiple-Voting Shares in any fiscal year of the Corporation unless in such fiscal year dividends shall have been declared or paid on the Subordinate-Voting Shares in an amount per share at least equal to or equivalent to the amount of the dividend per share proposed to be declared or paid on the Multiple-Voting Shares.

(b) **Subdivisions, Consolidations and Other Changes**

In the event of:

- (i) **any subdivision, consolidation, reclassification or other change in the Multiple-Voting Shares or the Subordinate-Voting Shares; or**
- (ii) **any reorganization of the share capital of the Corporation affecting in any manner the Multiple-Voting Shares or the Subordinate-Voting Shares; or**
- (iii) **the amalgamation of the Corporation with any other company or companies,**

appropriate adjustments shall be made to the dividend rights provided for in section (a), the voting rights provided for in section (c), the dissolution rights

provided for in section (e) and the conversion rights provided for in sections (f), and (g) so as to preserve the rights of the Multiple-Voting Shares and the Subordinate-Voting Shares, inter se, in all respects.

(c) **Voting Rights**

- (1) The holders of the Multiple-Voting Shares shall be entitled to receive notice of, attend (in person or by proxy) and speak at all meetings of the shareholders of the Corporation (other than separate meetings of the holders of shares of any other class of shares of the Corporation or of any series of shares of any such other class of shares) and at all such meetings the holders of the Multiple-Voting Shares shall be entitled to five (5) votes in respect of each Multiple-Voting Share held by them.
- (2) The holders of the Subordinate-Voting Shares shall be entitled to receive notice of, attend (in person or by proxy) and speak at all meetings of the shareholders of the Corporation (other than separate meetings of the holders of shares of any other class of shares of the Corporation or of any series of shares of any such other class of shares) and at all such meetings the holders of the Subordinate-Voting Shares shall be entitled to one (1) vote in respect of each Subordinate-Voting Share held by them.

(d) **Restrictions**

The holders of the Multiple-Voting Shares and the holders of the Subordinate-Voting Shares shall not as such be entitled to dissent in respect of any amendment referred to in clause 170(1)(a), (b) and (c) of the Business Corporations Act, as from time to time amended (hereinafter referred to as the "OBCA").

(e) **Dissolution**

Subject to the prior rights of the holders of the Preference Shares and the shares of any other class ranking in priority to the Multiple-Voting Shares and the Subordinate-Voting Shares, and subject to the payment of all dividends which have been declared on the Multiple-Voting Shares or the Subordinate-Voting Shares but remain unpaid, in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Multiple-Voting Shares and the holders of Subordinate-Voting Shares shall be entitled to receive the remaining

assets of the Corporation in equal amounts per share, without preference or distinction.

(f) Optional Conversion of Multiple-Voting Shares into Subordinate-Voting Shares

Each holder of Multiple-Voting Shares shall be entitled at any time and from time to time to have all or any part of the Multiple-Voting Shares held converted into fully-paid and non-assessable Subordinate-Voting Shares upon the basis of one (1) Subordinate-Voting Share for each Multiple-Voting Share in respect of which the conversion right is exercised. The conversion right provided for in this section (f) shall be exercised by notice in writing given to the transfer agent at its principal office in Toronto accompanied by the certificate or certificates representing the Multiple-Voting Shares in respect of which the holder desires to exercise such right of conversion. Such notice shall be executed by the person registered on the books of the Corporation as the holder of the Multiple-Voting Shares or by his or her duly authorized attorney and shall specify the number of Multiple-Voting Shares which the holder desires to have converted into Subordinate-Voting Shares. After the giving of a notice in writing, the notice of the holder of Multiple-Voting Shares shall be irrevocable. The holder shall pay any governmental or other tax imposed on or in respect of any such conversion. Upon receipt by the transfer agent of such notice and a certificate or certificates in respect thereof, the Corporation shall issue, or cause to be issued to the holder so exercising the conversion right in respect of Multiple-Voting Shares, a share certificate representing the number of Subordinate-Voting Shares to which such holder is entitled upon the basis prescribed in accordance with the provisions hereof. If less than all of the Multiple-Voting Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate representing the number of Multiple-Voting Shares which are not to be converted.

(g) Conversion of Multiple-Voting Shares into Subordinate-Voting Shares upon Transfer of Multiple-Voting Shares

- (1) In this section, the following terms shall have the following meanings:
- (a) "Assumption Agreement" means an agreement whereby the Transferee of Multiple-Voting Shares agrees to be bound by the Coattail Agreement, which Assumption Agreement shall be in a form acceptable to the Trustee;

- (b) "Business Day" means a day other than a Saturday, Sunday or statutory holiday in Toronto, Ontario;
- (c) "Capital Reorganization" means any reorganization of the capital of the Corporation including, without limitation, any consolidation, merger, amalgamation or arrangement of the Corporation with or into another corporation, a rights offering or any redesignation, reclassification, consolidation or subdivision of the Multiple-Voting Shares;
- (d) "Coattail Agreement" means the agreement to be made among the Corporation, the Trustee, and the registered holders of the Multiple-Voting Shares and all instruments supplemental thereto or any amendment or confirmation thereof, which agreement shall incorporate the provisions of this section (g) and shall be in a form acceptable to the Trustee;
- (e) "Multiple-Voting Shareholder" means the beneficial owner of the Multiple-Voting Shares at the date of issue thereof or a permitted Transferee (or, in the event of a Transfer in accordance with paragraph (g)(4)(c) to a financial institution that thereby becomes the holder of record of Multiple-Voting Shares, the beneficial owner thereof);
- (f) "Permitted Transfer" means a Transfer of Multiple-Voting Shares that is permitted under subsection (g)(4);
- (g) "Prohibited Transfer" means any Transfer of Multiple-Voting Shares that is not a Permitted Transfer;
- (h) "Transfer" means any gift, sale, assignment, devolution, transmission, transfer, pledge, mortgage, charge, hypothecation, other encumbering or grant of a security interest and "Transferee" has a corresponding meaning;
- (i) "Trustee" means the R-M Trust Company, or any successor trustee appointed pursuant to the Coattail Agreement; and
- (j) "Voting Security" means a security issued by a corporation that carries the right to vote at any meeting of the shareholders of the corporation (including a security that carries the right to vote upon the happening of a contingency which has occurred and is continuing) except meetings where only the holders of shares of

assets of the Corporation in equal amounts per share, without preference or distinction.

(f) Optional Conversion of Multiple-Voting Shares into Subordinate-Voting Shares

Each holder of Multiple-Voting Shares shall be entitled at any time and from time to time to have all or any part of the Multiple-Voting Shares held converted into fully-paid and non-assessable Subordinate-Voting Shares upon the basis of one (1) Subordinate-Voting Share for each Multiple-Voting Share in respect of which the conversion right is exercised. The conversion right provided for in this section (f) shall be exercised by notice in writing given to the transfer agent at its principal office in Toronto accompanied by the certificate or certificates representing the Multiple-Voting Shares in respect of which the holder desires to exercise such right of conversion. Such notice shall be executed by the person registered on the books of the Corporation as the holder of the Multiple-Voting Shares or by his or her duly authorized attorney and shall specify the number of Multiple-Voting Shares which the holder desires to have converted into Subordinate-Voting Shares. After the giving of a notice in writing, the notice of the holder of Multiple-Voting Shares shall be irrevocable. The holder shall pay any governmental or other tax imposed on or in respect of any such conversion. Upon receipt by the transfer agent of such notice and a certificate or certificates in respect thereof, the Corporation shall issue, or cause to be issued to the holder so exercising the conversion right in respect of Multiple-Voting Shares, a share certificate representing the number of Subordinate-Voting Shares to which such holder is entitled upon the basis prescribed in accordance with the provisions hereof. If less than all of the Multiple-Voting Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate representing the number of Multiple-Voting Shares which are not to be converted.

