



SINO-FOREST CORPORATION

Annual Information Form
in respect of the year ended
December 31, 2007

March 28, 2008

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FORWARD-LOOKING STATEMENTS

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

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

All references in this Annual Information Form to “U.S. dollars” and “US\$” are to United States dollars; all references to “Canadian dollars” and “Cdn.\$” are to Canadian dollars; all references to “H.K. dollars” and “HK\$” are to Hong Kong dollars; all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China, or the PRC; and all references to “€” or “Euro” are to Euros. Solely for the convenience of the reader, this Annual Information Form contains translations of certain Canadian dollar, H.K. dollar and Renminbi amounts into U.S. dollars. Unless otherwise indicated, all dollar amounts in this Annual Information Form are expressed in U.S. dollars.

All such Canadian dollar translations have been made at the rate of Cdn.\$0.991 to US\$1.00. All such H.K. dollar translations have been made at the rate of HK\$7.824 to US\$1.00. All such Renminbi translations have been made at the rate of RMB7.327 to US\$1.00. No representation is made that the Canadian dollar, H.K. dollar or Renminbi amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate.

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

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

A “bone dry metric ton” or “BDMT” is a measure of weight used in the forest products industry to measure bulk products such as wood chips. One bone dry metric ton would weigh one metric ton if all the moisture content were removed. A bone dry metric ton can be converted to cubic meters of logs depending on the wood density of the species concerned. For eucalyptus trees, one bone dry metric ton is equal to approximately two cubic meters of round logs.

A hectare is a metric unit of area equal to 10,000 m² or approximately 2.471 acres.

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

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

An “Original Equipment Manufacturer” or “OEM” is a company that builds products or components that are used in products sold by another company.

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

THE CORPORATION

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

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

CORPORATE STRUCTURE

The following chart, which does not include certain immaterial subsidiaries, shows our current corporate structure:

Notes:

- (1) The trading activities of Sino-Forest Resources Inc. and Suri-Wood Inc. are conducted through authorized intermediaries. Sino-Forest Resources Inc. engages in standing timber sales and import of wood-based products. Suri-Wood Inc. engages in standing timber and wood chips sales. Due to lack of available chipping capacity, wood chips sales were discontinued from the second quarter of 2007.
- (2) The CJVs Guangxi Guijia Forestry Company Limited, Jiangxi Jiachang Forestry Development Co. Ltd., Heyuan City Jiahe Forestry Development Ltd., and Gaoyao City Jiayao Forestry Development Ltd. were converted into WFOEs in 2007.
- (3) Sino-Forest (Guangzhou) Trading Co. Ltd., a WFOE which was established on March 31, 2005, engages in wood products business.
- (4) Sino-Forest (Anhui) Co. Ltd., a WFOE which was established on July 25, 2005, engages in forest nursery and research and development on forestry plantation, technology transfer and related services.
- (5) Sino-Forest (Suzhou) Trading Co. Ltd., a WFOE which was established on July 26, 2005, engages in wood products, flooring and paneling business.
- (6) Heilongjiang Jiamu Panel Co. Limited, a WFOE which was established on May 20, 2005, engages in manufacturing and sale of oriented strand board and other wood-based products.
- (7) Xiangxi Autonomous State Jiayi Forest Development Co. Ltd., a WFOE in Hunan which was established on September 25, 2006, engages in wood logs and panel trading business.
- (8) Hunan Jiayu Wood Products Co. Ltd., a WFOE which was established on April 14, 2006, engages in finger-joint board production and wood logs and panel trading business.
- (9) SFR (Suzhou) Co. Ltd. merged with Jiafeng Wood (Suzhou) Co. Ltd in 2007. After the merger, SFR (Suzhou) Co. Ltd. was deregistered under the PRC laws. Jiafeng Wood (Suzhou) Co. Ltd. engages in engineered wood flooring production.
- (10) Shaoyang Jiading Wood Products Co. Ltd., a WFOE in Hunan which was established on March 14, 2007, engages in the production of finger joint board, block board and saw lumber.
- (11) Sino-Panel (Gengma) Limited, a WFOE in Yunnan which was established on May 9, 2007, plans to acquire broad-leaf mature and over-mature trees and a large-scale factory producing a wide variety of wood products.
- (12) Zhangjiagang Free Trade Zone Jiashen International Trading Co. Ltd., a WFOE in Jiangsu which was established on January 29, 2007, engages in the import and export of wood-based products.
- (13) Sino-Panel (Beihai) Development Co., Ltd., a WFOE in Guangxi which was established on August 28, 2007, engages in the processing of wood-based panel.
- (14) Hunan Jiayu Wood Products (Hongjiang) Co., Ltd., a WFOE which was established on March 6, 2007, engages in finger-joint board production and wood logs and panel trading business.
- (15) Sino-Panel (Luzhai) Co. Ltd., a WFOE in Guangxi which was established on September 21, 2007, engages in processing and trading of plywood.

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Sino-Forest Corporation is a leading foreign-owned commercial forestry plantations operator in China. The Canadian corporation began operations in 1994 as the first foreign and privately-managed company involved in forestry products in the People's Republic of China ("PRC"). Its principal businesses include the ownership and management of forestry plantation trees, sale of standing timber, wood logs, and complementary manufacturing of downstream engineered wood products. Our executive offices are located in Hong Kong and Toronto, Canada and our common shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol TRE.

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments - **Wood Fibre Continuing Operations** are the major revenue contributor, while our **Manufacturing & Other Operations** enable us to realize added value from downstream operation.

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

Plantation Fibre

- We acquire, cultivate and sell standing timber or harvested logs from our purchased and planted tree plantations and integrated plantation in six provinces and regions across China.

Other Fibre

- Wood Logs – we source logs from PRC suppliers and sell them in the domestic market; and
- Imported Wood Products – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing & Other Operations include:

- Particleboard manufactured in Gaoyao, Guangdong Province;
- Engineered Wood Flooring produced in Suzhou, Jiangsu Province, and sold through over 200 stores nationwide in the PRC;
- Oriented Strand Board manufactured in Muling City, Heilongjiang Province;
- Finger-Joint Board, Block Board and Particleboard produced in Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province; and
- Greenery & Nurseries operation based in Suzhou, Jiangsu Province.

Historical Milestones

The following are important historical milestones in the development of Sino-Forest's business:

- 2005
- Acquired 15% equity interest and invested \$15 million in the form of a subordinated loan to Mandra Forestry Holdings Limited ("Mandra"). Sino-Forest provides plantation management services for which it receives a yearly management fee of \$1 million and has the right of first refusal to acquire timber harvested by Mandra at a 3% discount to the prevailing market price. Sino-Forest will also have the option to acquire Mandra forestry depending on the performance.
- 2006
- Secured a syndicated loan facility with several financial institutions for a \$150 million five-year plus one day term loan.
 - Entered into a master agreement to secure 1.5 million cubic metres annually of long-term wood fibre supply over 12 years in the Inner Mongolia Autonomous Region by managing a programme of secondary forests.
 - Entered into agreements in the third and fourth quarters to acquire a total of 400,000 hectares of Chinese fir and pine over next 14 years in the Hunan Province.
- 2007
- Closed a private placement on April 10, 2007 in which 25.4 million Common Shares were issued to several institutional investors, including Temasek Holdings (Pte) Ltd. and United Capital - Investment Group Limited at Cdn.\$9.15 per share for gross proceeds of \$200 million. Proceeds of the offering will be used for the acquisition of standing timber in the Yunnan Province, for the acquisition or construction of related processing facilities in the regions and for working capital.
 - Entered into a master agreement on March 23, 2007 to acquire approximately 200,000 hectares of non-state owned commercial standing timber of pine, oak, birch and broadleaved shaw in the Yunnan Province over a 10-year period.
 - Completed a bought deal on June 12, 2007 and raised gross proceeds of Cdn.\$201 million by issuing 15.9 million Common Shares at Cdn.\$12.65 per share. The proceeds shall be used primarily for general corporate purposes, including the acquisition of standing timber, for the acquisition or construction of related processing facilities in the plantation regions that have or will have operations, and for working capital in connection with the foregoing.
 - Entered into a master agreement on December 10, 2007 to purchase approximately 150,000 hectares of non-state owned commercial timber of Chinese fir and pine trees in the Guangxi Province over a 5-year period.

DESCRIPTION OF THE BUSINESS

VISION AND STRATEGY

Our vision is to become the leading commercial forestry plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC.

To achieve our vision, we strive to be at the forefront of our industry by creating regional “wood baskets” that ensure a sustainable and quality supply of wood fibre to downstream manufacturing operations. We also plan to introduce new technologies to improve productivity, quality and economic viability of China’s engineered wood products.

We focus on the following strategies that have made Sino-Forest successful:

- Acquire additional forestry plantations and access to long-term supply of wood fibre in and near PRC’s regional markets with growing demand;
- Improve the yields of our forestry plantations by continued investment in research and development and application of advanced forestry management techniques;
- Practice environmentally responsible forestry and manufacturing;
- Strengthen our management processes and information systems to support the growth of our multi-faceted businesses;
- Build a viable engineered wood manufacturing business to complement our plantation operations aiming to increase the value of our wood fibre; and
- Widen and diversify our investor base and enhance our corporate image and profile.

Our strategic goal over the next three years is to sell 15 to 20 million cubic meters (m³) of wood fibre annually to supply the PRC’s wood panel, furniture, construction, interior decoration and pulp and paper industries.

WOOD FIBRE OPERATIONS

Forestry plantations are a significant provider of wood fibre that we sell. We have a strong track record of acquiring and developing commercial forestry plantations. Since 1995, we have successfully executed our business model of purchasing and planting fast-growing trees at our plantations. In 2007, we added integrated operations which link upstream plantations to downstream manufacturing.

Standing Timber

Under the standing timber plantations, we have two types of forestry plantations: our **planted tree plantations** and **purchased tree plantations** where we purchase young trees from third parties which we upkeep until maturity, and subsequently sell as standing timber.

We are currently in the process of executing a new model: integrated operations where we acquire mature trees, harvest them, sell them as wood logs and/or utilize them in our value-added manufacturing operations.

Our plantations consist primarily of pine trees, fir, eucalyptus and other species.

As of December 31, 2007, Sino-Forest has 312,000 hectares of plantations under management strategically located in six provinces and regions in the PRC.

Recent Developments

Inner Mongolia

Under the master agreement entered into in July 2006 with Inner Mongolia Forest and Timber Resources Company Ltd. to secure at least 1.5 million m³ of wood fibre for 12 years in Mongolia, we have acquired 17,000 m³ of wood fibre as at December 31, 2007.

Hunan

Under the long-term master agreements entered into in September and December 2006 with Hongjiang City Forestry Technology Integrated Development Services Company to acquire 400,000 hectares of plantation trees for 14 years in Hunan, Sino-Forest has acquired 59,313 hectares of plantation trees for \$250.0 million as at December 31, 2007.

Under the provisions of such master agreements, Sino-Forest is given the right of first refusal to lease land for 50 years. We intend to annually re-plant approximately the same hectares of trees harvested in the previous year over a 14-year period. The final terms of the lease are to be negotiated with Hongjiang City Forestry Technology Integrated Development Services Company, the counterparty of the master agreements, upon the authorization of the original plantation rights holders and subject to the requisite plantation rights registration with the local forestry bureau.

Yunnan

Pursuant to a master agreement entered into on March 23, 2007 by one of the Corporation's wholly-owned subsidiaries, Sino-Panel (Asia) Inc. ("Sino-Panel"), with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd. ("Gengma Forestry"), established in Lincang City, Yunnan Province in the PRC, Sino-Panel will acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan Province for approximately RMB5.5 to RMB11 billion or approximately US\$0.7 to US\$1.4 billion over a 10-year period. The purchase price is not to exceed RMB260 or approximately US\$33.6 per m³. The number of hectares to be acquired each year will be determined by Sino-Panel's PRC subsidiaries by entering into specific purchase agreements with Gengma Forestry. The master agreement also provides Sino-Panel with the right of first refusal to lease the land for 50 years after harvesting. The final terms of the lease are to be further negotiated with Gengma Forestry and the lease is subject to the requisite plantation rights registration with the local forestry bureau.

Under the provisions of such master agreement, Sino-Forest has acquired 10,438 hectares of standing timber for \$88.1 million as at December 31, 2007.