(g) Conversion of Multiple-Voting Shares into Subordinate-Voting Shares upon Transfer of Multiple-Voting Shares

- (1) In this section, the following terms shall have the following meanings:
- (a) "Assumption Agreement" means an agreement whereby the Transferee of Multiple-Voting Shares agrees to be bound by the Coattail Agreement, which Assumption Agreement shall be in a form acceptable to the Trustee;

- (b) "Business Day" means a day other than a Saturday, Sunday or statutory holiday in Toronto, Ontario;
- (c) "Capital Reorganization" means any reorganization of the capital of the Corporation including, without limitation, any consolidation, merger, amalgamation or arrangement of the Corporation with or into another corporation, a rights offering or any redesignation, reclassification, consolidation or subdivision of the Multiple-Voting Shares;
- (d) "Coattail Agreement" means the agreement to be made among the Corporation, the Trustee, and the registered holders of the Multiple-Voting Shares and all instruments supplemental thereto or any amendment or confirmation thereof, which agreement shall incorporate the provisions of this section (g) and shall be in a form acceptable to the Trustee;
- (e) "Multiple-Voting Shareholder" means the beneficial owner of the Multiple-Voting Shares at the date of issue thereof or a permitted Transferee (or, in the event of a Transfer in accordance with paragraph (g)(4)(c) to a financial institution that thereby becomes the holder of record of Multiple-Voting Shares, the beneficial owner thereof);
- (f) "Permitted Transfer" means a Transfer of Multiple-Voting Shares that is permitted under subsection (g)(4);
- (g) "Prohibited Transfer" means any Transfer of Multiple-Voting Shares that is not a Permitted Transfer;
- (h) "Transfer" means any gift, sale, assignment, devolution, transmission, transfer, pledge, mortgage, charge, hypothecation, other encumbering or grant of a security interest and "Transferee" has a corresponding meaning;
- (i) "Trustee" means the R-M Trust Company, or any successor trustee appointed pursuant to the Coattail Agreement; and
- (j) "Voting Security" means a security issued by a corporation that carries the right to vote at any meeting of the shareholders of the corporation (including a security that carries the right to vote upon the happening of a contingency which has occurred and is continuing) except meetings where only the holders of shares of

another class or of a particular series are entitled to vote, and also includes a security issued by the Corporation that is convertible into, changeable into or exchangeable for such a security.

- (2) As a condition of the issue of any Multiple-Voting Shares the Corporation shall cause the registered holder of the shares to be issued to execute and deliver a Coattail Agreement, which agreement shall incorporate the provisions of this section (g).
- (3) For the purposes of this section (g), any Transfer of Voting Securities of any corporation which at the time of such Transfer beneficially owns, directly or indirectly, any Multiple-Voting Share, shall be deemed to be a Transfer of the Multiple-Voting Shares beneficially owned by such corporation, and such deemed Transfer shall be a Permitted Transfer provided that such deemed Transfer is made in accordance with the provisions of subsection (g)(4).
- (4) The Multiple-Voting Shareholder shall not effect a Transfer of any or all of the Multiple-Voting Shares, unless such Transfer is made in accordance with subsection (g)(6) and such Transfer is:
 - (a) made to a person who at the time of the Transfer is a Multiple-Voting Shareholder or to a corporation which is wholly owned, directly or indirectly, by a person who at the time of the Transfer is a Multiple-Voting Shareholder;
 - (b) made to a purchaser that:
 - (i) has offered to purchase all or substantially all of the outstanding Multiple-Voting Shares; and
 - (ii) has made an offer to purchase all or substantially all the outstanding Subordinate-Voting Shares that is identical in terms of price per share and in all other material respects to the offer for the Multiple-Voting Shares and that has no condition attached other than the right not to take up and pay for Subordinate-Voting Shares tendered if no Multiple-Voting Shares are purchased pursuant to the offer for the Multiple-Voting Shares; and

- (iii) has complied with the terms of the offer for both the Subordinate-Voting Shares and the Multiple-Voting Shares; or
- (c) made pursuant to the granting of a security interest by way of pledge, hypothecation or otherwise, whether directly or indirectly, in the Multiple-Voting Shares to any financial institution with which the Multiple-Voting Shareholder deals at arm's length (within the meaning of the Income Tax Act (Canada)) in connection with a bona fide borrowing.

Any Transfer made in accordance with this subsection (g)(4) shall be a Permitted Transfer.

- (5) Nothing in this section (g) shall prevent a Multiple-Voting Shareholder, at any time or from time to time, from:
 - (a) effecting a Transfer of Subordinate-Voting Shares or any interest therein;
 - (b) converting any or all of the Multiple-Voting Shares held by it into Subordinate-Voting Shares pursuant to the conversion right contained in section (f) hereof; or
 - (c) participating in any Capital Reorganization of the Corporation provided that all approvals of the shareholders of the Corporation that may be required by law, regulatory policy, the rules of any stock exchange on which the Subordinate-Voting Shares are listed or the articles of the Corporation shall have first been obtained.
- (6) If the Multiple-Voting Shareholder proposes to effect a Transfer of any or all of the Multiple-Voting Shares (the "Proposed Transfer"), it shall, not less than five Business Days prior to the date fixed for such Proposed Transfer give written notice of the Proposed Transfer to the Trustee, which notice shall contain sufficient information to enable the Trustee to determine whether the Proposed Transfer is a Permitted Transfer and to determine which parties, if any, must execute an Assumption Agreement pursuant to this subsection; and deliver to the Trustee a copy of the Assumption Agreement duly executed by the Transferee, the Corporation and any other parties that, in accordance with subsection (g)(4), would become Multiple-Voting Shareholders by virtue of the completion of the Proposed Transfer.

For greater certainty, no Proposed Transfer may be effected until the procedures set out in this subsection (g)(6), have been completed.

- (7) If the Trustee becomes aware, at any time whatsoever, that a Transfer (including a deemed transfer pursuant to subsection (g)(3) hereof) has occurred that in its opinion constitutes a Prohibited Transfer, the Trustee shall immediately give notice thereof to the Corporation and the Multiple-Voting Shareholder, whereupon the Multiple-Voting Shareholder shall have the right to take such action as may be necessary to satisfy the Trustee, within 30 days or such longer period of time as the Trustee shall consider to be appropriate in the circumstances, that the Transfer, in question:

- (a) was not a Prohibited Transfer; or
- (b) has been reversed to the satisfaction of the Trustee, acting reasonably;

failing which, in the case of a Prohibited Transfer, the procedure set forth in section (g)(8) shall be commenced.

- (8) If a Prohibited Transfer has occurred and is continuing (hereinafter referred to as an "Event"), the Trustee shall at the expiration of the time period set out in section (g)(7) give notice (the "Notice") in writing of the Event to the holder(s) of record of such transferred Multiple-Voting Shares in such manner as the Trustee may consider appropriate. Upon giving the Notice, all Multiple-Voting Shares transferred by virtue of the Prohibited Transfer shall be automatically converted into Subordinate-Voting Shares effective upon the date of the Notice without the requirement of any action on the part of the Corporation, the holders or the transfer agent. A certificate(s) representing fully paid and non-assessable Subordinate-Voting Shares into which such Multiple-Voting Shares were converted shall be issued or be caused to be issued by the Corporation upon the cancellation of such Multiple-Voting Shares Certificate(s). The Notice shall set forth the date of the occurrence of the Prohibited Transfer and shall state that such Multiple-Voting Shares have, upon the giving of the Notice, been automatically converted into Subordinate-Voting Shares.
- (9) In the event that a Multiple-Voting Shareholder (or in the case in which the Multiple-Voting Shareholder is a corporation, the beneficial owner of such corporation) should cease, for any reason whatever, to be a director or officer of the Corporation for a period of 12 consecutive

months, then all the Multiple-Voting Shares beneficially owned, directly or indirectly, by such Multiple-Voting Shareholder shall be automatically converted into Subordinate-Voting Shares of the Corporation effective upon the end of such 12-month period, without the requirement of any action on the part of the Corporation, the holder or the transfer agent. Upon the automatic conversion of Multiple-Voting Shares into Subordinate-Voting Shares, the Corporation shall issue or cause to be issued share certificates representing fully paid Subordinate-Voting Shares into which such Multiple-Voting Shares were converted and all such Multiple-Voting Shares beneficially owned by such Multiple-Voting Shareholder shall be automatically cancelled.

- (10) On December 31, 2014 or, in the event that at any time prior thereto the Trustee is satisfied that the Multiple-Voting Shareholders as a group should cease to own beneficially, directly or indirectly, at least 20% of the issued and outstanding Subordinate-Voting Shares (an "Automatic Conversion Event"), the Trustee shall as soon as possible give notice (the "Conversion Notice") in writing of the Automatic Conversion Event to all holders of record of Subordinate-Voting Shares and Multiple-Voting Shares on a date not more than five Business Days preceding the date of the Conversion Notice and to all persons who become holders of record of Subordinate-Voting Shares or Multiple-Voting Shares of the Corporation at any time thereafter and prior to the date of the Conversion Notice in such manner as the Trustee may consider appropriate. Upon giving the Conversion Notice, all Multiple-Voting Shares shall be automatically converted into Subordinate-Voting Shares effective upon the date of the Conversion Notice without the requirement of any action on the part of the Corporation, the holders or the transfer agent, then all the Multiple-Voting Shares then issued and outstanding shall be automatically converted into Subordinate-Voting Shares of the Corporation effective as at such date without the requirement of any action on the part of the Corporation, the holders or the transfer agent. Upon the automatic conversion of Multiple-Voting Shares into Subordinate-Voting Shares, the Corporation shall issue or cause to be issued share certificates representing fully paid Subordinate-Voting Shares into which the Multiple-Voting Shares were converted and the Multiple-Voting Shares shall be automatically cancelled.

(h) **Equality**

Save as aforesaid, each Multiple-Voting Share and each Subordinate-Voting Share shall have the same rights and attributes and be the same in all respects.

7. The rights, privileges, restrictions and conditions attaching to the Preference Shares issuable in series are as follows:

(a) **Series**

The Preference Shares may be issued at any time or from time to time in series, each series to consist of such number of Preference Shares as shall be set by the board of directors; each series shall be appropriately designated by some distinguishing number, letter or title. The Preference Shares of each series shall rank on a parity with the Preference Shares of every other series with respect to priority in payment of dividends and return of capital in the event of the liquidation, dissolution or winding up of Sino-Forest and have a preference over the Class A Subordinate-Voting Shares and the Class B Multiple-Voting Shares and any other shares ranking junior to the Preference Shares.

(b) **Directors**

The board of directors shall determine the designations, rights, privileges, restrictions, conditions and other provisions to be attached to the Preference Shares of each series, subject to the limitations contained herein.

(c) **Restrictions**

The holders of record of the Preference Shares shall not as such be entitled to dissent in respect of any amendment referred to in clauses 170(1)(a), (b), and (c) of the OBCA.

8. The first series of Preference Shares shall consist of 6,000,000 shares which shall be designated as Preference Shares, Series A (hereinafter referred to as the "Series A Preference Shares") and which shall, in addition and subject to the rights, privileges, restrictions and conditions attaching to the Preference Shares as a class, carry and be subject to the following rights, privileges, restrictions and conditions:

(a) **Voting**

Except as otherwise required by the OBCA, the holders of the Series A Preference Shares shall not be entitled to receive notice of or to attend any meetings of shareholders of the Corporation or to vote at any such meeting.

(b) Dividends

The holders of Series A Preference Shares shall not be entitled to receive any dividends.

(c) Distribution of Assets on Liquidation

In the event the Corporation shall be liquidated, dissolved or wound up, whether voluntary or involuntary, the holders of the Series A Preference Shares shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, an amount equal to the Redemption Price (as hereinafter defined) of their shares, the whole being paid before any amount is paid or any assets of the Corporation are distributed to the holders of any Multiple-Voting Shares, Subordinate-Voting Shares or any shares of any other class ranking junior to the Series A Preference Shares. Upon payment to the holders of the Series A Preference Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of assets of the Corporation.

(d) Redemption

Subject to the OBCA, the Corporation may at any time after March 31, 1996 redeem the whole, but not part of, the issued Series A Preference Shares on payment for each share to be redeemed of an amount equal to \$0.01 per share (in lawful money of Canada) (the "Redemption Price").

Unless all the holders of the Series A Preference Shares to be redeemed have waived notice of such redemption, the Corporation shall give not less than 30 days' notice in writing of the redemption, specifying the date and place of redemption. If this notice is given or waived, and the Redemption Price is paid to such holders, or is deposited with any chartered bank or trust company in Canada, as specified in the notice, on or before the date fixed for redemption, the holders of the shares to be redeemed shall from then on have no rights against the Corporation in respect of those shares except to receive payment of the Redemption Price. Any Series A Preference Shares redeemed shall be cancelled and will not be reissued, sold or transferred.

(c) **Conversion Rights**

- (1) Each holder of a Series A Preference Share shall be entitled at any time and from time to time prior to March 31, 1996 to have all or any part of the Series A Preference Shares held converted into fully paid and non-assessable Multiple-Voting Shares upon the basis of one (1) Multiple-Voting Share for each Series A Preference Share in respect of which the conversion right is exercised, provided that such conversion rights shall be conditional upon and shall not come into effect unless:
 - (a) the closing price of the Subordinate-Voting Shares on the Canadian Dealing Network (the "CDN") (or if such shares are listed on a stock exchange in Canada, on such stock exchange) for forty-five (45) consecutive trading days (i) shall have exceeded \$1.67 per share; or (ii) in the event that on the date of notice of conversion an aggregate of 50% or more of the Series A Share Purchase Warrants of the Corporation shall have been validly exercised, shall have exceeded \$2.25 per share; or
 - (b) the Corporation has reported net income after taxes of not less than \$4,000,000 on the audited financial statements of the Corporation for the year ended December 31, 1994.

For the purpose of determining the closing price of the Subordinate-Voting Shares on any day on which no Subordinate-Voting Shares have traded, the closing price shall be deemed to be the average of the bid and ask prices of such shares on the CDN or such other stock exchange.

Subject to the foregoing, the conversion privilege herein provided for may be exercised by notice in writing given to a transfer agent of the Corporation accompanied by the certificate or certificates representing the Series A Preference Shares in respect of which the holder desires to exercise such right of conversion and such notice shall be signed by the person registered on the books of the Corporation as the holder of Series A Preference Shares in respect of which such right is being exercised or by his duly authorized attorney and shall specify the number of Series A Preference Shares which the

holder desires to have converted. The holder shall also pay any governmental or other tax imposed in respect of such transaction. Upon receipt of such notice the Corporation shall issue, or cause to be issued, certificates representing fully paid Multiple-Voting Shares upon the basis above prescribed and in accordance with the provisions hereof to the holder of Series A Preference Shares represented by the certificate or certificates accompanying such notice. If less than all the Series A Preference Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate for the Series A Preference Shares representing the shares comprised in the original certificate that are not to be converted.

- (2) In the event the Series A Preference Shares and/or the Multiple-Voting Shares are at any time subdivided, consolidated, converted (except for the conversion of Series A Preference Shares into Multiple-Voting Shares pursuant to paragraph (v) hereof) or exchanged for a greater or lesser number of shares in the same or another class, appropriate adjustment shall be made in the rights and conditions attached to Series A Preference Shares and to the Multiple-Voting Shares so as to maintain and preserve the relative rights of the holder of the shares of each of the said classes.

(f) **Variation of Rights**

The holders of the Series A Preference Shares shall not be entitled to vote separately as a class or series upon a proposal to amend the articles:

- (1) to increase or decrease any maximum number of authorized shares of such class or series or increase any maximum number of authorized shares of any other class or series having rights or privileges equal or superior to the shares of such class or series; or
- (2) to create a new class or series of shares equal or superior to the shares of such class or series.

9. The holders of any class or series of shares of Amalco shall not be entitled to dissent and shall not be entitled to vote separately as a class or series upon a proposal to amend the articles of Amalco to effect an exchange, reclassification or cancellation of shares

of such class or series thereof or to create a new class or series of shares equal or superior to the shares of such class or series.

10. There shall be no restriction on the business which Amalco is authorized to carry on or on the powers that Amalco may exercise.

11. The by-laws of Ontco shall, to the extent not inconsistent with this Agreement, be the by-laws of Amalco until repealed, amended, altered or added to.

12. The board of directors of Amalco shall, until otherwise changed in accordance with the Act, consist of a minimum of three (3) and a maximum of ten (10) directors, the number of which shall be fixed from time to time by the directors.

13. On the Effective Date, the number of directors shall be five. The first directors of Amalco shall be the persons whose names and addresses appear below:

<u>Name</u>	<u>Residential Address</u>	<u>Citizenship</u>
Tak Yuen Chan	Flat A, Block 11 Stage 2, Whampoa Garden Kowloon Hong Kong	British Dependent Territories
Kai Kit Poon	8/F, 91 Hennessy Road Wanchai Hong Kong	British Nationals (Overseas)
John Thompson	29 Lynngrove Avenue Etobicoke, Ontario M8X 1M5	Canadian
James F. O'Connell	34 Fifeshire Road Toronto, Ontario M2L 2G0	Canadian
Edmund Mak	2935 West 35th Avenue Vancouver, B.C. V6N 2M5	Canadian

14. The said first directors shall hold office until the first annual meeting of Amalco or until their successors are elected or appointed. The subsequent directors shall be elected each year thereafter by ordinary resolution at either an annual meeting or a special

meeting of the shareholders. The directors shall manage and supervise the management of the business and affairs of Amalco, subject to the provisions of the Act.