Guangxi

On December 10, 2007, the Corporation announced the signing of a master agreement to acquire 150,000 hectares of plantation trees in Guangxi Province through Sino-Panel. This master agreement is with Zhanjiang Bo Hu Wood Company Limited (“Bo Hu”), which will act as the authorized agent for the original plantation rights holders.

Under this master agreement, Sino-Panel will, through the PRC subsidiaries of Sino-Forest, purchase 150,000 hectares of Chinese fir and pine trees in Guangxi Province with a price not to exceed RMB380 per m³ or approximately US\$51.40 per m³ over a 5-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 m³ to 120 m³ per hectare, or an aggregate 15 million m³ to 18 million m³ of wood fibre. In addition to securing the tree acquisition price, Sino-Panel has pre-emptive rights to lease land at a price not to exceed RMB525 per hectare per annum for 30 years. The land lease is up to 50 years as permissible under the PRC laws and regulations after harvesting. The specific terms and conditions of such purchase or lease are to be determined following the execution of definitive agreements between the PRC subsidiaries of Sino-Forest and Bo Hu upon the authorisation of the original plantation rights holders, and subject to compliance with the relevant PRC laws and regulations.

Guangxi is located in a strategic location in the southern coastal region of PRC whose favorable climate and rich soil are conducive to generating fast-growing, high-yield species. Harvested land will be re-planted with eucalyptus with an estimated average yield of 150 m³ after a 6-year cycle. In addition, Sino-Forest has a 12-year track record of growing eucalyptus and operating successfully in the region.

Guangxi is becoming one of the key provinces in PRC as it is close to the port of Beihai – one of the State Council’s approved and established Export Processing Zones (“EPZ”). Beihai is one of the few key ports located in south-China, close to nearby ASEAN (Association of Southeast Asian Nations) countries, thereby benefiting from favourable tax incentives of importation and re-exportation to other countries. Sino-Forest had approximately 152,000 hectares of plantation in Guangxi under management as at December 31, 2007.

Sino-Forest has acquired 5.5 hectares of land with an estimated covered area of 100,000 square metres in Beihai’s EPZ, which could accommodate engineered-wood production and other value-added processing. The strategic location of this facility in the EPZ synergies with our domestic plantation fibre and imported timber from nearby countries, which is then processed into high-quality, engineered-wood products, and sold to domestic markets or exported to other countries.

Operations Overview

Purchased Tree Plantations

We acquire young trees from local forestry entities with the rights to own and sell trees when they mature and will have the first rights to lease the land for replanting under a 30 to 50 year term contract in accordance with relevant PRC laws.

The purchase price takes into account a variety of factors such as trees species, yield, age, size, quality and location of the tree plantation. Soil and weather conditions for replanting, log prices and regional market demand are also important factors to consider.

We manage the silviculture of these trees until maturity and sell them in standing timber form through authorized intermediaries representing downstream customers.

Planted Tree Plantations

We choose to plant trees in strategically located areas. We operate our commercial plantations using advanced environmentally prudent plantation management practices. We believe our 12-year track record in the PRC using advanced plantation management techniques is a competitive advantage in the country, where the commercial forestry plantation industry is comparatively underdeveloped and where there are currently limited large-scale plantations using advanced plantation management practices. For eucalyptus plantation, we anticipate obtaining an average yield of 120 m³ per hectare in the upcoming harvesting cycle for a 6-year growing period, i.e. trees planted in 2005.

In the fourth quarter of 2007, Sino-Forest completed the conversion of the legal structure of all of its four Co-operative Joint Ventures (CJVs) to Wholly Foreign Owned Enterprises (WFOEs) in accordance with PRC laws. Under the WFOE structure, Sino-Forest will have overall operational control and management rights of its plantation operations. We will lease land from the original plantation rights holders and pay the land lease rent, which is settled mainly on a yearly basis. Terms of land leases are between 30 and 50 years, depending on negotiation with different provinces and regions. The conversion will provide Sino-Forest with better control of its plantations and generate higher margins.

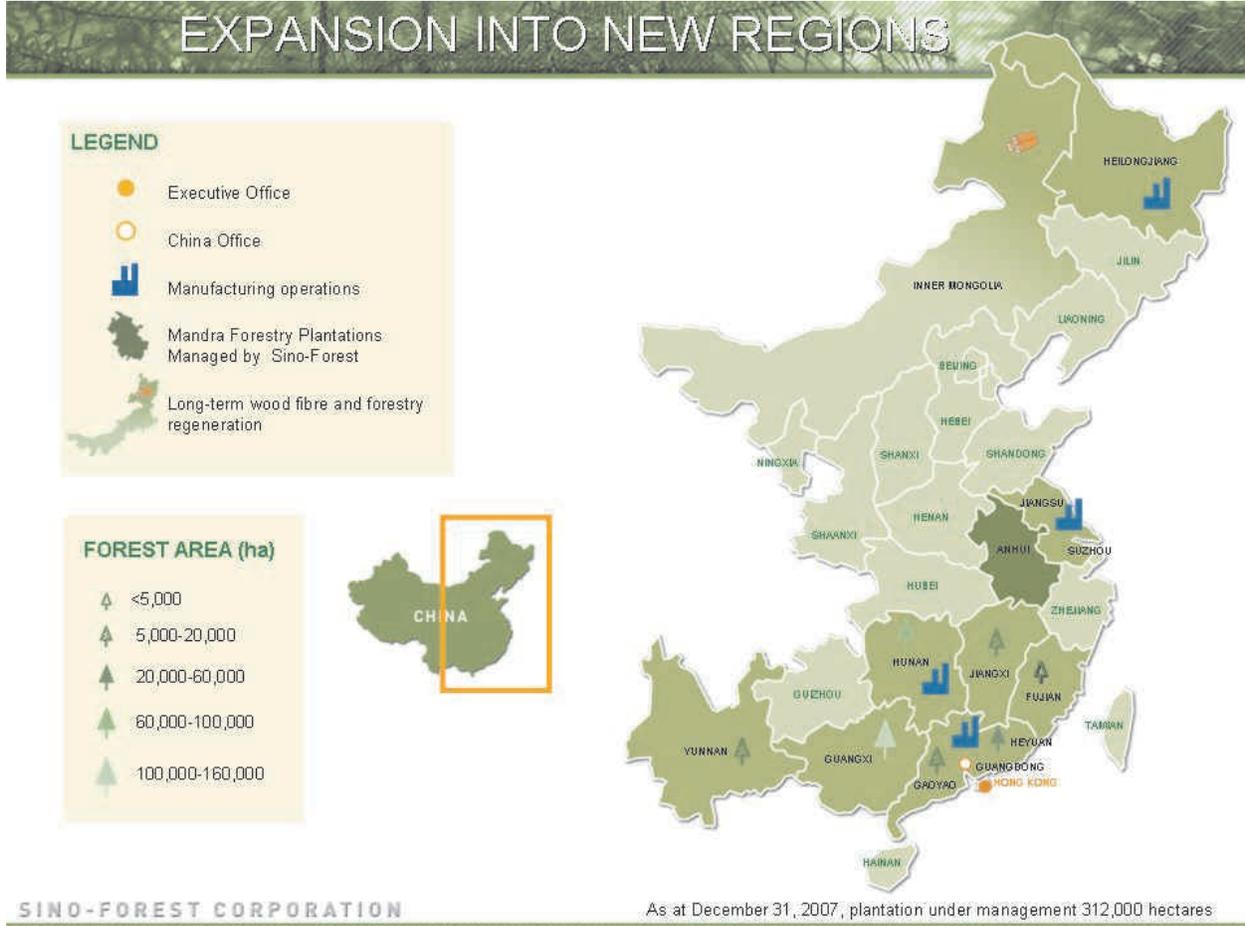
Negotiations with local farmers and collective organisations for entering into new plantation land lease contracts are in progress. There is no assurance that we will secure all of the plantation land use rights from the farmers and collective organisations.

The following table sets forth the rotation cycles, growth rates and yields of the tree species grown on our planted tree plantations and those purchased under our purchased plantations:

| Species | Eucalyptus | Chinese Fir | Pine |
|---|------------|-------------|-------------|
| Plantation cycle | 5-6 years | 12-15 years | 12-15 years |
| Average standing timber yield per hectare per cycle (m ³) | 120 | 150 | 150 |
| Recovered log or fibre after harvesting (m ³) | 90 | 105 | 105 |

Plantation Locations

The following map highlights the location of our forestry plantations in China:



The following table sets forth the total hectares of planted tree plantations and purchased tree plantations by geographical region as of December 31, 2007:

| Location | Planted Tree Plantations (area by thousands of hectares) | Purchased Tree Plantations (area by thousands of hectares) |
|--------------------------------|--|--|
| Guangdong Province Gaoyao City | 5 | 7 |
| Guangdong Province Heyuan City | 30 | 4 |
| Guangxi Province | 11 | 141 |
| Jiangxi Province | 7 | - |
| Hunan Province | - | 96 |
| Yunnan Province | - | 10 |
| Fujian Province | 1 | - |
| Total | 54 | 258 |

Tree Species and Maturity

The following table sets forth our forestry plantations by tree species and maturity as of December 31, 2007:

| | Eucalyptus | | Poplar | | Pine | | Other Species | | Total Hectares |
|--|---------------------------------------|------------------------------------|---------------------------------------|------------------------------------|--|-------------------------------------|---------------------------------------|------------------------------------|-----------------------|
| | Pre-Mature (Less than 5 Years) | Mature (5 Years or Greater) | Pre-Mature (Less than 7 Years) | Mature (7 Years or Greater) | Pre-Mature (Less than 12 Years) | Mature (12 Years or Greater) | Pre-Mature (Less than 7 Years) | Mature (7 Years or Greater) | |
| (area by thousands of hectares) | | | | | | | | | |
| Planted tree plantations | 38 | 11 | 1 | 3 | - | - | 1 | - | 54 |
| Purchased tree plantations | 6 | 1 | - | - | 54 | 186 | - | 11 | 258 |
| Total | 44 | 12 | 1 | 3 | 54 | 186 | 1 | 11 | 312 |

Plantation Management

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

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

We engage in planting the first cycle of our planted tree plantations. We may also engage in planting if we exercise our option to obtain the plantation land use rights for our purchased tree plantations, as our strategy is to replant forestry plantations of other species with eucalyptus or other better adaptive trees. We commenced planting trees from clones in 1998. As a result, approximately half of our forestry plantations currently consist of trees planted from traditional seedlings. Eucalyptus trees planted since 2000 have been produced from clones. From 2007, we started to directly plant tissue cultured cuttings instead of rooted cuttings in our plantations.

We produce rooted cuttings for our planted forestry plantations by using tender branchlets taken from mother plants raised in our nursery, which were developed from the tiny bottle cuttings raised in our tissue culture laboratory. By means of this type of vegetative propagation, the ramets of a clone receive the entire genetic code of the original tree. As a result, using rooted cuttings can maximize favourable genetic attributes in forestry plantations as each tree has homogenous genetic characteristics. With our efforts to improve mass propagation technology and to further lower the cost of eucalyptus tissue culture operation, we are now able to produce a large amount of the tissue cultured cuttings directly for plantation development. It is accepted that tissue cultured cuttings are physiologically more vigorous than rooted cuttings. To reduce potential loss associated with cloned forestry plantations, due to the lack of genetic diversity, we currently deploy more than 10 different clones in our forestry plantations.

We raise cuttings or seedlings in the nursery for approximately three to six months depending on species and locations before planting them in the forestry plantations. After site preparation, including clearing weeds or harvesting residues of existing plantation land or farmland, we generally plant the young cuttings or seedlings, spaced two by three meters apart, in rows. The degree of site preparation will depend upon the slope of the hill on which the young seedlings are planted. For slopes between 5% and 20%, which is the slope on which the majority of our trees are grown, we generally provide a contour strip, or terrace, and plant the trees along the contour of the terrace. We apply basic fertilizers and then plant the cutting in a planting hole and apply top-dressing fertilizer and intensively tend trees for the first three years after their planting.

To optimize the yields of our plantations, we implement plantation management techniques, including the following:

- Detailed site assessments and choice and preparation of the plantation site where the trees are to be grown, including clearing, terracing and hole digging;

- Superior planting material rearing, including suitable seed source from seed orchards, proper clone choice, mother plant (hedge) management, cutting or tissue culture propagation and management, seedling raising, screening of cuttings or seedlings;
- Planting at optimal times of the year with proper spacing;
- Taking measures to ensure that trees are properly tended, applied with fertilizer and protected from damage caused by pests and disease;
- Monitoring the forestry plantations in terms of growth, natural disasters including damage and loss caused by pest, disease, cold, drought and snow, environmental impacts etc., performing analysis and adjusting the care of the forestry plantations according to the results of this analysis; and
- Conducting research and development activities that complement and support the above activities.