15. Without limiting the borrowing powers of Amalco as set forth in the Act, as amended from time to time, Amalco may, from time to time, with or without the authority of any by-laws or the authorization of the shareholders:

- (a) borrow money upon the credit of Amalco including by way of overdraft;
- (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantees of Amalco whether secured or unsecured; and
- (c) charge, mortgage, hypothecate, pledge or otherwise create a security interest in the undertaking or in all or any currently owned or subsequently acquired real or personal, movable or immovable property of Amalco, including book debts, rights, powers and franchises, to secure any such bonds, debentures, notes or other evidences of indebtedness or guarantees or any other present or future indebtedness or liability of Amalco.

16. The shares in the capital of Ontco and Kearsarge which are issued and outstanding immediately prior to the Effective Date shall, on and from the Effective Date, be converted into issued and outstanding shares in the capital of Amalco as follows:

- (a) the holders of the common shares of Ontco shall receive one (1) issued and fully-paid and non-assessable Subordinate-Voting Share of Amalco for each common share of Ontco then held by them; and
- (b) the holders of common shares of Kearsarge shall receive one (1) fully paid and non-assessable Subordinate-Voting Share of Amalco for each ten (10) common shares of Kearsarge then held.

17. On and after the Effective Date, the Series A Share Purchase Warrants of Ontco shall become an obligation of Amalco and shall be exercisable for Subordinate-Voting Shares of Amalco (in lieu of common shares of Ontco) but otherwise shall be in accordance with the terms and conditions set out therein.

18. Fractional Subordinate-Voting Shares of Amalco will not be issued. A holder of common shares of Kearsarge who would otherwise be entitled to receive a fraction of a Subordinate-Voting Share of Amalco shall be issued a whole Subordinate-Voting Share of Amalco.

19. **Upon the endorsement of the Certificate of Amalgamation under the Act:**
- (a) **Ontco and Kearsarge are amalgamated and continue as one corporation effective on that date under the terms and conditions prescribed in this Amalgamation Agreement;**
 - (b) **Amalco possesses all the property, rights, privileges and franchises and is subject to all liabilities, including civil, criminal and quasi-criminal, and all contracts, disabilities and debts of each of Ontco and Kearsarge;**
 - (c) **a conviction against, or ruling, order or judgment in favour of or against Ontco and Kearsarge may be enforced by or against Amalco;**
 - (d) **the Articles of Amalgamation shall be the articles of incorporation of Amalco and the Certificate of Amalgamation, except for the purposes of subsection 117(1) of the Act, shall be deemed to be the certificate of incorporation of Amalco; and**
 - (e) **Amalco shall be deemed to be the party plaintiff or the party defendant, as the case may be, in any civil action commenced by or against Ontco and Kearsarge before the Amalgamation has become effective.**
20. **At any time prior to the endorsement of a Certificate of Amalgamation under the Act, this Agreement may be terminated without cause or reason by the board of directors of either Ontco and Kearsarge, notwithstanding the approval of this Agreement by the shareholders of both or either of them.**
21. **Subject to section 18 above, upon the shareholders of Ontco and Kearsarge approving this Agreement in accordance with the provisions of the Act, Ontco and Kearsarge shall complete and send to the Director articles of amalgamation in prescribed form providing for the Amalgamation upon and subject to the terms and conditions of this Agreement.**

22. This Agreement shall be governed by and construed in accordance with the laws of the province of Ontario and the federal laws of Canada applicable herein.

IN WITNESS WHEREOF this Agreement has been executed by the parties hereto.

1028412 ONTARIO INC.

by: _____ c/s

MT. KEARSARGE MINERALS INC.

by: _____ c/s

SCHEDULE F

Pro-forma Combined Statements of Operating Income

Joint Ventures
People's Republic of China

31 December 1993

 **ERNST & YOUNG**

JOINT VENTURES

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COMPILATION REPORT

To the Directors of
Sino-Wood Partners, Limited

We have reviewed, as to compilation only, the accompanying pro-forma combined statements of operating income of the Sino-foreign equity joint venture enterprises viz. **Jiangxi Ganjia Wood Industrial Company Limited, Jiangxi Ganzhou Pengcheng Chemical Industry Company Limited, Jiangxi Chuigang Forest Products & Chemical Industry Company Limited, Jiangxi Dongyuan Chemical Industry Company Limited, Jiangxi Xuesong Forest & Chemical Industry Company Limited, and Zhanjiang Leizhou Eucalypt Resources Development Company Limited**, for each of the years in the three year period ended 31 December 1993 which have been prepared for inclusion in the Information Circular dated 11 February 1994 relating to the proposed acquisition of all the issued and outstanding common shares of Sino-Wood Partners, Limited by Mt. Kearsarge Minerals Inc. In our opinion, the pro-forma combined statements of operating income have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Hong Kong,
11 February 1994.

Ernst & Young
Certified Public Accountants

Joint Ventures

PRO-FORMA COMBINED STATEMENTS OF OPERATING INCOME

31 December 1993

Unaudited - see Compilation Report

	1993	1992	1991
	Rmb'000	Rmb'000	Rmb'000
Sales, net of sales taxes <i>(note 4)</i>	119,198	58,057	79,284
Cost of sales <i>(note 5)</i>	96,947	46,609	69,337
Gross profit	22,251	11,448	9,947
Selling, general and administrative expenses	4,352	5,701	2,393
	17,899	5,747	7,554

	1993	1992	1991
<i>(note 2)</i>	CS'000	CS'000	CS'000
Sales, net of sales taxes	18,215	8,872	12,116
Cost of sales	14,815	7,123	10,596
Gross profit	3,400	1,749	1,520
Selling, general and administrative expenses	665	871	366
	2,735	878	1,154

See accompanying notes

On behalf of the Board:


Director
Tai Yuen Chan


Director
Wai Ling Chan

**NOTES TO THE PRO-FORMA COMBINED STATEMENTS
OF OPERATING INCOME**

(All tabular numbers are in thousands of Renminbi)

31 December 1993

Unaudited - see Compilation Report

1. GENERAL

On 28 and 29 September 1993, certain state-owned enterprises (the "Jiangxi State-owned Enterprises") in the People's Republic of China (the "PRC"), and Jiangxi Forestry Economic & Technology Development Company ("JFE&TDC"), a state-owned enterprise in the PRC, entered into five separate agreements with Sino-Wood Partners, Limited ("Sino-Wood") for the establishment of five Sino-foreign equity joint venture enterprises in the PRC, in each of which Sino-Wood will hold a 55% equity interest. In addition, on 8 December 1993, Leizhou Forestry Bureau, a state-owned enterprise in the PRC, entered into an agreement with Sino-Wood to establish a Sino-foreign equity joint venture enterprise in the PRC, in which Sino-Wood will hold a 53% equity interest. The Jiangxi State-owned Enterprises and Leizhou Forestry Bureau (collectively, the "Preceding Enterprises") are principally engaged in the production and trading of forestry related chemicals and products.

In February 1994, the parties to the six Sino-foreign equity joint venture enterprises viz., Jiangxi Ganjia Wood Industrial Company Limited, Jiangxi Ganzhou Pengcheng Chemical Industry Company Limited, Jiangxi Chuigang Forest Products & Chemical Industry Company Limited, Jiangxi Dongyuan Chemical Industry Company Limited, Jiangxi Xuesong Forest & Chemical Industry Company Limited, and Zhanjiang Leizhou Eucalypt Resources Development Company Limited (collectively, the "Joint Ventures"), executed six separate memoranda of implementation (the "Memoranda") to clarify certain matters in the joint venture agreements and to record the parties' agreement to amend the joint venture agreements. These Memoranda are still subject to the PRC government's approval. The Memoranda stipulate, among others, that the business operations of the Joint Ventures will commence on 1 January 1994.

In accordance with the various agreements, capital contributions to the Joint Ventures by the Preceding Enterprises are in the form of fixed assets, inventories and cash. Capital contributions by JFE&TDC and Sino-Wood are in the form of cash.

**NOTES TO THE PRO-FORMA COMBINED STATEMENTS
OF OPERATING INCOME**

[All tabular numbers are in thousands of Renminbi]

31 December 1993

Unaudited - see Compilation Report

2. BASIS OF PRESENTATION

These special purpose pro-forma combined statements of operating income of the Joint Ventures for each of the years in the three year period ended 31 December 1993 (the "Reporting Period") have been prepared by management, for the purpose of providing relevant financial information with respect to the historical operating results of the business operations of the Preceding Enterprises to be contributed to the Joint Ventures, for inclusion in the Information Circular dated 11 February 1994 relating to the proposed acquisition of all the issued and outstanding common shares of Sino-Wood by Mt. Kearsarge Minerals Inc.. These special purpose pro-forma combined statements of operating income are prepared on the basis as if the business operations of the Preceding Enterprises had been operated as Sino-foreign equity joint venture enterprises throughout the Reporting Period.

These special purpose pro-forma combined statements of operating income have been prepared by management in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). Canadian GAAP differs from that used in the statutory financial statements of the Preceding Enterprises, which were prepared in accordance with the accounting regulations applicable to state-owned enterprises in the PRC. Accordingly, the income reported in these special purpose pro-forma combined statements of operating income, after giving effect to all material adjustments required to comply with Canadian GAAP, differs from the income reported in the statutory financial statements of the Preceding Enterprises determined under the accounting regulations applicable to state-owned enterprises in the PRC.

Since the Joint Ventures are not assuming any of the liabilities of the Preceding Enterprises, are not expected to have significant foreign exchange exposure on monetary assets or liabilities denominated in foreign currencies and are not expected to have external borrowings, the pro-forma combined operating results presented herein exclude the interest expenses and foreign exchange differences which the Preceding Enterprises have incurred as part of their historical operating results.

**NOTES TO THE PRO-FORMA COMBINED STATEMENTS
OF OPERATING INCOME**

[All tabular numbers are in thousands of Renminbi]

31 December 1993

Unaudited - see Compilation Report

Exchange Adjustment Centre exchange rate [the "Swap Rate"] of Rmb 8.702 = US\$1.00 prevailing at the close of business on 4 February 1994 and the exchange rate of C\$1.00 = US\$ 0.752 on 4 February 1994, as there exists no Swap Rate to translate Renminbi directly into Canadian dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

Sales

Sales represent the invoiced value of goods sold, net of returns and sales taxes.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred to bring the inventories to their present location and condition, and is calculated using the weighted average method. Net realizable value represents the anticipated selling price less all further costs for completion and distribution.

Depreciation and depletion

Depreciation is provided to write-off the cost of fixed assets over their estimated useful lives using the straight-line method. The estimated useful lives of fixed assets are as follows:

Building	30 to 50 years
Plant, machinery, and equipment	8 to 20 years
Motor vehicles	8 to 10 years

Joint Ventures

NOTES TO THE PRO-FORMA COMBINED STATEMENTS OF OPERATING INCOME

(All tabular numbers are in thousands of Renminbi)

31 December 1993

Unaudited - see Compilation Report

Depletion of timber is provided on the unit of production basis.

Construction in progress represents factory buildings, plant and machinery under construction and is recorded at cost. Cost comprises direct costs of construction and the acquisition cost of plant and machinery. No depreciation is provided on construction in progress until the relevant assets are capable of producing saleable output on a commercial basis.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates in effect on the dates of the transactions at the Swap Rate. Exchange differences are included in the operating results.

4. SALES TAX

	1993	1992	1991
Sales tax	3,442	2,124	3,363

Pursuant to various PRC tax rules and regulations in effect prior to 1 January 1994, products sold by the Joint Ventures in the PRC were subject to sales tax at various rates between 5% and 10%. No sales tax was levied on export sales.

5. DEPRECIATION AND DEPLETION

Depreciation and depletion included in cost of sales are as follows:

	1993	1992	1991
Depreciation and depletion	933	837	749

**NOTES TO THE PRO-FORMA COMBINED STATEMENTS
OF OPERATING INCOME**

[All tabular numbers are in thousands of Renminbi]

31 December 1993

Unaudited - see Compilation Report

6. RELATED PARTY TRANSACTIONS

A significant portion of the transactions undertaken by the Joint Ventures during the Reporting Period have been effected with other PRC state-owned enterprises on such terms as determined by the relevant PRC authorities.

The following is a summary of significant transactions carried out in the normal course of business between the Joint Ventures and those related companies under the common management of the Preceding Enterprises:

	1993	1992	1991
Purchases of raw materials	67,765	32,781	45,088
Management fees paid	-	1,824	-

7. SUBSEQUENT EVENTS

- (a) On 13 December 1993, the PRC government promulgated a series of provisional tax regulations and established a new system of sales tax for all PRC enterprises and businesses. Under the new system, which will become effective on 1 January 1994, the majority of the products sold by the Joint Ventures in the PRC will be subject to value-added tax at the standard rate of 17%. Export sales will not be subject to value-added tax.
- (b) On 28 December 1993, the PRC government promulgated provisional regulations applicable to all PRC enterprises and businesses regarding the unification of the official exchange rate and the Swap Rate with effect on 1 January 1994.

SCHEDULE G

PRO FORMA CONSOLIDATED BALANCE SHEET

SINO-FOREST CORPORATION

**(formerly Mt. Kearsarge Minerals Inc.)
Unaudited - See Compilation Report**

December 31, 1993

ERNST & YOUNG

• Chartered Accountants
Ernst & Young Team
Toronto-Canadian Centre
P.O. Box 281
Toronto, Canada M5X 1A7

• Phone: (416) 884-1234
Fax: (416) 884-1176

COMPILATION REPORT

POOR QUALITY OF ORIGINAL

To the Directors of
Sino-Forest Corporation

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of Sino-Forest Corporation [formerly Mt. Kearsarge Minerals Inc.] as at December 31, 1993 which has been prepared for inclusion in the Information Circular dated February 11, 1994 relating to the proposed acquisition by the corporation of Sino-Wood Partners, Limited. In our opinion, the pro forma consolidated balance sheet has been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Ernst & Young

Toronto, Canada,
February 11, 1994.

Chartered Accountants

Sino-Forest Corporation
(formerly Mt. Kearney Minerals Inc.)

PRO FORMA CONSOLIDATED BALANCE SHEET
(Canadian dollars in thousands)

As at December 31

Unaudited - See Compilation Report

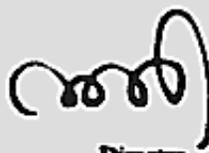
	1993
<hr/>	
ASSETS	
Current	
Cash	7,115
Inventory	2,120
Total current assets	9,235
Fixed assets, net	9,792
Goodwill	50
	19,077
<hr/>	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current	
Accounts payable and accrued liabilities	4
Total current liabilities	4
Minority interests	12,680
Shareholders' equity	
Share capital (note 3)	6,928
Share issue costs	(535)
Total shareholders' equity	6,393
	19,077

See accompanying notes

On behalf of the Board:



Director
John Thompson



Director
Jacob Gornitzki

Sino-Forest Corporation
(formerly Mt. Kearsarge Minerals Inc.)

NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET

December 31, 1993

Unaudited - See Compilation Report

1. BASIS OF PRESENTATION

The pro forma consolidated balance sheet has been prepared by the management of Sino-Forest Corporation ("Sino-Forest") for inclusion in the Information Circular dated February 11, 1994 relating to the proposed acquisition of Sino-Wood Partners, Limited ("Sino-Wood") by Mt. Kearsarge Minerals Inc. ("Mt. Kearsarge") and is based on:

- The pro forma consolidated balance sheet of Sino-Wood at December 31, 1993 reviewed, as to compilation only, by Certified Public Accountants; and
- The audited financial statements of Mt. Kearsarge at December 31, 1993 reported upon by other chartered accountants.

This pro forma consolidated balance sheet should be read in conjunction with these financial statements and notes thereto included elsewhere in the Information Circular.