Our overall management objective is to manage our planted tree plantations on a sustainable basis, which means that the volume of timber harvested over time will not in general exceed the volume of incremental growth over the same period. We believe this will maintain and enhance the long-term health of our planted tree plantations, and should ensure sustainable harvests.

Mandra Forestry

In 2005, Sino-Forest formed an alliance with Mandra Forestry Holdings Limited by investing \$15 million in the form of a Subordinated Loan and acquiring a 15% equity interest, with the goal of gaining access to timber in Anhui Province close to the strategically important Yangtze River Delta. Leveraging on the Corporation's track record and expertise in plantation operation, Sino-Forest provides plantation management service for a yearly management fee of \$1 million and will have first of rights to acquire timber harvested by Mandra with a 3% discount at prevailing market price. Sino-Forest will also have the option to acquire Mandra Forestry depending on the performance.

Plantation Service Providers

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

Environmental Matters

Our forestry plantation operations are subject to PRC laws and regulations relating to the protection of the environment. Both the local forestry bureaus and the local environmental protection bureaus where our planted tree plantations are located have confirmed that our operations are

substantially in compliance with applicable environmental laws and regulations in the PRC. There are currently no environmental proceedings against us.

We maintain an Environmental Management System. This system is designed to ensure environmentally responsible resource management. It sets forth policies on the social, ecological and environmental aspects of our forestry plantation operations and detailed operating procedures on environmental compliance. Our Environmental Management System focuses on the integration of forestry plantation management with the conservation of soil and water resources, the protection of biodiversity and natural habitats, the improvement of environmental conditions, such as air, water quality and biodiversity, and environmental performance assessments. The most recent assessment, conducted in 2005, reported that plantation management practices on our planted tree plantations are meeting the environmental protection objectives set out in PRC laws and regulations and our environmental policies.

We have designed our environmental policies to comply with relevant PRC regulations and provide guidelines governing plantation establishment, management, harvesting and sustainability. Our Environmental Management System has been developed with the aim of ensuring compliance with these regulations and policies. We adhere to the philosophy that environmentally sound management practices contribute to our profitability and the prosperity of our employees and the communities in which we operate by providing greater predictability and sustainability in the management of natural resource assets.

We have obtained ISO 9001:2000 (certification in 2001) and ISO 14001:2004 (certification in 2002) for the Environmental Management System of the forestry plantation operations of our former CJV in Guangxi Province. We have also received from SmartWood, a program of the Rainforest Alliance, an international non-profit environmental group, the FSC of Forest Management certification for 5,300 hectares of forestry plantations in Guangdong Province. We plan to expand the FSC and ISO certifications to all of our planted tree plantations.

China launched its first China Green Carbon Foundation spearheaded by the State Forestry Administration on July 20, 2007 to develop carbon credit trading, forest bio-fuels and renewable energy through large-scale tree plantation via a sustainable manner that will also mitigate greenhouse gas emissions. Sino-Forest is one of the foundation members and the only member representing the forestry sector.

Research and Development

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

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

- Genetic breeding research, including the breeding, selection and testing of planting materials that perform better, in terms of improved yield, quality and resistance to natural stresses (pests, diseases, low temperature and snow);
- Vegetative propagation technology, including lab tissue culture and nursery cutting and mass-propagation;

- Site and nutrition management and fertilizer application for different soil types and developing methods to optimize fertilizer application;
- Improved silviculture practices, such as control of stand density, spacing and rotation, genetic diversity control;
- Development of sustainable management system of commercial plantation ecosystems, merging timber production, environmental conservation and social care;
- Wood properties and processing (such as change of water content and properties and of short-rotation eucalyptus plantation wood) and value-added products; and
- Ecological and environmental technology, including the monitoring and evaluation of ecological and environmental conditions in short-rotation eucalyptus plantations.

In performing our research and development activities, from time to time we also collaborated with, and receive assistance from, research and academic institutions in the PRC. We once collaborated or are collaborating with the Research Institute of Tropical Forestry, the Chinese Academy of Forestry, Forestry Academy of Jiangxi Province, Qinzhou Forestry Research Institute, Nanjing Forestry University, Forestry Academy of Guangxi Province, Science & Technology Department of the National Forestry Administrations, China Eucalyptus Center, the Forest Administration of Guangdong Province, Forestry Academy of Guangdong Province, Guangxi University and South China Agricultural University.

Our research and development division is composed of a team of nine individuals. The research and development division is headed by a Research Scientist with over 24 years of research and operation experience in forestry and plantation management.

Insurance

We maintain insurance policies against risks of loss of our forestry plantations. We have insurance policy over all our planted tree plantations and the indemnity will be on actual insured value of the hectares of damaged plantation after netting deductible. As for our purchased tree plantations, the indemnity of our insurance policy will be at an annual aggregate loss limit at 15% of the declared value of our total purchased tree plantation after netting deductible, with any accident loss limit of RMB 10 millions. Perils insured for our tree plantations include fire, lightning, aircraft, explosion, floods, windstorm and subterranean fire. While we do not insure all of our plantations against losses from all natural and other disasters, we believe our insurance coverage is consistent with the practice of other PRC forestry plantation operators. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our forestry plantations are located in different provinces and regions in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our forestry plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

We also maintain insurance policies against risks of damage or destruction of our manufacturing facilities under Property All Risks and Public Liability Insurances. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

Wood Logs

We source logs in PRC through domestic wood dealers who act as our authorized intermediaries (“AIs”) to purchase timber supplies and also process into wood chips and then sell to customers and earned commission income from agency services in the sales of wood chips. These AIs have the licenses to process wood chips and sell chips and logs in the PRC. The suppliers of wood logs are generally local wood processing and trade operators in the PRC and the customers are typically pulp and paper mills, as well as reconstituted wood panel mills.

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

We now source logs from PRC suppliers, including the Inner Mongolia contract, and sell them in the domestic PRC market. Wood logs sales comprised 0.4% of total revenue in 2007, compared to 0.1% of total revenue in 2006.

Imported Wood Products

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

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

MANUFACTURING OPERATIONS

Overview

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

In 2000, we began the process of developing our manufacturing plants to complement our forestry plantations operations using small diameter logs to manufacture quality wood-based products that are traditionally made from large-diameter logs. To-date, we have established manufacturing operations in China, including particleboard plant in Gaoyao, Guangdong Province; engineered wood flooring plant in Suzhou, Jiangsu Province; oriented strand board plant in Heilongjiang Province, close to the Russian border and finger-joint board processing facilities in Hunan Province.

Particleboard Operation

The Gaoyao operation has a total land area of 170,000 m² and a total building area of 30,000 m², located within the Economic Development Zone of Pearl Delta River. The plant produces quality particleboard and a melamine-faced chipboard, targeting one of the largest furniture manufacturing markets in China.

The Gaoyao operation is currently undergoing expansion by increasing its annual production capacity from 100,000 m³ to approximately 275,000 m³ and melamine lamination from 2,000,000 m² to 6,400,000 m². The building will then house three particleboard production lines and two melamine faced chipboard production lines. After expansion, the Gaoyao particleboard mill will ranked among the top five in terms of production capacity in China. The expansion is expected to be completed for full commercial production in 2008.

Engineered Wood Flooring

The flooring business was established in 2004 and product was manufactured by OEM. We developed the Sino-Maple brand to market our engineering wood products. Seeing the growth opportunities, in 2006, we decided to build our own engineered flooring facility in Suzhou. The Suzhou operation has a total land area of 65,000 m² and a total building area of 12,000 m². The first phase of the manufacturing facilities was completed in the third quarter of 2006 and is in full commercial operation with an annual capacity of 4 million m². Subject to the production utilization and profitability of the current facility, the second phase is tentatively scheduled to be built in 2007. With the second phase completed, the combined capacity will be approximately 6.5 million m². Sino-Maple flooring products are distributed through more than 200 outlets nationwide, including B&Q's mega do it yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products, which are fast becoming a popular substitute for solid and laminated flooring in China due to its environmentally conscious use of forest plantation logs over large diameter natural forest logs. Sino-Maple is ranked amongst the top three engineered-wood flooring brands in China.

In addition, this facility recently received accreditation from the Forest Stewardship Council (FSC certification) for its flooring products. With the rise in China's economic development, and the high demand in residential renovation projects throughout China, Sino-Forest estimates annual revenue of approximately US\$130 million when the facility is completed and operating at full capacity of 6.5 million m² of production.

Oriented Strand Board

Heilongjiang Jiamu Panel Co. Limited, a WFOE was established in the fourth quarter of 2005 to manufacture oriented strand board ("OSB") and other wood-based products. The facility is located at Muling City, Heilongjiang, close to the Russian borders, where abundant supply of wood can be found. OSB is still a relatively new product in the PRC, although it is widely used in other countries as a building, flooring and packaging material. The plant has an annual capacity of approximately 12,000m³.

Finger-Joint Board

We acquired processing facilities in Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province, producing finger-joint board, block board and particleboard with a total annual capacity of 150,000m³. Our strategy in Hunan is to maximize the value of our wood fibre through value-added processing.

Greenery and Nursery Operation

According to China's State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the ten most polluted in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape management and supply of tree nursery products, Sino-Forest decided to pursue opportunities in this forest product business segment. With its plantation resources and expertise, the Corporation established

Sinowin Plantings (Suzhou) Co. Ltd. to source, supply and manage landscaping products for property developers and other organizations.

The Nursery Operation began in 2003, with sales of \$0.2 million. For the year ended December 31, 2007, total sales from the Nursery Operations were \$6.2 million.

OTHER INFORMATION

Sales and Marketing

Substantially all of our sales are made in the PRC. In 2005, 2006 and 2007 our domestic sales of wood-based products, wood logs and standing timber accounted for most of our revenue.

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

We engage in trading of logs and wood-based products both in the PRC and overseas, generally under short-term contracts. We issue invoices to our authorized intermediaries in the PRC on a quarterly basis. Sales are usually denominated in Renminbi. Payments are usually settled within 60 days of delivery.

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

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

Suppliers

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

The source of supply for our standing timber sales is our forestry plantations. In the future, we expect to increase timber supply from our forestry plantations with species range from eucalyptus, Chinese fir, pine, birch and larch for our trading activities.

In 2005, 2006 and 2007, our five largest suppliers accounted for approximately 72%, 44% and 55% of our total costs of sales, respectively. The largest supplier accounted for approximately 29%, 13% and 32% of our total costs of sales, respectively, during such periods.

Transportation

Historically, we have not transported logs and wood-based products to customers ourselves. With respect to sales of timber from our planted tree plantations and purchased tree plantations, as of December 31, 2007, we have only engaged in sales of standing timber from these plantations. In these sales transactions, the customer is responsible for harvesting and transporting the logs out of the forested areas.

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

Customers

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

In 2005, 2006 and 2007, our five largest customers (including authorized intermediaries) accounted for approximately 55%, 57% and 59% of our revenue, respectively. In the same periods, our largest customer (including authorized intermediaries) accounted for approximately 18%, 13% and 16% of our revenue, respectively.

Competition

The market for logs and wood-based products in the PRC is highly fragmented, with a large number of small operators of forestry plantations. There are also large operators of forestry plantations in the PRC, including Asia Pulp and Paper, with operations in Hainan, Guangdong and Guangxi Provinces, Gaofeng Tree and Paper Group, with operations in Guangxi Province. Guangdong Petro-Trade, an exporter of wood chips and Hunan Tiger Forest and Paper in Hunan Province where wood fibre is mainly for its own consumption. In addition, local forestry bureaus, including the Leizhou Forestry Bureau, Hainan Forestry Bureau and Guangxi Forestry Bureau, also manage natural and plantation forests in the PRC, although their primary emphasis is administering and overseeing the protection, use and renewal of forestry resources in their areas, rather than operating commercial forestry plantations.