2. PRO FORMA TRANSACTIONS

The pro forma consolidated balance sheet gives effect as at December 31, 1993 to the following transactions which have occurred or are proposed to occur:

(a) Transactions by Sino-Wood

The acquisition of 53% to 55% equity interests in 6 Sino-foreign equity joint venture enterprises to be formed in the Provinces of Guangdong and Jiangxi in the People's Republic of China for total consideration of approximately U.S.\$22,240,000 (Cdn.\$29,400,000). The first instalment of the consideration amounts to U.S.\$3,960,000 (Cdn.\$5,240,000) and has been reflected in the accompanying pro forma balance sheet. The remainder of the consideration will be due as follows, subject to meeting certain conditions:

	U.S. \$000's
December 1995 (Cdn. \$16,000)	12,100
January 1996 (Cdn. \$8,160)	6,100
	<u>18,200</u>

Sino-Forest Corporation
(formerly Mt. Kearney Minerals Inc.)

**NOTES TO PRO FORMA CONSOLIDATED
BALANCE SHEET**

December 31, 1993

Unaudited - See Compilation Report

(b) Transactions by Mt. Kearney

The shareholders of Mt. Kearney are being asked to approve certain Reorganization Transactions at the annual and special meeting of shareholders to be held in March 1994. In the event that the shareholders do not approve all the Reorganization Transactions, the proposed reorganization will not occur. The proposed Reorganization Transactions are as follows:

- The amalgamation of Mt. Kearney with 1028412 Ontario Inc. ("Ontco"), a newly incorporated company which will have, as of the date of amalgamation, cash of \$6,335,000 and shareholders' equity, consisting of share capital of \$6,700,000 and a deficit of \$365,000 related to share issue costs. The shareholders of Ontco will receive one Class A Subordinate-Voting share and one Class A share purchase warrant of the amalgamated corporation for each common share of Ontco for a total of 12,800,000 Class A Subordinate-Voting shares and 11,900,000 Class A share purchase warrants. Each of the 11,900,000 Series A share purchase warrants outstanding in Ontco will be exercisable into Class A Subordinate-Voting shares of the amalgamated company. The shareholders of Mt. Kearney will receive one Class A Subordinate-Voting share of the amalgamated corporation for each 10 common shares of Mt. Kearney for a total of 3,000,000 Class A Subordinate-Voting shares.
- The change, on amalgamation, of the corporation's name to Sino-Forest Corporation ("Sino-Forest").
- The acquisition of all the issued and outstanding common shares of Sino-Wood in exchange for 16,200,000 Class A Subordinate-Voting shares of Sino-Forest and 6,000,000 Series A Preference shares and 8,100,000 Class B share purchase warrants exercisable on or before June 30, 1995 to acquire one Class A Subordinate-Voting share per warrant at \$1.50 per share. The then existing shareholders of Sino-Wood will hold greater than 50% of the common shares of Mt. Kearney after the transaction. This acquisition is accounted for as a reverse takeover and for accounting purposes Sino-Wood will be treated as the acquirer of Mt. Kearney.

Sino-Forest Corporation
(formerly Mt. Kearsarge Minerals Inc.)

NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET

December 31, 1993

Unaudited - See Compilation Report

Under the purchase method of accounting, the net assets of Mt. Kearsarge are deemed to have been acquired by Sino-Wood at the following estimated fair values:

	1993
	\$
	(000's)
<u>Goodwill</u>	<u>50</u>

The goodwill will be amortized over its useful life which is estimated at forty years.

- The payment of other reorganization and share issue costs of \$170,000.

3. SHARE CAPITAL

Based on the pro forma transactions described in note 2, the authorized and issued share capital will consist of the following:

	1993
	\$
	(000's)
Authorized	
Unlimited Class A Subordinate-Voting shares	
6,000,000 Class B Multiple-Voting shares	
Unlimited Preference shares, issuable in series, the first series thereof shall consist of 6,000,000 Series A Preference shares	
Issued	
32,000,000 Class A Subordinate-Voting shares	6,928
6,000,000 Series A Preference shares	<u> </u>
	<u>6,928</u>

The attributes of the different classes of shares are described in further details in the Information Circular.

The following share purchase warrants will also be issued and outstanding:

- 11,900,000 Series A share purchase warrants. Each warrant will entitle the holder to acquire one Class A Subordinate-Voting share on or before August 31, 1995 for \$1.50 per share.
- 8,100,000 Series B share purchase warrants. Each warrant will entitle the holder to acquire one Class A Subordinate-Voting share on or before June 30, 1995 for \$1.50 per share.

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

**NOTES TO PRO FORMA CONSOLIDATED
BALANCE SHEET**

December 31, 1993

Unaudited - See Compilation Report

The pro forma legal stated value of Mt. Kearsarge's common shares differs from the carrying value reflected in this pro forma consolidated balance sheet as a result of the accounting for the acquisition of Sino-Wood as described in note 2. The pro forma legal stated capital is \$18,779,838.

SCHEDULE H

Pro-forma Consolidated Balance Sheet

Sino-Wood Partners, Limited

31 December 1993

 **ERNST & YOUNG**

SINO-WOOD PARTNERS, LIMITED

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COMPILATION REPORT

To the Directors of
Sino-Wood Partners, Limited

POOR QUALITY ORIGIN

We have reviewed, as to compilation only, the accompanying pro-forma consolidated balance sheet of **Sino-Wood Partners, Limited** as at 31 December 1993 which has been prepared for inclusion in the Information Circular dated 11 February 1994 relating to the proposed acquisition of all the issued and outstanding common shares of Sino-Wood Partners, Limited by Mt. Kearsarge Minerals Inc. In our opinion, the pro-forma consolidated balance sheet has been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Hong Kong,
11 February 1994.

Ernst & Young
Certified Public Accountants

Sino-Wood Partners, Limited

PRO-FORMA CONSOLIDATED BALANCE SHEET

(All numbers are in thousands of Hong Kong Dollars)

31 December 1993

Unaudited - see Compilation Report

	Actual	Pro-forma Transactions	Consolidated Pro-forma
ASSETS			
Cash	2	93,144 (a) 88,653 (b) (88,653) (a)	93,146
Other receivable	8	-	8
Inventories	-	12,373 (a)	12,373
Fixed assets	-	57,162 (a)	57,162
	10	162,679	162,689
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Advances from Mt. Kearsarge Minerals Inc.	-	88,653 (b)	88,653
Minority interests	-	74,026 (a)	74,026
Shareholders' equity	10	-	10
	10	162,679	162,689

See accompanying notes

On behalf of the Board:


Director
Tak Yuen Chan


Director
Wai Ling Chan

NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET

[All tabular numbers are in thousands of Hong Kong Dollars]

31 December 1993

Unaudited - see Compilation Report

1. BASIS OF PRESENTATION

The pro-forma consolidated balance sheet of Sino-Wood Partners, Limited (the "Company") as at 31 December 1993 has been prepared by management to give effect to certain pro-forma adjustments described in note 2 below.

The pro-forma consolidated balance sheet has also been prepared in accordance with generally accepted accounting principles in Canada and should be read in conjunction with the financial statements of the Company and the Joint Ventures included elsewhere in the Information Circular.

2. PRO-FORMA TRANSACTIONS

The pro-forma consolidated balance sheet of the Company is based on the 31 December 1993 balance sheet of the Company after giving effect to the acquisition of the 53% to 55% equity interests in the Joint Ventures effective as of 31 December 1993.

- (a) Pursuant to various joint venture agreements (the "Agreements") and memoranda of implementation (the "Memoranda") entered into during September 1993 to January 1994 and provided that the contractual obligations set out in the Agreements are amended as provided for in the Memoranda, the total registered capital of the Joint Ventures is U.S.\$40,800,000 (approximately \$314.9 million).

NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET
 (All tabular numbers are in thousands of Hong Kong Dollars)

31 December 1993

Unaudited - see Compilation Report

The total registered capital to be contributed to the Joint Ventures by the respective parties are as follows:

Date	PRC Parties	Company	Total
<i>First instalments</i>			
Upon commencement of operations	74,026	-	74,026
On various dates in March 1994	-	20,301	20,301
On various dates in April 1994	-	10,266	10,266
On various dates in December 1995	-	58,086	58,086
	74,026	88,653	162,679
<i>Second instalments</i>			
On various dates in December 1995	46,272	35,392	81,664
On various dates in January 1996	22,967	47,626	70,593
	69,239	83,018	152,257
	143,265	171,671	314,936

The state-owned enterprises in the People's Republic of China (the "PRC") will inject certain fixed assets (including construction-in-progress and timber), inventories, cash and certain business operations currently undertaken by the state-owned enterprises into the Joint Ventures as their first instalment of the registered capital. The valuation of these fixed assets and inventories has been negotiated and agreed between the state-owned enterprises and the Company, and documented in the Memoranda, which are still subject to the PRC government's approval.