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

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

Employees

As of December 31, 2007, we had 2,380 full-time employees. The following table sets forth the number and location of our employees according to category as of December 31, 2007:

| | Canada | Hong Kong | PRC | Total |
|--|----------|-----------|--------------|--------------|
| Executives and Senior Management | 1 | 2 | 26 | 29 |
| Plantation Operation ⁽¹⁾ | - | - | 244 | 244 |
| Personnel and Administration and IT | 1 | 8 | 253 | 262 |
| Finance, Accounting and Risk Management | 1 | 9 | 102 | 112 |
| Corporate Planning, Banking and Sales | - | 6 | 1 | 7 |
| Corporate and Organization Development | - | 12 | 52 | 64 |
| Sales and Marketing (import trading) | - | 3 | 46 | 49 |
| Research & Development and Environmental | - | 4 | 3 | 7 |
| Manufacturing ⁽²⁾ | - | 8 | 1,598 | 1,606 |
| Total | 3 | 52 | 2,325 | 2,380 |

Notes:

- (1) Plantation Operation is comprised of staff working in plantations, forestry projects, quality control and purchases related to plantations, forestry engineers, technicians, and foresters.
- (2) Manufacturing is comprised of staff such as engineers, technicians, factory workers, quality control and purchase and warehouse personnel security guards.

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

GOVERNMENT REGULATION

WOOD FIBRE INDUSTRY

Development of the Plantation Industry

The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated The Notice on the Decision to Speed Up the Development of

Plantation Industry (Zhong Fa [2003] No. 9) dated June 25, 2003. This notice records the decisions of the PRC Central Government concerning the following main areas:

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

Forest Classifications

Under the PRC Forestry Law implemented on January 1, 1985 and amended on April 29, 1998 (the “PRC Forestry Law”), the PRC recognizes five classifications of forests in the forestry/plantation industry. They are:

- Protection forests—forests used for ecological protection, including for the conservation of water resources, retention of water and soil, as wind cover and for protection of farms, fields and roads;
- Commercial forests—forests used for the production and harvesting of wood logs;
- Economic forests—trees used for the production of fruit, oils, beverages, medicines and other industrial materials;
- Firewood forests—forests used for the production of firewood and other fuels; and
- Special purpose forests—forests used for national defense, environmental protection and scientific research.

Right to Own or Use Plantation Land and Right to Own or Use Plantation Trees

The PRC Forestry Law and the Implementation Regulations of the PRC Forestry Law implemented on January 29, 2000 (“Implementation Regulations”) stipulate that the PRC has implemented a registration and licensing system for ownership of the plantation/forestry land, forestry/plantation land use rights, ownership of the plantation/forestry trees; and the right to use the plantation/forestry trees. Under the PRC Forestry Law, the PRC recognizes four types of rights in the forestry/plantation industry:

| Type | Description |
|----------------------------------|---|
| Plantation Land Ownership | Right to own the plantation land for use as commercial forestry plantations |
| Plantation Land Use Rights | Right to use the plantation land for use as commercial forestry plantations |
| Plantation Tree Ownership Rights | Right to own the trees on commercial forestry plantations |
| Plantation Tree Use Rights | Right to use the produce (i.e. fruit) of the trees |

Under the PRC Forestry Law, it is not necessary for the four categories of rights identified above to be held by one entity. All forestry/plantation land in the PRC is either owned by the State or collectively-owned by collective organizations. Ownership of forestry/plantation land is not transferable in the PRC. Plantation land use rights and ownership of plantation trees in respect of “commercial” plantations are transferable, provided the transfer is conducted in accordance with PRC law.

The Implementation Regulations stipulate that all entities and individuals using forests, wood and forest land owned by the State or collective organizations must apply for registration with the forestry department of the local PRC government at the county level or above. The local PRC government at the county level or above has the power to issue certificates to confirm the use of rights of forests, wood and forest land and the users’ ownership of wood. Any change in the ownership or use rights of forests, wood and forest land must be registered. The PRC State Forestry Bureau promulgated and implemented the Forest Tree and Forest Land Ownership and Use Right Registration Administrative Measures on December 31, 2000 (“Administrative Measures”) which further stipulate detailed rules for registration of ownership and use rights. According to the Administrative Measures, the forestry bureaus at the county level or above are responsible for registration of relevant plantation rights stated above.

According to the PRC Forestry Law, the Implementation Regulations and the Administrative Measures, except for key forest zones and those crossing the boundaries of a related administrative region, forestry bureaus of the local PRC government at the county level or above can confirm the use rights in relation to the local forest land and the ownership of forest trees. Forestry bureaus at the county level or above are responsible for registering the use rights of forest land and the ownership of forest trees.

Under PRC laws, forestry land is either collectively owned or owned by the State. Under the PRC Forestry Law, the PRC implements the system of issuing plantation rights certificates to the persons having the right to use the plantation land (in the case of the planted forestry plantations) or to the owners of the plantation trees (in the case of the purchased tree plantations).

The forestry bureaus at the county level and above are the only PRC authorities delegated by the PRC government responsible for the forestry industry in the PRC. Prior to the issuance of the plantation rights certificates, the forestry bureaus are responsible for conducting the investigation and review, registration and filings in relation to such issuance.

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and its system of issuing certificates to the persons having plantation land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the PRC State Forestry Bureau announced the “Notice on the Implementation of Nationwide Uniform Plantation Right Certificates” (Lin Zi Fa [2000] No. 159) on April 19, 2000 (the “Notice”). Under the Notice, a new uniform form of plantation rights certificate is to be used commencing from the date of the Notice. The same type of new form plantation rights certificate will be issued to the persons having the right to use the plantation land, to persons who own the plantation land and plantation trees, and to persons having the right to use plantation trees.

The PRC government is gradually in the process of issuing new form certificates on a national scale. According to the Notice, the issuance of new certificates started in 2000. During the PRC State Forestry Bureau’s meeting held in July 2002, the PRC State Forestry Bureau confirmed its target for the PRC State Forestry Bureau to complete the issuance of new form plantation rights certificates within one to five years.

In February 2007, the PRC State Forestry Bureau has promulgated a Notice for further strengthening and rectifying the registration and issuance of the plantation rights certificates in accordance with the relevant forestry laws and regulations.

However, due to the complicated historical reasons, the difference among the localities and other practical reasons, the registration and issuance of the new form plantation rights certificates by PRC State Forestry Bureau have not been fully implemented in a timely manner in certain places of the PRC.

Permits and Quotas

Logging applicants must apply to the forestry bureau of the local PRC government at the county level or above for a logging permit. Logging of forests must be conducted in accordance with the logging permit.

Under the PRC Forestry Law, the PRC strictly implements a quota system for the logging of forest trees. The forestry bureaus at the provincial level set annual logging quotas. The annual quota is reviewed by the local PRC government at the same level and is submitted to the PRC State Council for approval. According to the Implementation Regulations, the annual quota for certain key forest zones will be set by the PRC State Forestry Bureau, approved by the PRC State Council, and the quota will be reviewed every five years. There is priority treatment for quota allocations by local government bodies.

The Implementation Regulations stipulate that for timber forests which a foreign investor has invested in and operates, the forest trees should be logged within the annual logging quota set by the PRC State Council, upon obtaining approval from the forestry bureaus at the provincial level or above. The logging quotas of foreign invested plantation projects should be set separately.

Timber Transportation Permits

According to the PRC Forestry Law, any entity which needs to transport the forest trees (unless those forest trees can only be removed by the State) out of the forest zones must apply for a timber transportation permit issued by the forestry bureau at the county level or above. According to the PRC

Forestry Law and the Implementation Regulations, after the entity obtains the timber logging permit, the forestry bureaus shall issue a timber transportation permit to the entity for transporting the logged timber out of the forest zone.

Timber Operations and Processing Permits

Timber operations and processing in the forest areas must be approved by the forestry bureau at the county level or above. In October 2006, the PRC State Forestry Bureau has promulgated a Notice for further strengthening administration and supervision of the timber operation and processing in accordance with the relevant forestry laws and regulations.

Permits and Approvals Necessary for the Operation of our Plantation Business

As outlined above, we are required to obtain the following permits and approvals for the operation of our forestry plantation business:

- Plantation rights certificates in respect of the plantation land use rights and the ownership of our planted trees for our planted tree plantations;
- Plantation rights certificates in respect of the ownership of our purchased trees for our purchased tree plantations;
- Timber logging permits; and
- Timber transportation permits.

Plantation Rights Certificates For Our Planted Tree Plantations

The PRC Forestry Law and the Implementation Regulations implement the system of plantation rights registration and issuance of certificates. The Implementation Regulations stipulate that all entities should apply to the forestry department of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above must be responsible for issuing the plantation rights certificates. Applicants of the plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry department.

Plantation Rights Certificates for our Purchased Tree Plantations

For our Purchased Tree Plantations, we have applied for the relevant Plantation Rights Certificates with the competent local forestry departments. As the relevant locations where we purchased our Purchased Tree Plantations have not fully implemented the new form Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our Purchased Tree Plantations. In this connection, we obtained confirmation on our ownership of our Purchased Tree Plantations from the relevant forestry departments. Based on the relevant purchase contracts and the approvals issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations.

Timber Logging Permits and Logging Quotas

The Implementation Regulations stipulate that for foreign invested plantation projects, the forest trees should be logged within the annual logging quota set by the PRC State Council, upon obtaining approval from the forestry departments at the provincial level or above.

The WFOEs with planted tree operations will be able to obtain the logging permits within the timber logging quota pre-approved by the provincial forestry departments.

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

Timber Transportation Permit

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

MANUFACTURING

Engaging in the Timber Business

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

Regulations that Apply Nationwide

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

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council implemented on May 16, 1994 provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant forestry departments, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and comply with the business objectives as stated on the license.

The Administration of Standardization of Forestry Regulations, implemented on September 1, 2003, provide that the technical requirements of forestry products, quality of timber saplings, safety, hygiene standards, testing, inspection methods, packaging, storing and transportation must be standardized.

Eleventh Five-year Plan

The 11th Five-Year Plan (2006-2010) implemented during the Tenth National People's Congress held in March 2006, stipulated plans to improve "three rural problem" in the agricultural sector in relation to agricultural, rural areas and farmers. Top priority will be given to solve the issues of rural poverty with an aim to narrow poverty gap between urban and rural dwellers. The Plan calls for infrastructure improvement, and social development in the rural area, and creation of regional markets to promote a "new socialist countryside". On the forestry front, the State of Forestry Administration plans to speed-up the development of fast-growing high-yield plantation and forestry integration by creating synergy between upstream forestry plantation to downstream pulp mills and manufacturing operations.

Regulations that Apply on the Local Provincial Level

Guangdong Province. According to the Guangdong Province Temporary Administration of Timber Operation and Processing Management, promulgated on October 8, 2007, any entity engaged in business relating to timber operation and/or processing in Guangdong Province must apply for a “Timber Operation Permit of Guangdong Province” with the forestry department of the local PRC government at the county level or above.

- The entity must submit any related documents, evidence and applications proving its qualifications to apply for the timber processing and operation permits; and
- The timber processing permits should be issued by the forestry department at the provincial level, the local municipality level, or the county level upon examination and approval according to the quantity of wood consumption and the scale of the enterprise.

Jiangsu Province. According to the Implementing Measures of Jiangsu Province for the PRC Forestry Law, promulgated on June 24, 2003, no entity is allowed to engage in the timber or timber processing business without first obtaining approval from the Forestry Supervision Department; and further, no unit or person engaged in the timber or timber processing business is allowed to purchase timber that does not possess a logging permit or is not from an authorized legal jurisdiction.

RISK FACTORS

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

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

- Changes in domestic and international economic conditions;
- Governmental regulations and policies;
- Interest rates;
- Population growth and changing demographics; and
- Seasonal weather cycles (e.g., dry summers, wet winters) and other factors.

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

Our ability to expand our forestry plantation resources and our manufacturing plants will require substantial future capital expenditures and we may be unable to obtain adequate financing to fund our capital and other requirements

Our forestry plantation resources have grown by acquiring purchased tree plantations, which require intensive capital investment. Typically, the cycle of such plantation trees for harvesting can range from approximately 5 to 12 years, depending upon the tree species, in 2005, 2006 and 2007 we incurred approximately \$283 million, \$407 million and \$647 million, respectively, for expanding our planted tree plantations and purchased tree plantations. We finance our forestry plantation expansion activities primarily from internal cash flows, and debt and equity financing. We may have to obtain financing in order to acquire additional hectares of forestry plantations. We can give no assurance our cash flows will be sufficient to finance our operations or our future forestry plantation expansion. In addition, we can provide no assurance that debt or equity financing will be available in the future on attractive terms or at all. If we are not able to obtain financing, our business, financial condition and results of operations may be materially and adversely affected.

Our manufacturing operations have grown by investing in an engineered wood flooring plant in Suzhou, an oriented strand board plant in Heilongjiang and finger-joint and block board plants in Hunan. As of December 31, 2007, the total cost in constructing our manufacturing facilities in the PRC was approximately \$82.5 million. Our need to make capital expenditures for our manufacturing facilities may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Our business, financial condition and results of operations may be adversely affected by:

- Changes in PRC political, economic and social conditions;
- Changes in policies of the PRC government, including changes in policies affecting the forestry industry;
- Changes in laws and regulations or the interpretation of laws and regulations;
- Measures which may be introduced to control inflation or deflation;
- Changes in the rate or method of taxation;

- Imposition of additional restrictions on currency conversion and remittances abroad; and
- Reduction in tariff protection and other import restrictions.

In addition, the growth of demand in China for forestry products depends heavily on economic growth. Between 1978 and 2004, China's GDP increased from approximately RMB362 billion to approximately RMB14 trillion. The annual per capital GDP had also risen during this period, from RMB379 to RMB10,502. The central government has been prompt to take corrective measures and actions to stabilize the country's economy and any possible social unrest. After the country's soft landing from an overheating economy, the central government implemented various measures in strengthening and improving macroeconomic regulation and slowly pushing forward reform programmes to create stable momentum growth. We cannot assure that such growth will be sustained in the future. In addition, there have been concerns about rising labour demand, shrinking supply of traditional unskilled labour and increase in workforce wages. While the rise in wages may increase consumption power, it may increase inflationary pressures in the economy. The reform programmes and shortage of supply of labour may have an adverse impact on our business, financial condition and results of operations will be adversely affected.

Our operations are subject to the uncertainty of the PRC legal system

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties. At present, the legal framework for the forestry plantation industry in the PRC is at an early stage of development. For example, the laws and regulations relating to the ownership, licensing and rights over forestry areas are not well developed. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Such uncertainty may make it difficult for us to enforce our plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, we cannot provide any assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our business, financial condition and results of operations.

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

We are subject to regulation under a variety of PRC national and local laws and regulations, including, among others, the PRC Forestry Law and its Implementation Regulations, the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures and the Administrative Measures on Foreign Investment Forestation of Guangdong Province. Violations of a variety of PRC laws and regulations, including PRC environmental policies and programs that apply to our forestry plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage in the following activities that are subject to regulation:

- Forestry plantation activities, including planting, plantation use and maintenance, logging and transportation of logs;

- Marketing, sale and trading of standing timber, logs and wood-based products; and
- Timber processing and manufacture and sale of wood panels.

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

In the future, we expect to receive a greater percentage of our revenue from sales of standing timber sourced from our own forestry plantations, either planted tree plantations or purchased tree plantations. As of December 31, 2007 we had approximately 54,000 hectares of planted tree plantations. As of December 31, 2007, we also had approximately 258,000 hectares of purchased tree plantations and we expect to acquire additional purchased tree plantations in the future. Under our agreements for our purchased tree plantations, we have an option to require the transfer of the plantation land use rights through a long-term lease for a maximum period of up to 30 to 50 years, subject to negotiation of a price for the transfer of the plantation land use rights and receipt of relevant governmental approvals, and satisfaction of registration requirements.

In order for us to operate our purchased tree plantations as sustainable, rotational forestry plantations, we will have to exercise our option to obtain the relevant plantation land use rights through long-term leases and enter into plantation land use rights transfer agreements with the local landowners or the holders of the land use rights to the plantations. We cannot give any assurance that we will exercise any of these options or enter into plantation land use rights transfer agreements or lease agreement. Our decision and ability to exercise our option or enter into agreements with respect to our purchased tree plantations will depend on, among other factors, our ability to negotiate a final price, whether the area is desirable for forestry plantations and the availability of future financing. We cannot give any assurance that the purchased tree plantations will be attractive areas for further rotations of forestry plantations.

We also cannot give any assurance that we will be able to enter into any plantation land use rights transfer agreements or lease agreements with the local landowners or land use rights holders on commercially acceptable terms. The price could be affected by a variety of market and other factors, including the level of development in the area, the desirability of the area for uses other than forestry plantations and general economic conditions.

In addition with the conversion of CJVs into WFOEs, we cannot give any assurance that we can manage to secure all the plantation land use rights from the farmers and collective organizations and other parties with respect to our planted tree plantations. Our decision and ability to obtain additional forestry plantations will depend on, among other factors, whether a particular area is desirable for forestry plantations, the availability of purchased tree plantations for expansion of our operations, our view of the relative financial and other benefits of operating purchased tree plantations compared to operating planted tree plantations and the availability of future financing. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

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

We receive most of our revenues in Renminbi. As a result, any restrictions on currency exchange may limit our ability to use revenue generated in Renminbi to:

- Purchase timber imported from other countries;

- Fund other business activities outside the PRC, such as the purchase of equipment for our manufacturing plants;
- Service and repay our indebtedness; and
- Pay out dividends to our shareholders.

Our subsidiary companies in China do not require prior approval from the State Administration for Foreign Exchange before undertaking current account foreign exchange transactions. Current account transactions refer to those international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, and the declaration of and payment of dividends out of retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions must be processed through banks in China licensed to engage in foreign exchange.

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

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay dividends to us or to satisfy their other foreign currency requirements. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

Our manufacturing plants have a short operating history and they may not be successful

Our manufacturing plants are in an early stage of development and have a short operating history. Our manufacturing plants may not be profitable or successful. Our manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures. Our ability to conduct and expand our manufacturing plants will depend upon our ability to, among other things:

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

In 2007 we reassessed our manufacturing development plan and continue to concentrate on our facility in Gaoyao with a plan to expand its particle board operating capacity to 275,000m³ from

100,000m³, and the capability to produce 6,400,000m² of laminated particleboard from 2,000,000m² annually; invest in an engineered wood flooring plant in Suzhou with a production capacity of 4,000,000m² and the second phase expansion; an oriented strand board plant in Heilongjiang with a production capacity of 12,000m³ and; finger-joint board and block board processing facilities in Hunan Province with a total annual production capacity of 150,000m³.

We can give no assurance that the facility will operate at planned operating capacity.

Our manufacturing plants are subject to operational risks for which we may not be adequately insured

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

If our subsidiaries incorporated in the PRC are restricted from paying dividends and other distributions to us, our primary source of funding would decrease

We are a holding company with no significant assets other than our equity interests in our wholly owned subsidiaries in the PRC, Hong Kong and the British Virgin Islands. As a result, we rely on dividends paid to us by our subsidiaries and affiliated entities in the PRC, including the funds necessary to service or repay any debt we may incur. If our subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to meet our financial obligations and to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our shares. PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standard and regulations to fund certain reserve funds that are not distributable as cash dividends.

We are subject to risks presented by fluctuations in foreign currencies

We publish our financial statements in U.S. dollars, while substantially all of our revenue is denominated in Renminbi.

Since 1994, the conversion of Renminbi into Canadian and U.S. dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The PRC government has stated publicly that it intends to make Renminbi freely convertible in the future. However, we cannot predict when the PRC government will allow free conversion of Renminbi into foreign currencies. Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because of our substantial foreign currency-denominated indebtedness, expenses and other requirements. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors.

At December 31, 2007, we have indebtedness of RMB201.7 million and \$469.8 million. Other than a currency swap agreement entered into on August 16, 2004 to fix interest payments at \$27.4 million

per annum over the next five years with respect to the Guarantee Senior Notes, we do not hedge exchange rate fluctuations between the Renminbi and other currencies and currently have no plans to do so.

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

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

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

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

In recent years, certain areas of the PRC have been adversely affected by severe flooding. In addition, the coastal areas of southern China suffer a number of typhoons each season, which lasts from July to September, which occasionally result in significant damage. Further, there have been several incidences of forest fires in Guangdong Province. Dry weather conditions brought by the El Nino weather pattern in 1998 adversely affected certain areas of the world. In 1999, damage brought about by frost adversely affected the yield of eucalyptus plantations on higher altitude inland plantations in the PRC. In February 2008, snow and freezing rain storms damaged plantations in certain provinces. Similar conditions may occur in the future. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our forestry plantations are located, which may adversely affect our business, financial condition and results of operations.

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

The success of our business depends upon the productivity of our forestry plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our eucalyptus trees is approximately 120 cubic meters per hectare per five to six-year cycle. See “Operations Overview – Planted Tree Plantations”. However, our current average standing timber yield is based upon a short operating history of one rotation and we may not be able to maintain this yield for future rotations. In addition, forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease and pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional forestry plantations that we may obtain in the future.

In addition, we may not be able to meet our expectations that the yield of our eucalyptus forestry plantations will improve over time. Our ability to improve or maintain our yields will depend on the factors described above as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural

practices as we gain experience in managing eucalyptus forestry plantations. As a result, we cannot provide any assurance that we will be able to realize the historical or future yields expected by us. If we cannot achieve yields at expected levels, our business, financial condition and results of operations would be materially and adversely affected.

Estimation of the Corporation's provision for income and related taxes

Two of the Corporation's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to foreign enterprise income tax.

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

As at December 31, 2007, the balance of the provision for these tax related liabilities amounting to \$80.2 million (2006 – \$66.6 million) was provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

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

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

Management evaluates the provision for tax related liabilities on quarterly basis or as necessary and believe adequate but not excessive provision for tax related liabilities has been recognized in the financial statements.

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

As of December 31, 2007, we had 771 employees (excluding manufacturing staff) in Hong Kong and the PRC to manage our forestry plantations. We currently engage third parties to perform the day-to-day operations of our forestry plantations. However, as we expand the area of our forestry plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our forestry plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary for us to strengthen our internal controls and corporate governance as we continue to build the business. Should we fail to take these measures, we may not be able to implement our expansion strategy or to manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected.

We are subject to increased credit risk and risks of provisions and write-offs as a result of our increased sales of standing timber

We began selling standing timber in 2002 and expect sales of standing timber to increase as a percentage of revenue in the future. We recognize revenue from sales of standing timber when the buyer has signed the sales contract. As a result of our sales of standing timber, our accounts receivables have increased significantly beginning in 2002. To the extent that customers that have purchased or will purchase in the future standing timber fail to pay, in a timely fashion or at all, our business, financial condition and results of operations could be materially and adversely affected.

The forest products industry is highly competitive

The forest products industry is highly competitive in terms of price and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. Lumber and log markets in the PRC are subject to competition from worldwide suppliers. In our forestry plantations and standing timber, wood logs and wood-based products trading activities, we are subject to increasing competition from other large domestic and foreign owned forestry plantations in the PRC, as well as wood dealers and local forestry bureaus, all of which provide logs, wood chips and wood-based products for sale in the PRC.

Our manufacturing plants face competition from other large domestic and foreign owned manufacturers in the PRC, as well as manufacturers in other countries importing into China. In this regard, other manufacturers are currently constructing new production facilities in the PRC that will substantially increase the production capacity. We may not be able to compete effectively against these and other potential competitors. If we are not able to compete effectively in our different business lines, or if competition significantly increases, our business, financial condition and results of operations could be materially and adversely affected.

Operational Licenses and Permits

Currently, PRC laws and regulations require forestry plantation companies to obtain licenses and permits to operate forestry plantations, harvest logs on the forestry plantations and transport the logs out

of the forest areas. The forestry plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forestry bureaus for the logging permits and transportation permits for plantations that are to be harvested. We currently have the relevant business licenses for our subsidiary companies in the PRC to engage in forestry activities and have received the requisite logging permits and transportation permits for our completed logging and transportation activities. In this regard, the PRC government allocates logging quotas and transportation quotas annually for plantations that are to be harvested, rather than granting permits at the time the forest is established. We have confirmation from the relevant forestry bureaus that they will allocate to us on an annual basis the logging quotas to assure that we are able to harvest the mature trees in the forestry plantations we currently operate. However, there is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation activities, or that the PRC government will not enact laws and regulations that would add requirements for forestry plantation companies to conduct these activities in the PRC.