The Company will pay in its first instalment of the registered capital in the form of cash.

NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET

(All tabular numbers are in thousands of Hong Kong Dollars)

31 December 1993

Unaudited - see Compilation Report

Following the injection of the first instalment of the registered capital by the state-owned enterprises and the Company, the pro-forma consolidated opening balance sheet of the Joint Ventures, from the Company's perspective, would be as follows:

Assets:	
Cash	93,144
Inventories	12,373
Fixed assets (including construction-in-progress of \$3,944,000 and timber of \$17,876,000)	57,162
Minority interests	(74,026)
	88,653
<hr/>	
Registered capital	88,653
	88,653

- (b) The Company's first instalment of the registered capital in (a) above will be funded by advances from Mt. Kearsarge Minerals Inc. which, on 1 January 1994, has entered into a share purchase and sale agreement with the Company's existing shareholders to acquire all the issued and outstanding common shares of the Company.

SCHEDULE I

DISSENT PROVISIONS

SECTION 185 OF THE BUSINESS CORPORATIONS ACT (ONTARIO)

POOR QUALITY ORIGINAL

185. (1) **Rights of dissenting shareholders.** Subject to subsection (3) and to sections 186 and 248, if a corporation resolves to,

- (a) amend its articles under section 168 to add, remove or change restrictions on the issue, transfer or ownership of shares of a class or series of the shares of the corporation;
- (b) amend its articles under section 168 to add, remove or change any restriction upon the business or businesses that the corporation may carry on or upon the powers that the corporation may exercise;
- (c) amalgamate with another corporation under sections 175 and 176;
- (d) be continued under the laws of another jurisdiction under section 181; or
- (e) sell, lease or exchange all or substantially all its property under subsection 184(3).

a holder of shares of any class or series entitled to vote on the resolution may dissent.

(2) **Idem.** If a corporation resolves to amend its articles in a manner referred to in subsection 170(1), a holder of shares of any class or series entitled to vote on the amendment under section 168 or 170 may dissent, except in respect of an amendment referred to in,

- (a) clause 170(a), (b) or (c) where the articles provide that the holders of shares of such class or series are not entitled to dissent; or
- (b) subsection 170(5) or (6).

(3) **Exception.** A shareholder of a corporation incorporated before the 29th day of July, 1983 is not entitled to dissent under this section in respect of an amendment of the articles of the corporation to the extent that the amendment,

- (a) amends the express terms of any provision of the articles of the corporation to conform to the terms of the provision as deemed to be amended by section 277; or
- (b) deletes from the articles of the corporation all of the objects of the corporation set out in its articles, provided that the deletion is made by the 29th day of July, 1986.

(4) **Shareholder's right to be paid fair value.** In addition to any other right the shareholder may have, but subject to subsection (30), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents becomes effective, to be paid by the corporation the fair value of the shares held by the shareholder in respect of which the shareholder dissents, determined as of the close of business on the date before the resolution was adopted.

(5) **No partial dissent.** A dissenting shareholder may only claim under this section with respect to all the shares of a class held by the dissenting shareholder on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(6) **Objection.** A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting or of the shareholder's right to dissent.

(7) **Idem.** The execution or exercise of a proxy does not constitute a written objection for purposes of subsection (6).

(8) **Notice of adoption of resolution.** The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (6) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn the objection.

(9) **Idem.** A notice sent under subsection (8) shall set out the rights of the dissenting shareholder and the procedures to be followed to exercise those rights.

(10) **Demand for payment of fair value.** A dissenting shareholder entitled to receive notice under subsection (8) shall, within twenty days after receiving such notice, or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing,

- (a) the shareholder's name and address;
- (b) the number and class of shares in respect of which the shareholder dissents; and
- (c) a demand for payment of the fair value of such shares.

(11) **Certificates to be sent in.** Not later than the thirtieth day after the sending of a notice under subsection (10), a dissenting shareholder shall send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.

(12) **Idem.** A dissenting shareholder who fails to comply with subsections (6), (10) and (11) has no right to make a claim under this section.

(13) **Endorsement of certificate.** A corporation or its transfer agent shall endorse on any share certificate received under subsection (11) a notice that the holder is a dissenting shareholder under this section and shall return forthwith the share certificate to the dissenting shareholder.

(14) **Rights of dissenting shareholder.** On sending a notice under subsection (10), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of the shares as determined under this section except where,

- (a) the dissenting shareholder withdraws notice before the corporation makes an offer under subsection (15);
- (b) the corporation fails to make an offer in accordance with subsection (15) and the dissenting shareholder withdraws notice; or
- (c) the directors revoke a resolution to amend the articles under subsection 168(3), terminate an amalgamation agreement under subsection 176(5) or an application for continuance under subsection 181(5), or abandon a sale, lease or exchange under subsection 184(8).

in which case the dissenting shareholder's rights are reinstated as of the date the dissenting shareholder sent the notice referred to in subsection (10), and the dissenting shareholder is entitled, upon presentation and surrender to the corporation or its transfer agent of any certificate representing the shares that has been endorsed in accordance with subsection (13), to be issued a new certificate representing the same number of shares as the certificate so presented, without payment of any fee.

(15) **Offer to pay.** A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (10), send to each dissenting shareholder who has sent such notice,

- (a) a written offer to pay for the dissenting shareholder's shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or
- (b) if subsection (30) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(16) **Idem.** Every offer made under subsection (15) for shares of the same class or series shall be on the same terms.

(17) **Idem.** Subject to subsection (30), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (15) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(18) **Application to court to fix fair value.** Where a corporation fails to make an offer under subsection (15) or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as the court may allow, apply to the court to fix a fair value for the shares of any dissenting shareholder.

(19) **Idem.** If a corporation fails to apply to the court under subsection (18), a dissenting shareholder may apply to the court for the same purpose within a further period of twenty days or within such further period as the court may allow.

(20) **Idem.** A dissenting shareholder is not required to give security for costs in an application made under subsection (18) or (19).

(21) **Costs.** If a corporation fails to comply with subsection (15), then the costs of a shareholder application under subsection (19) are to be borne by the corporation unless the court otherwise orders.

(22) **Notice to Shareholders.** Before making application to the court under subsection (18) or not later than seven days after receiving notice of an application to the court under subsection (19), as the case may be, a corporation shall give notice to each dissenting shareholder who, at the date upon which the notice is given,

- (a) has sent to the corporation the notice referred to in subsection (10); and
- (b) has not accepted an offer made by the corporation under subsection (15), if such an offer was made,

of the date, place and consequences of the application and of the dissenting shareholder's right to appear and be heard in person or by counsel, and a similar notice shall be given to each dissenting shareholder who, after the date of such first mentioned notice and before termination of the proceedings commenced by the application, satisfies the conditions set out in clauses (a) and (b) within three days after the dissenting shareholder satisfies such conditions.

(23) **Parties joined.** All dissenting shareholders who satisfy the conditions set out in clauses (22)(a) and (b) shall be deemed to be joined as parties to an application under subsection (18) or (19) on the later of the date upon which the application is brought and the date upon which they satisfy the conditions, and shall be bound by the decision rendered by the court in the proceedings commenced by the application.

(24) **Idem.** Upon an application to the court under subsection (18) or (19), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall fix a fair value for the shares of all dissenting shareholders.

(25) **Appraisers.** The court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(26) **Final order.** The final order of the court in the proceedings commenced by an application under subsection (18) or (19) shall be rendered against the corporation and in favour of each dissenting shareholder who, whether before or after the date of the order, complies with the conditions set out in clauses (22)(a) and (b).

(27) **Interest.** The court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(28) **Where corporation unable to pay.** Where subsection (30) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (26), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(29) **Idem.** Where subsection (30) applies, a dissenting shareholder, by written notice sent to the corporation within thirty days after receiving a notice under subsection (28), may,

- (a) withdraws a notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder's full rights are reinstated; or
- (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(30) **Idem.** A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that,

- (a) the corporation is or, after the payment, would be unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

(31) **Court order.** Upon application by a corporation that proposes to take any of the actions referred to in subsection (1) or (2), the court may, if satisfied that the proposed action is not in all the circumstances one that should give rise to the rights arising under subsection (4), by order declare that those rights will not arise upon the taking of the proposed action, and the order may be subject to compliance with such terms and conditions as the court thinks fit and notice of any such application and a copy of any order made by the court upon such application shall be served upon the Director and, if the corporation is an offering corporation, upon the Commission.