In addition, PRC laws and regulations require foreign companies to obtain licenses to engage in any business activities in the PRC. As a result of these requirements, we currently engage in our trading activities through PRC authorized intermediaries that have the requisite business licenses which we understand is not in violation of the current PRC law. There is no assurance that the PRC government will not take a view contrary to us and will not take action to restrict our ability to engage in trading activities through our authorized intermediaries. If our trading activities through PRC authorized intermediaries were deemed as conducting business indirectly in the PRC, thus in violation of PRC law, substantial penalties would be imposed to us, including the confiscation of any illegal incomes and fines. In order to reduce our reliance on the authorized intermediaries, we will gradually use our trading WFOEs with requisite business licenses in the PRC for engaging in our wood trading business.

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

Environmental Regulations

Laws and regulations protecting the environment have generally become strict in the PRC in recent years and could become more stringent in the future. On December 26, 1989, the Standing Committee of the National People's Congress of the PRC adopted the Environmental Protection Law of the PRC. This law contains, and future legislation with respect to protection of the environment, whether relating to forests, protected animal species, or water conservation, could contain restrictions on tree planting, timber harvesting, and other forest practices. Currently, it is a general policy of the PRC that a person who harvests trees is required to replant the harvested lands. Our forestry plantations and manufacturing plants will also be subject to environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our forestry plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of

operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. Compliance with environmental laws and regulations may adversely affect our business, financial condition and results of operations.

Plantation Land Use Rights

The conversion of the legal structure of all 4 CJVs was completed in the fourth quarter of 2007 and we are now in the process of negotiation with local farmers and collective organizations for re-entering new plantation land lease contracts. There can be no assurance that the WFOEs will be able to secure all the plantation land use rights from the farmers and collective organizations.

Implementation of New Form Plantation Rights Certificate

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and of issuing certificates to the persons having land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the State Forestry Bureau issued a notice, which provided that a new form of plantation rights certificate was to be used from the date of the notice. The PRC government is in the process of gradually issuing the new form of certificates, which were first issued in 2000, on a nationwide scale. The State Forestry Bureau indicated in a meeting held in July 2002 that they intend to complete the issue of new form certificates within one to five years.

However, due to the complicated historical reasons, the difference among the localities and other practical reasons, the registration and issuance of the new form plantation rights certificates by PRC State Forestry Bureau have not been fully implemented in a timely manner in certain places of the PRC. We can give no assurance when the official plantation rights certificates will be issued to all our purchased tree plantations and planted tree plantations by the people's government. Until official new-form plantation rights certificates are issued, there can be no assurance that our rights to our forestry plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if our right to any of our forestry plantation lands is subject to dispute or challenge, our business, financial condition and results of operations could be materially adversely affected.

Agricultural Taxes and other Related Forestry Fees

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

Our insurance coverage may be insufficient to cover losses

Consistent with PRC forestry industry practice, we maintain insurance for our forestry plantations for an indemnity with a loss limit. We have insurance for our planted and purchased tree plantations in various locations in PRC against losses from fires, lightning, aircraft, explosion, floods, windstorm, subterranean fire and flood. We do not insure all our plantations against losses from all natural and other disasters and we do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on our forestry plantations. If we were to suffer an uninsured loss to our forestry plantations, our business, financial condition and results of operations could be materially adversely affected. We also maintain insurance policies against risks of damage or destruction of our manufacturing facilities under Property All Risks and Public Liability Insurances. We maintain level of fire insurance in amounts that we consider to be appropriate for such risks. Such insurance is subject to deductibles that we consider reasonable and not excessive given the current insurance market environment. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

We rely on our relationships with local plantation landowners and/or plantation land use rights holders, key customers, suppliers and third party service providers for our forestry plantations and trading activities

We rely on our relationships with local plantation landowners and/or plantation land use rights holders, key customers, suppliers and third party service providers for our forestry plantations and trading activities. These relationships are discussed below.

Local plantation landowners and/or plantation land use rights holders

After the conversion of the legal structure of all four CJVs to WFOEs, there is no assurance that we can manage to secure all the plantation land use rights from the farmers and collective organizations. We also cannot give any assurance that we will be able to enter into any plantation land use rights transfer agreements or lease agreements with relevant local plantation landowners and/or land use rights holders to obtain additional forestry plantations.

Customers

A few large customers account for a significant percentage of our total revenue. During 2005, 2006 and 2007, our top five customers accounted for approximately 55%, 57% and 59% respectively, of total revenue. For the same periods, our largest customer accounted for approximately 18%, 13% and 16% respectively, of total revenue. These top customers are all wood dealers and our authorized intermediaries who sell logs and wood-based products to end-user customers of these products. As a result, we expect that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a significant percentage of our total revenue. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

Suppliers

A few large suppliers account for a significant percentage of our timber supply. In 2005, 2006 and 2007, our five largest timber suppliers accounted for approximately 72%, 44% and 55% respectively, of our total costs of sales. For the same periods, our largest supplier of timber accounted for

approximately 29%, 13% and 32% respectively, of our total costs of sales. These top suppliers are all wood dealers and our authorized intermediaries. We have not entered into any long-term supply contract for supply of raw timber. Dependence on a limited number of suppliers exposes us to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on our business, financial condition and results of operations.

Service Providers

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

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

We are heavily dependent upon our senior management in relation to their expertise in the forestry industry and research and development in forest plantation management practices and wood-based products manufacturing production processes, and the relationships cultivated by them with our major customers and others. We have no long-term contracts with any of our senior management. The departure, or otherwise loss of service, of any of our senior management could materially and adversely affect our business, financial condition and results of operations. We do not have key person life insurance policies covering any of our employees, including our senior management.

Difference in Hunan and Yunnan business model may pose execution risks

Hunan and Yunnan are new regions that we entered into respectively in the fourth quarter of 2006 and the first quarter of 2007. Despite the strong support and collaboration we received from the local governments and forestry bureaus, there remain risks such as disagreement with our counterparty to enter into the specific agreements for the implementation of our plantation acquisition plan, our counterparty's failure to obtain the requisite consent from the original plantation rights holders, the collectively-owned farmers, execution risks of large-scale harvesting and replanting programme given climate difference as most of Sino-Forest's plantation are located in the warmer southern region.

Increase in export logs taxes from Russia

The Russian government announced in early 2007 that it will significantly increase the export tax on logs from the current level of 6.5% to 20% in July 2007, 25% in April 2008 and 80% in January 2009. Although taxes levied will be passed on to our customers, we do anticipate import demand from Russia might decrease and/or our margins will be penalized.

Rise in land lease cost

Given China's robust economic growth over the past decade and demand for wood fibre continue to climb, cost for trees and land lease rental have been rising gradually, about an average 10% year-on-year. In addition, China's 11th five-year plan to improve rural living standard and develop regional economic zones will increase cost along the coastal and second to third tier cities. In anticipating such occurrence, we have been moving to inner areas where trees acquisition and land lease costs remain competitive.

DIVIDEND RECORD AND POLICY

We have not declared any dividends on our shares. The covenants of the Guaranteed Senior Notes (as defined below) and the syndicated loan facility prohibit the Corporation from declaring and paying dividends unless certain conditions are met.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preference shares issuable in series. Each holder of Common Shares is entitled to one vote at meetings of our shareholders other than meetings of the holders of another class of shares. Each holder of Common Shares is also entitled to receive dividends if, as and when declared by our board of directors. Holders of Common Shares are entitled to participate in any distribution of our net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to the Common Shares.

Ratings

On August 17, 2004, we issued \$300,000,000 principal amount of 9 1/8% guaranteed senior notes (the "Guaranteed Senior Notes") with a maturity date of August 17, 2011. The Guaranteed Senior Notes have been given a Ba2 (stable) rating by Moody's Investors Services and a BB- (stable) rating by Standard & Poor's Ratings Services. On March 27, 2007, Standard & Poor's Ratings Services raised the issue rating on our Guaranteed Senior Notes to 'BB' from 'BB-'.

The rating on our company reflects our good business profile, which is supported by management's ability to successfully develop forestry plantations, strong demand for wood products in mainland China and adequate financial flexibility. These strengths are partially offset by our company's modest size, active acquisition program, the cyclical nature of the industry, regulatory risk in mainland China and exposure to foreign currency risk (Source: Standard & Poor's).

A rating of BB by Standard and Poor's Ratings Services suggests the Corporation is less vulnerable to nonpayment than other speculative grade issues (i.e. B, or CCC rated companies). However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to the obligor's inadequate capacity or willingness to meet its financial commitment on the obligation. A rating of Ba2 by Moody's Investors Service is a speculative grade, suggesting the future of these bonds cannot be considered as well-assured. The ratings address our ability to perform our obligations under the terms of the Guaranteed Senior Notes and credit risks in determining the likelihood that payments will be made when due under the Guaranteed Senior Notes. A rating is not a recommendation to buy, hold or sell securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Guaranteed Senior Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Guaranteed Senior Notes may adversely affect the market price of the Guaranteed Senior Notes.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed on the TSX and trade under the stock symbols “TRE” and “TRE.S”. The following table sets forth, for the periods indicated, the reported high and low prices and the average volume of trading of the Common Shares on the TSX:

| Calendar Period | High | Low | Average Daily Volume |
|-----------------|-------|-------|----------------------|
| January 2007 | 10.98 | 7.39 | 1,208,589 |
| February 2007 | 10.40 | 9.12 | 583,788 |
| March 2007 | 13.50 | 9.36 | 929,693 |
| April 2007 | 14.43 | 12.70 | 550,850 |
| May 2007 | 14.11 | 11.76 | 812,919 |
| June 2007 | 17.65 | 13.00 | 1,297,702 |
| July 2007 | 19.22 | 15.46 | 1,072,866 |
| August 2007 | 18.15 | 13.22 | 1,158,620 |
| September 2007 | 23.24 | 17.80 | 1,786,253 |
| October 2007 | 26.15 | 22.00 | 2,181,843 |
| November 2007 | 24.92 | 18.23 | 1,916,727 |
| December 2007 | 21.82 | 18.06 | 1,091,808 |

DIRECTORS AND EXECUTIVE OFFICERS

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

| Name and Place of Residence | Position(s) Held | Principal Occupation | Director Since ⁽¹⁾ |
|---|---|---|-------------------------------|
| Allen T.Y. Chan Hong Kong | Chairman, Chief Executive Officer and Director | Officer of the Corporation | 1994 |
| Kai Kit Poon Hong Kong | President and Director | Officer of the Corporation | 1994 |
| David J. Horsley Ontario, Canada | Senior Vice President and Chief Financial Officer | Officer of the Corporation | - |
| Chen Hua China | Senior Vice President, China Operations and Finance | Officer of the Corporation | - |
| Alfred Hung Hong Kong | Vice President, Corporate Planning, Banking and Sales | Officer of the Corporation | - |
| James M.E. Hyde ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada | Director | Executive Vice President and Chief Financial Officer, Resolve Business Outsourcing Income Fund, a progressive business process outsourcing (BPO) firm | 2004 |

| Name and Place of Residence | Position(s) Held | Principal Occupation | Director Since⁽¹⁾ |
|--|---|--|-------------------------------------|
| Albert Ip Hong Kong | Senior Vice President, Project, Hong Kong | Officer of the Corporation | - |
| Richard M. Kimel ⁽⁵⁾ Ontario, Canada | Corporate Secretary | Partner, Aird & Berlis LLP Barristers & Solicitors | - |
| Alvin Lim Hong Kong | Vice President Finance and Group Financial Controller | Officer of the Corporation | - |
| Edmund Mak ⁽²⁾⁽⁴⁾ British Columbia, Canada | Director | Real estate marketing agent, Re/Max Select Properties | 1994 |
| Thomas M. Maradin Ontario, Canada | Vice President, Risk Management | Officer of the Corporation | - |
| Zhao Wei Mao China | Senior Vice President, China Plantation | Officer of the Corporation | - |
| Judson Martin ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada | Director | Consultant | 2006 |
| Simon Murray ⁽³⁾ Hong Kong | Director | Chairman, General Enterprises Management Services (International) Limited, a private equity fund management company | 1999 |
| George Ho Hong Kong | Vice President, Finance, China Vice President, Finance & CFO, Sino Panel (Asia) Inc. | Officer of the Corporation | |
| Peter D. H. Wang China | Director | General Manager, Hong Kong Resource Power Development Limited, a company importing machinery equipments into China. | 2007 |

Notes:

- (1) All our directors serve until the next annual meeting of shareholders or until such director's successor is duly elected or appointed.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation and Nominating Committee.
- (4) Member of the Corporate Governance Committee.
- (5) As at June 30, 2007, Richard Kimel replaced Jay Lefton as secretary of the Corporation.

Prior Principal Occupations

Each of the foregoing persons has held the position shown as his principal occupation for the last five years except as follows:

Prior to joining our company, David Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent a 11 year career with Canadian General Capital Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

Mr. James Hyde was the Vice President, Finance and Chief Financial Officer of GSW Inc., a manufacturer and distributor of consumer durable products, from October 2002 until April 2006 when GSW Inc. was acquired by A.O. Smith Corporation. From April to December 2006, Mr. Hyde was a Consultant to A.O. Smith Corporation. Before October 2002, Mr. Hyde was with Ernst & Young LLP (an accounting and auditing firm) for 24 years, including twelve years as a Partner.

Mr. Judson Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. (“Alliance Atlantis”) from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the Board of Directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 to June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is Chairman of Skypower Wind Energy Fund LP and serves as Chair of the audit committee.

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

Richard Kimel is a partner of Aird & Berlis LLP, Barristers and Solicitors, and a member of its Corporate/Commercial and Corporate Finance Groups and Mergers & Acquisitions and Venture Capital Teams. He is also the leader of the firm’s Biotech/Life Sciences Team. Mr. Kimel practises in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, mergers and acquisitions and ongoing general corporate and commercial activities. Mr. Kimel also acts as corporate counsel for numerous companies listed on the Toronto Stock Exchange and the TSX Venture Exchange.

Mr. Peter Wang also serves as the Senior Commercial Consultant of Zijin Copper, a subsidiary of Zijin Mining Group, a Hong Kong listed company, and China Far East International Trading Company, one of China’s top 5 import and export companies. Mr. Wang has over 30 years experience in Sino-foreign projects and business affairs, predominantly related to petrochemical and mining industries, as well as wood-based panel industries. He was involved in a number of pioneering projects when China first opened up its foreign policies back in the late 1970s. He was a member of the Formulation Committee of Chinese-Foreign Contract, Guangdong Province and was also a member of the delegation team travelling with China Premier Wen Jiabao to India in 2005 to execute contracts and projects related to highway and power stations, and to expand China-India bilateral trade and economic cooperative ties.

Prior to joining our company, George Ho was a Senior Manager in BDO McCabe Lo Limited, Certified Public Accountants, an international accounting and audit firm from October 2006 to October 2007. Mr. Ho also served as the Chief Financial Officer, China Operations of a NASDAQ listed merchant bank from January 2004 until September 2006, managing a portfolio of investments in China including joint ventures with PRC hospitals, wind energy development, commodities trading and various Merger & Acquisition activities including a potential merger with a major State-owned equipment

manufacturing enterprise. Before January 2004, Mr. Ho spent 10 years providing professional services in a Canadian accounting and audit firm and most recently served in the capacity as a principal. The firm is involved in the audit of publicly listed companies on the Toronto Stock Exchange and TSX Venture Exchange as well as those listed on NASDAQ and quoted on the OTC board.

Shareholdings

As of March 28, 2008, our directors and executive officers as a group beneficially owned, directly or indirectly or exercised control over, 9,341,958 Common Shares, representing approximately 5.12% of the issued and outstanding Common Shares.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below, none of our directors or executive officers, or persons or companies that are the direct or indirect beneficial owners of, or who exercise control or direction over, more than 10% of our outstanding Common Shares, or any associate or affiliate of any of the foregoing, has any interest, direct or indirect, in any material transactions in which we have participated during the three financial years ending December 31, 2007 or since January 1, 2008 which has materially affected or will materially affect the Corporation.

In connection with our intention to effect an initial public offering and listing of Sino-Wood Partner, Limited (“Sino-Wood”) on the Hong Kong Stock Exchange, in March 2003, we granted rights to Allen T.Y. Chan, Kai Kit Poon and Kee Y. Wong (a former director and executive officer), conditional upon completion of the initial public offering and Hong Kong Stock Exchange listing, to acquire 5% of the equity of Sino-Wood for nominal consideration (the “Rights”). In May 2004, although Sino-Wood had not yet completed an initial public offering and the listing of its shares on the Hong Kong Stock Exchange, our independent directors determined, in view of the public offering (the “Offering”) of Common Shares completed in May 2004, that it was appropriate to restructure the Rights.

Accordingly, on May 7, 2004, we agreed to purchase the Rights for an aggregate purchase price not to exceed approximately Cdn.\$12 million (\$9.4 million) to be paid by the future issuance of an aggregate of 2.4 million Common Shares. Of such Common Shares, 50% were issued on each of August 14, 2004 and May 14, 2005. In consideration of our intention to purchase the Rights, and in recognition of the Offering, Messrs. Chan, Poon and Wong agreed to the cancellation of existing options originally granted to them in November 1997, to acquire up to approximately 8.1% of the equity of a predecessor to Sino-Panel Holdings, Limited, one of our subsidiaries (which was subsequently changed to approximately 8.1% of the equity of Sino-Panel Holdings, Limited) for nominal consideration, including any shares issuable as a result of a public offering of Sino-Panel Holdings, Limited.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Common Shares is CIBC Mellon Trust Company of Canada at its principal offices in the city of Toronto, Ontario.

MATERIAL CONTRACTS

The following are the contracts that are material to the Corporation that were entered into either (i) during the year ended December 31, 2007; or (ii) prior to January 1, 2007 that are still in effect, other than contracts entered into in the ordinary course of business:

1. Trust Indenture dated as of August 17, 2004 between the Corporation, Law Debenture Trust Company of New York, as Trustee, and certain subsidiaries of the Corporation in connection with the issuance of \$300,000,000 9 1/8% Guaranteed Senior Notes Due 2011, as amended by the Second Supplemental Indenture dated February 24, 2006.
2. Subordinated Loan Agreement dated May 11, 2005 among (1) Sino-Forest Investments Limited, an indirect wholly-owned subsidiary of the Corporation, as lender, (2) Mandra Forestry Holdings Limited, as borrower, and (3) JP Morgan Chase Bank N.A., as trustee, to finance the borrower in an aggregate amount of \$15,000,000 for the purposes of acquisition of forestry assets in Anhui Province.
3. Share Subscription Agreement dated May 11, 2005 between Sino-Forest Investments Limited and Mandra Forestry Holdings Limited pursuant to which Sino-Forest Investments Limited purchased and subscribed for 15% of the outstanding shares of Mandra Forestry Holdings Limited.
4. Term Loan Facility dated February 24, 2006 between the Corporation and a syndication including Barclays Capital, Bayerische Hypo-und Vereinsbank AG, Hong Kong Branch, CITIC Ka Wah Bank Limited, Export Development Canada, and Hang Seng Bank Limited in connection with a \$150,000,000 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Corporation's ratio of consolidated total debt to consolidated EBITDA.
5. Subscription Agreement dated March 23, 2007 between the Corporation and several institutional investors including Aranda Investments Pte. Ltd. and Ellington Investments Pte. Ltd., each an indirectly wholly-owned subsidiary of Temasek Holdings (Pte) Ltd., an Asia investment firm headquartered in Singapore, Golden China Master Fund (managed by Greenworld Asset Management) and United Capital Investment Group Limited, whereby the Corporation sold approximately 25.4 million Common Shares to the institutional investors for gross proceeds of US\$200 million at a price of Cdn.\$9.15 per share.
6. Underwriting Agreement dated May 28, 2007 between the Corporation and a syndicate of underwriters led by Dundee Securities Corporation, and including CIBC World Markets Inc., Merrill Lynch Canada Inc., UBS Securities Canada Inc., Credit Suisse Securities (Canada) Inc., and Haywood Securities Inc. pursuant to which the Corporation issued an aggregate of 15,900,000 Common Shares at a price of Cdn.\$12.65 per share for gross proceeds of approximately Cdn.\$201 million.

There is no contract that is material to the Corporation that has been entered into after the financial year ended December 31, 2007 but prior to March 28, 2008, other than contracts entered into in the ordinary course of business.

INTERESTS OF EXPERTS

Pöyry Forest Industry Ltd. (previously named JP Management Consulting (Asia-Pacific) Ltd. or Jaakko Pöyry), an independent forestry consultant, located at 2 Battery Road, #21-01 Maybank Tower, Singapore 049907, is considered an expert in valuing forest assets and prepared reports dated March 8, 2006, March 15, 2007 and March 14, 2008 regarding the description and valuation of Sino-Forest's plantation forest assets in China. To our knowledge, the partners and associates of Pöyry Forest Industry Ltd., as a group, beneficially own, directly and indirectly, less than 1% of our outstanding Common Shares.

The auditors of Sino-Forest changed from BDO McCabe Lo Limited ("BDO"), Certified Public Accountants to Ernst & Young LLP, Chartered Accountants, from the third quarter of 2007. George Ho, a Senior Manager from BDO, joined Sino-Forest as Vice President, Finance, China and Vice President, Finance and Chief Financial Officer, Sino-Panel (Asia) Inc. in October 2007. Sino-Forest's consolidated financial statements as of December 31, 2007 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, Chartered Accountants, given their authority as experts in auditing and accounting.

AUDIT COMMITTEE

Audit Committee's Charter

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

Composition of Audit Committee

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

Relevant Education and Experience

Mr. Hyde is a chartered accountant and has extensive experience in finance and accounting related positions with private and public companies. Mr. Mak is a member of the Certified General Accountants of British Columbia, holds a Masters in Business Administration from the University of Toronto and has extensive experience in financial management and corporate audit management for various Fortune 500 companies and a TSX listed company. Mr. Martin has obtained extensive experiences in finance and accounting related positions, including being a Chief Financial Officer at Alliance Atlantic, MDC Corporation, Brookfield Development Corporation and Trizec Corporation.

Reliance on Certain Exemptions

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

Audit Committee Oversight

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

Pre-Approval Policies and Procedures

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

External Auditor Service Fees (By Category)

Audit Fees - Our external auditors billed us approximately \$483,000 and \$1,261,000 during the financial years ended December 31, 2006 and 2007, respectively, for audit fees.

Audit-Related Fees - We did not pay any audit-related fees during the financial years ended December 31, 2006 and 2007 for assurance and related services that are reasonably related to the performance of the audits or reviewing our financial statements and which are not included under “Audit Fees” set out above.

Tax Fees - No fee was incurred for the financial year ended December 31, 2006 and our external auditors billed us approximately \$295,000 during the financial year ended December 31, 2007 for services related to tax compliance, tax advice and tax planning.

All Other Fees - Our external auditors billed us at \$4,000 during the financial years ended December 31, 2007, for services other than those reported above.

ADDITIONAL INFORMATION

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

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

Additional financial information is provided in our consolidated financial statements and MD&A for our most recently completed year ended December 31, 2007.

Exhibit “A”

SINO-FOREST CORPORATION

(the “Corporation”)

AUDIT COMMITTEE CHARTER

STATEMENT OF PURPOSE

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

- (a) the accounting and financial reporting processes of the Corporation, its subsidiaries and any other business entity controlled in fact by the Corporation (each an “**affiliate**”) and their appropriateness in view of the Corporation’s operations and current GAAP in Canada and other applicable jurisdictions;
- (b) the adequacy and effectiveness of management’s system of internal controls and procedures in the Corporation, its subsidiaries and affiliates;
- (c) the quality and integrity of the Corporation’s, its subsidiaries and affiliates’ financial reporting and disclosure;
- (d) the relationship with the external auditor (the “**Auditor**”), including the audit of the financial statements and any other audit and permitted non-audit services provided by the Auditor; and
- (e) the compliance with laws, regulations and guidelines affecting the Corporation which relate to the duties and functions of the Audit Committee.

MEMBERSHIP

1. **Number**

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

2. **Composition**

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

3. **Qualifications**

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

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

4. **Training**

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

5. **Chair**

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

6. **Director Attendance**

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

7. **Removal and Vacancies**

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

8. **Tenure**

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

9. **Residency**

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

10. **Compensation**

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

MEETINGS

1. Notice of Meetings

- (a) The Committee Chair may call meetings of the Committee periodically and will do so at the request of any member of the Committee, the Auditor, or at the request of any of the Lead Director, Chairman of the Board, Chief Executive Officer (the “CEO”), the Chief Financial Officer (the “CFO”) or any other Director of the Corporation. If any Director of the Corporation requests the Committee Chair to call a meeting of the Committee, that Director may attend such meeting to inform the Committee of a specific matter of concern that Director has, and may participate in such meeting to the extent permitted by the Committee Chair.
- (b) The Auditor will be given notice of every meeting of the Committee and will be permitted to attend and be heard at such meeting on such matters relating to the Auditor’s duties as Auditor.
- (c) The Lead Director (if not a Committee member) will be given notice of every meeting.
- (d) Notice of the time and place of each meeting of the Committee will be given to each member by telephone not less than 48 hours before the time of the meeting or by written notice (email or otherwise) not less than four days before the day of the meeting, and, subject to the requirements of any applicable law, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the Committee may be held at any time without notice if all the members have waived or are deemed to have waived notice of the meeting.