(32) **Director may appear.** The Director and, in the case of an offering corporation, the Commission may appoint counsel to assist the court upon the hearing of an application under subsection (31).

SCHEDULE J

NOTICE OF CHANGE IN AUDITORS

MT. KEARSARGE MINERALS INC.
Suite 2004
200 King Street West
Toronto, Ontario
M5H 3T4

February 10, 1994

To: Shareholders of Mt. Kearsarge Minerals Inc.

And To: Ontario Securities Commission
Canadian Dealing Network

Pursuant to National Policy No. 31 adopted by Canadian Securities Regulators regarding the change of auditor of a reporting issuer, we are writing to advise you of certain developments regarding the Corporation's auditors.

The Corporation's current auditor, T.H. Bernholtz & Co., Chartered Accountants, will voluntarily resign, at the request of management of the Corporation, if the Reorganization regarding the acquisition of Sino-Wood Partners, Limited by the Corporation and related matters as described in the Proxy Circular dated on or about February 10, 1994 are approved by shareholders. Management of the Corporation will fill the vacancy by appointing Ernst & Young, Chartered Accountants, as auditors of the Corporation for the next fiscal year.

According to the provisions of National Policy No. 31 adopted by Canadian Securities Administrators, we wish to advise you that for audits conducted in the past two fiscal years of the Corporation, and in the period to the date of this notice, there have been no "reportable events". National Policy No. 31 defines "reportable events" as any occurrence in the relationship between a company and its auditor which may have been a contributing factor to the auditor's resignation or termination.

The decision of management of the Corporation to request the resignation of T.H. Bernholtz & Co., Chartered Accountants, and appoint Ernst & Young, Chartered Accountants, to fill the vacancy was approved by the audit committee of the board of directors comprised of John Thompson, Jacob Gornitzki and Paul F. Little. These steps have been taken as part of the proposed Reorganization which is subject to shareholder approval. Ernst & Young, Chartered Accountants, are currently the auditors for Sino-Wood Partners, Limited.

As required by National Policy No. 31, attached to this letter please find the comments of T.H. Bernholtz & Co., Chartered Accountants, and the comments of Ernst & Young, Chartered Accountants.

Yours very truly,



John Thompson
President

T. H. BERNHOLTZ & CO.
CHARTERED ACCOUNTANTS

THEODORE H. BERNHOLTZ, M.A., C.A.
BRUCE WRIGHT, M.B.A., C.A.

103 RICHMOND STREET EAST, SUITE 1101
TORONTO, ONTARIO M5C 1R9
(416) 364-7810
FAX: (416) 364-0914

February 10, 1994

To: The Directors of Mt Kamaarge Minerals Inc.
And to: Ontario Securities Commission
Canadian Dealing Network

We have read the Notice dated February 10, 1994 sent to us pursuant to the requirements of National Policy 31, relating to the appointment of new auditors. In this connection, we advise that we are in agreement with the information contained in the Notice.

Yours truly,



T.H. Bernholtz & Co.
Chartered Accountants

POOR QUALITY ORIGINAL

February 10, 1994

POOR QUALITY ORIG

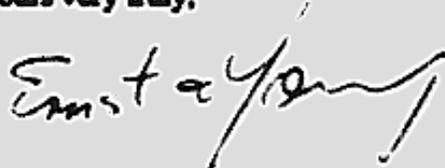
PRIVATE AND CONFIDENTIAL

To: **Shareholders of Mt. Kearsarge Minerals Inc.**

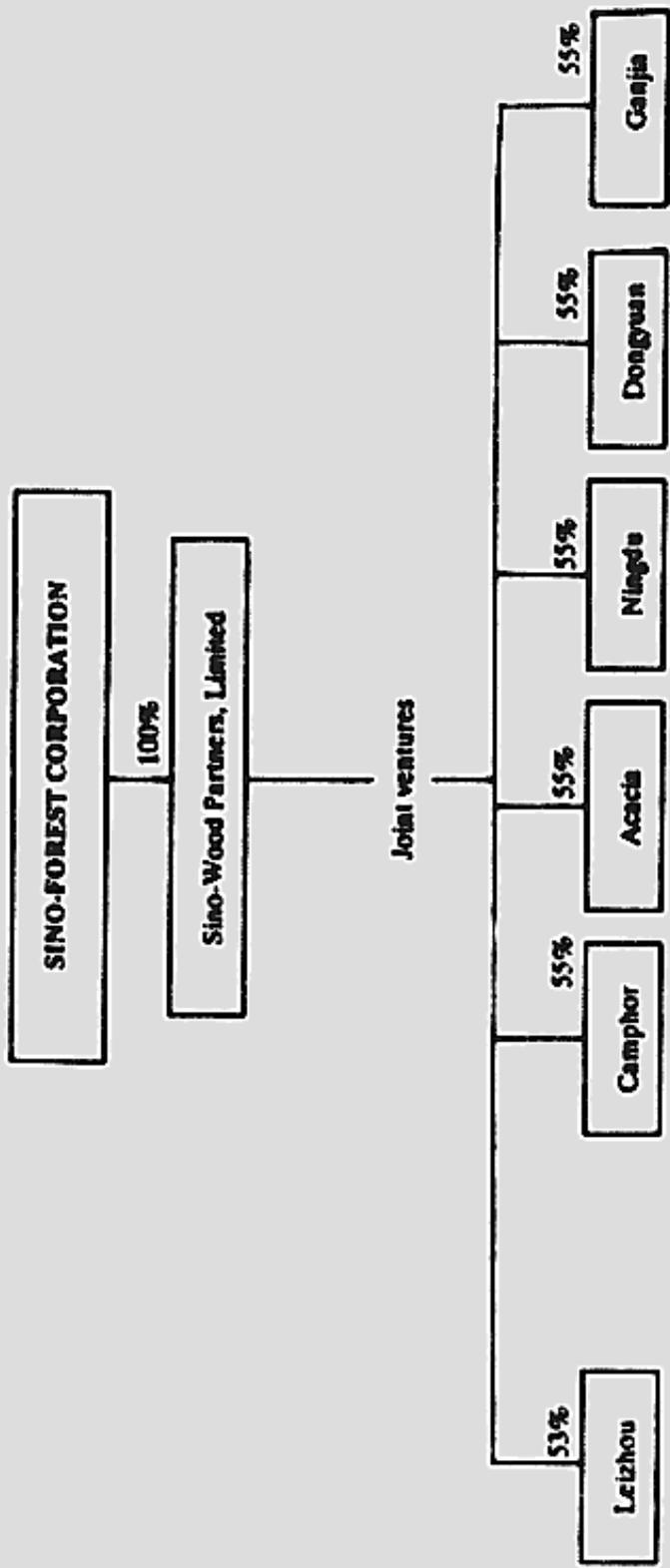
And to: **Ontario Securities Commission
Canadian Dealing Network**

We acknowledge that we have received a copy of the letter to shareholders of Mt. Kearsarge Minerals Inc. (the "Corporation") dated February 10, 1994 (the "Corporation's Letter"), describing the circumstances in which T. H. Bernholtz & Co., Chartered Accountants, will cease to act as the Corporation's auditors. We also acknowledge that we have received a copy of a letter (the "Former Auditor's Letter") addressed to the Ontario Securities Commission and the Canadian Dealing Network from T. H. Bernholtz & Co., Chartered Accountants, dated February 10, 1994, in response to the Corporation's Letter. Pursuant to National Policy 31, please accept this letter as confirmation that we do not dispute the matters as disclosed in either the Corporation's Letter or the Former Auditors' Letter.

Yours very truly,



Ernst & Young



Province:	Guangdong	Jiangxi	Jiangxi	Jiangxi	Jiangxi	Jiangxi
Joint Venture Partners:	Leizhou Forestry Bureau	state-owned enterprises provincial forestry agency	Camphor	Acacia & Caffeine	Rosin & Turpentine	Rosin & Turpentine
Products:	Eucalypt chips	Camphor Gulonic Acid Iso-borneyl acetate Ambroxone	Acacia & Caffeine	Rosin & Turpentine	Rosin & Turpentine	Phywood Particle board
		35%	35%	35%	35%	0%
		10%	10%	10%	10%	45%