2. Times and Places of Meetings

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

3. Agenda

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

4. Quorum

A quorum at any meeting will be a simple majority.

5. Procedure

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

6. **Secretary**

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

7. **Minutes of Meetings**

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

8. **Transaction of Business**

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

9. **Exercise of Power Between Meetings**

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

DUTIES AND RESPONSIBILITIES

1. **Relations With the Auditor**

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

- (a) recommend to the Board, the appointment, compensation and retention of the Auditor;
- (b) recommend to shareholders the appointment of the Auditor;
- (c) review the Auditor's engagement letter, both for audit and non-audit services;
- (d) review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor;
- (e) review the audit plan of the Auditor with management and Auditor so that the Committee, can satisfy itself regarding the appropriate coverage of risks, understand the audit approach, including areas of reliance on internal controls, and understand how changes in the accounting policies of the Corporation might impact the audit approach;
- (f) oversee the work the Auditor performs quarterly (whether review or specified procedures, as determined by the Committee), including resolution of disagreements with the Corporation's management;
- (g) pre-approve all audit, review and attest services;
- (h) approve on an annual basis, the pre-approval policy for audit, audit-related and non audit services that are permitted to be provided by the Auditor and satisfy itself that the

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

- (i) consider whether any non-audit services performed for the Corporation by the Auditor could detract from the firm's independence in carrying out the audit function. The Committee may pre-approve the appointment of the Auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the Auditor for non-audit services;
- (j) review the basis and amount of the Auditor fees in light of the number and nature of reports issued by the Auditor, the quality of the internal controls, the size, complexity and financial condition of the Corporation and the extent of other non-prohibited support provided to the Corporation by the Auditor;
- (k) review all other non-audit fees and services of the Auditor or other accounting firms;
- (l) review post-audit or management letters, containing recommendations of the Auditor and management's response, and oversee their implementation or resolution;
- (m) provide the Auditor with the opportunity to meet with the Committee or the Board without management present, at each quarterly meeting of the Committee, for the purpose of discussing any issues which have arisen during that fiscal quarter or any previous fiscal quarter;
- (n) meet regularly with the Auditor without management present to receive reports of any significant disagreements between management and the Auditor regarding financial reporting, the resolution of any such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the Auditor;
- (o) approve the Corporation's hiring of current and former partners and employees of the present and former Auditor;
- (p) satisfy itself that the rotation of the staff of the Auditor is in accordance with applicable laws and professional standards;
- (q) meet with senior management not less than quarterly without the Auditor present for the purpose of discussing, among other things, the performance of the Auditor and any issues that may have arisen during the quarter;
- (r) annually review the expertise, resources and overall performance of the Auditor and, if necessary, recommend to the Board the termination of the Auditor or the rotation of the audit partner in charge. In the case of a recommendation to terminate the Auditor, the Committee will enquire as to the qualifications and independence of the newly proposed Auditor before making its recommendations to the Board;
- (s) at least annually, and in any event before the Auditor issues its report on the annual financial statements, obtain a formal written statement from the Auditor describing all of its relationships with the Corporation and discussing and resolving with the Auditor any relationships that may affect its objectivity and independence;

- (t) have authority to satisfy itself that adequate provisions are made to fund the compensation to be paid to the Auditor;
- (u) review, where there is to be a change of Auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, and the planned steps for an orderly transition; and
- (v) review all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, on a routine basis, whether or not there is to be a change of Auditor.

2. **Audit and Financial Reporting**

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

- (a) review all financial statements and the related MD&A which require approval by the Board, including, without limitation, interim statements, year end audited statements, statements for use in prospectuses or other offering documents and statements required by regulatory authorities; determine whether the financial statements are complete, accurate and are in accordance with GAAP in all material respects; review all variances between comparative reporting periods; and recommend such financial statements and related MD&A for Board approval;
- (b) review all earnings press releases and other press releases disclosing financial information prior to their dissemination to the public, as well as financial information and written earnings guidance provided to analysts and rating agencies. No written earnings guidance will be provided to analysts unless the Committee has reviewed and approved such guidance. The Committee will also review the use of “pro forma” or “adjusted” non-GAAP information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;
- (c) review all public disclosure documents containing audited or unaudited financial information before release including (without limitation) any: Prospectus, Annual Report and or any other documents extracted or derived from the Corporation’s financial statements filed with regulatory agencies and satisfy itself that all information is consistent with the financial statements and that such document or statement does not contain any untrue statement of any material fact or omit to state a material fact that is required or necessary to make the document or statement not misleading, in light of the circumstances under which it was made;
- (d) review the disclosure in the Annual Information Form regarding details of the Committee’s membership; exemptions relied on, if any; instances of the Board not accepting the Committee’s recommendations, if any; summary of Auditor fees and services provided; and inclusion of the Audit Committee Terms of Reference;

- (e) review the form of the audit report and the scope and quality of the audit work performed;
- (f) review the audit results with the Auditor and management's proposed handling of audit adjustments;
- (g) review and discuss the Auditor's report and the related MD&A for the audited annual financial statements with management and the Auditor;
- (h) review with the Auditor and management any material changes in accounting practices or policies and the financial statement impact thereof, the presentation of the impact of significant risks and uncertainties, and judgments of management that may have a significant effect upon the financial statements;
- (i) review with the Auditor, any disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements;
- (j) review the co-operation received by the Auditor from the Corporation's personnel during the audit, any problems encountered by the Auditor and any restrictions on the Auditor's work;
- (k) review with the Auditor and management;
 - (i) critical accounting policies and practices used by the Corporation, including critical accounting estimates, the selection of major accounting policies, reasons why certain policies are not considered critical and how current and future events affect that determination;
 - (ii) all alternative material accounting treatments that have been discussed with management, the ramifications of these alternative treatments and the Auditor's preferred method;
 - (iii) all material written communications between the Auditor and management that would facilitate Auditor and management oversight by the audit committee such as management representation letters, reports on observations and internal control reports, schedules of material adjustments and proposed reclassifications, schedule of unadjusted audit differences and listings of adjustments and reclassifications not recorded, engagement letters and independence letters;
 - (iv) the status of material contingent liabilities and legal matters as reported to the Committee by management;
 - (v) the status of taxation matters of the Corporation; and
 - (vi) any errors or omissions in the current or prior year's financial statements.
- (l) discuss the effect of off-balance-sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial

condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;

- (m) review with the Auditor and management all material related party transactions and the development of policies and procedures related to those transactions;
- (n) review with the Auditor and management, the methods used to account for significant unusual transactions;
- (o) establish and administer a “whistleblower” procedure for the receipt, retention and treatment of complaints regarding accounting, auditing matters, internal accounting controls and employees’ confidential anonymous submission of concerns regarding accounting and auditing matters; and
- (p) consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

3. **Risk Management**

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

- (a) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, auditing matters or internal accounting controls, including the confidential and anonymous submission of complaints by employees including reviewing on an annual basis, the Corporation’s Whistleblower Policy;
- (b) review with management and bring to the attention of the Auditor any correspondence with regulators or government agencies, employee complaints or published reports that raise material issues regarding the Corporation’s financial statements or accounting policies;
- (c) review with management, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of operating results, and the manner in which these matters have been disclosed in the financial statements;
- (d) identify, assess and monitor the risks inherent in the business of the Corporation and establish and monitor compliance with policies and procedures necessary to address, as much as is reasonably possible, those identified risks;
- (e) in conjunction with management, review on an annual basis all aspects of the Corporation’s risk management program, including insurance coverage, foreign exchange exposures, and investments (including its use of financial risk management instruments), disaster recovery and business continuity plans;
- (f) review with management the presentation and impact of significant risks and uncertainties associated with the business of the Corporation; and

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

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

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

- (a) a position description for the CFO, which would include the CFO's authority and responsibilities;
- (b) the goals and objectives that are relevant to the CFO's compensation;
- (c) the CFO's performance in meeting his or her goals and objectives;
- (d) the performance of Corporation's financial and accounting personnel; and
- (e) remedial action where necessary.

5. **Relations with Management**

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

- (a) review decisions of the Corporation's Disclosure Committee in which unanimity was not achieved and in instances where the Disclosure Committee¹ deems appropriate;
- (b) meet privately with senior management at least quarterly to discuss any areas of concern to the Committee or management;
- (c) review with management and assess the results of instances, if any, where management seeks a second opinion on significant accounting or auditing matters;
- (d) where possible, consult on the appointment of and departure of individuals occupying senior financial positions; and
- (e) have the Committee Chair review the expenses incurred by the Chairman of the Board and the CEO.

6. **Authority to Engage Advisers**

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

7. **Access to Records**

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

¹ Provided the Disclosure Policy contemplates other such instances.

8. **Other**

The other duties of the Committee shall include:

- (a) reviewing the Directors and Officers insurance policy prior to its renewal each year and reviewing from time to time the indemnification agreements provided to the Directors and Officers of the Corporation;
- (b) reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
- (c) reviewing annual operating and capital budgets;
- (d) reviewing the funding and administration of the Corporation's compensation and pension plans, if any;
- (e) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
- (f) inquiring of management and the Auditor as to any activities that may be or may appear to be illegal or unethical; and
- (g) any other questions or matters referred to it by the Board.

9. **Reporting**

The Committee will regularly report to the Board on:

- (a) the Auditor's independence, engagement and fees;
- (b) the performance of the Auditor and the Committee's recommendations regarding its reappointment or termination;
- (c) the adequacy of the Corporation's internal controls and disclosure controls;
- (d) the Corporation's risk management procedures;
- (e) its recommendations regarding the annual and interim financial statements of the Corporation, including any issues with respect to the quality or integrity of the financial statements;
- (f) its review of the annual and interim MD&A;
- (g) any validated complaints made under and the effectiveness of the Corporation's Whistleblower Policy;
- (h) the Corporation's compliance with legal and regulatory requirements related to financial reporting; and
- (i) all other significant matters it has addressed or reviewed and with respect to such other matters that are within its responsibilities, together with any associated recommendations.

APPENDIX I DEFINITIONS

“**Financially Literate**” shall mean:

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

“**Independent**” shall mean:

- (a) a director may not, either directly or indirectly, other than in his or her capacity as a member of the Committee, the Board, or any other Board committee, accept any consulting, advisory or other compensatory fee from the Corporation. Indirect acceptance of compensatory payments includes payments to spouses, minor children or step-children and children or step-children sharing a home with the director as well as payments accepted by an entity in which the Committee member is a partner, member, officer such as a managing director occupying a comparable position or executive officer or occupies a similar position and which provides accounting, consulting, legal, investment banking or, financial advisory services to the issuer;
- (b) a director may not be an “**affiliated person**” of the Corporation or any subsidiary of the Corporation. A director, who is also an employee of an affiliate, an executive officer of an affiliate or a general partner or managing member of an affiliate would be deemed to be an affiliate. An “**affiliate of**” or person “**affiliated**” with a specified person is defined as “a person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified”. “**Control**” means “the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise”. A person is deemed not to control the issuer if the person is not an executive officer, or a shareholder of more than 10% of any class of voting equity securities of the issuer. Notwithstanding the foregoing, there is an exception to the affiliate prohibition for overlapping board relationships. If a member sits on the Board of the Corporation and on the board of an affiliate of the Corporation, the member is exempt from the “**affiliated person**” prohibition, if except for being on each board, that member otherwise meets the independence criteria.
- (c) a Committee member may not have been employed by the Corporation or by any parent or subsidiary or have a family member who is or was an executive officer of the Corporation within the past three years;
- (d) a Committee Member may not have been (nor have a family member who has been) employed as an executive officer of another entity where any of the executive officers of the Corporation serve or have served on the compensation committee of such other entity within the past three years; and
- (e) a Committee member may not be a former partner or employee of the auditor who worked on the Corporation’s audit engagement; have a family member who is a partner of the auditor or is an employee of the auditor and participates in the Corporation’s audit, assurance or tax compliance or was within the last three years a partner or employee of the auditor and personally worked on the Corporation’s audit.