FORM 51-102F3
MATERIAL CHANGE REPORT

ITEM 1 Name and Address of Company

Sino-Forest Corporation (the **"Company"**)
90 Burnhamthorpe Road West
Suite 1208
Mississauga, ON L5B 3C3

ITEM 2 Date of Material Change

July 16, 2008, July 18, 2008 and July 23, 2008

ITEM 3 News Release

Press releases were disseminated on July 16, 2008, July 18, 2008 and July 23, 2008, all through Canada Newswire.

ITEM 4 Summary of Material Change

The Company announced a US$300 million offering of convertible senior notes plus a 15% over-allotment option, the pricing of such notes and the subsequent closing of the US$300 million offering of convertible senior notes.

ITEM 5 Full Description of Material Change

See press releases dated July 16, 2008, July 18, 2008 and July 23, 2008, and a copy of the final offering memorandum dated July 18, 2008, attached hereto as Schedules "A", "B", "C" and "D", respectively.

ITEM 6 Reliance on Section 7.1(2) of National Instrument 51-102

N/A

ITEM 7 Omitted Information

N/A

ITEM 8 **Executive Officer**

Dave Horsley
Senior Vice President and Chief Financial Officer
Telephone: 905.281.8889
Fax: 905.281.3338

ITEM 9 **Date of Report**

July 25, 2008

SCHEDULE "A"

Sino-Forest Corporation

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OR TO U.S. WIRE SERVICES

FOR IMMEDIATE RELEASE

Sino-Forest Corporation Announces Convertible Senior Notes Offering

Toronto, July 16, 2008 – Sino-Forest Corporation (the "Company") (TSX: TRE and TRE.S) today announced that it is offering convertible senior notes in the international markets. The anticipated size of the offering will be US$300 million plus 15% over-allotment option. The final size and details of the offering, including the interest rate payable on the notes, the maturity date of the notes and the terms at which the notes will be convertible into common shares of the Company, will be determined after completion of marketing activties and is subject to prevailing market conditions. The Company intends to use the net proceeds of the offering as follows:

- approximately US$230 million as initial capital for the acquisition of commercial plantation forests in the Fujian Province of the People's Republic of China ("PRC") to develop fast-growing high yielding plantations. The Company also intends to vertically integrate these plantations with its downstream wood processing facilities in the PRC;

- approximately US$15 million to lease land and plant with Jatropha trees, a drought-resistant and fast-growing species that grow on fertile and non-fertile soil, in Southern PRC. As a founding member of China Green Carbon Foundation, the Company plans to collaborate with the PRC State Forestry Administration to research and develop Jatropha species for large-scale propagation. The Company intends to collect and extract raw seeds oil from Jatropha seeds; and

- the balance of the net proceeds will be employed for general working capital purposes.

The specific terms and conditions of the aforementioned acquisitions are to be determined upon the execution of the definitive agreements between the relevant parties. The Company intends to make a further public announcement if and when its offering plan becomes definitive. No assurance can be given that the Company will not terminate this preparation process or alter the amount or terms of the offering due to market conditions or otherwise.

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This press release is not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any State of the United States and the District of Columbia).

This press release does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities of Sino-Forest Corporation may be offered or sold in the United States unless they are registered under the US Securities Act of 1933, amended, or exempt from registration. Sino-Forest Corporation does not intend to conduct a public offering in the United States and the securities referred to herein have not been and will not be registered into the United States.

About Sino-Forest Corporation

Sino-Forest Corporation is a leading commercial forestry plantation operator in China. The Canadian company started its operations in 1994 and was of the first few foreign and privately managed operators involved in forest products in China. Its principal businesses include the ownership and management of forestry plantation trees and sales of standing timber, logs and wood chips, and complementary manufacturing of downstream engineered-wood products. The Corporation's common shares trade on the Toronto Stock Exchange under the symbol TRE since 1995.

FOR FURTHER INFORMATION, PLEASE CONTACT:

DAVE HORSLEY	LOUISA WONG
- Senior Vice President & Chief Financial Officer	- Senior Manager, Investor Communications & Relations
Tel: +905 281 8889	Tel: +852 2514 2109
Email: davehorsley@sinoforest.com	Email: louisa-wong@sinoforest.com

Please note: This press release contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of the Company and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but not limited to, changes in China and international economies; changes in currency exchange rates; changes in worldwide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products and changes in wood and timber costs.

SCHEDULE "B"

Sino-Forest Corporation

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OR TO U.S. WIRE SERVICES

FOR IMMEDIATE RELEASE

Sino-Forest Corporation Announces Details of Convertible Senior Note Offering

Toronto, July 18, 2008 – Sino-Forest Corporation (the "Company") (TSX: TRE and TRE.S) today announced the details of its convertible senior note offering. The Company has entered into a purchase agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC whereby the Company has agreed to sell, subject to customary conditions, US$300 million of convertible senior notes plus a 15% over-allotment option in the international markets.

The notes shall bear interest at a rate of 5.0% per annum, payable semi-annually and shall mature on August 1, 2013. The notes will be convertible into common shares of the Company at a conversion price of US$20.29 (Cdn$20.32) per share, equivalent to a conversion rate of 49.2974 shares per US$1,000 principal amount of notes, subject to customary adjustments.

As indicated in its previous press release, the net proceeds of the offering are intended to be used for the acquisition of 200,000 hectares of commercial plantation forests in the Fujian Province over a 10-year period with the consideration price for the trees shall not exceed RMB350 per cubic meter, subject to the specific terms and conditions of the purchases are to be determined upon the execution of definitive agreements between the relevant parties; to lease land and planting of Jatropha trees; and the balance of the net proceeds will be employed for general working capital purposes.

It is expected that the closing of the note offering will take place on or about Wednesday, July 23, 2008. The Company has applied to list the common shares issuable on conversion of the notes on the TSX, which listing, if accepted by the TSX, will be subject to the fulfillment of certain conditions by the Company. A copy of the final offering memorandum will be available on www.sedar.com following the closing of the offering.

The notes has been assigned a (P)Ba2 rating by Moody's Investors Service.

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This press release is not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any State of the United States and the District of Columbia).

This press release does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities of Sino-Forest Corporation may be offered or sold in the United States unless they are registered under the US Securities Act of 1933, amended, or exempt from registration. Sino-Forest Corporation does not intend to conduct a public offering in the United States and the securities referred to herein have not been and will not be registered into the United States.

About Sino-Forest Corporation

Sino-Forest Corporation is a leading commercial forestry plantation operator in China. The Canadian company started its operations in 1994 and was of the first few foreign and privately managed operators involved in forest products in China. Its principal businesses include the ownership and management of forestry plantation trees and sales of standing timber, logs and wood chips, and complementary manufacturing of downstream engineered-wood products. The Corporation's common shares trade on the Toronto Stock Exchange under the symbol TRE since 1995.

FOR FURTHER INFORMATION, PLEASE CONTACT:

DAVE HORSLEY
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Tel: +852 2514 2109
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Please note: This press release contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of the Company and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but not limited to, changes in China and international economies; changes in currency exchange rates; changes in worldwide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products and changes in wood and timber costs.

SCHEDULE "C"

Sino-Forest Corporation

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OR TO U.S. WIRE SERVICES

FOR IMMEDIATE RELEASE

Sino-Forest Corporation Closes Convertible Senior Note Offering

Toronto, July 23, 2008 – Sino-Forest Corporation (the "Company") (TSX: TRE and TRE.S) today announced the closing of its previously announced US$300 million of convertible senior note offering. The notes shall bear interest at a rate of 5.0% per annum, payable semi-annually and shall mature on August 1, 2013. The notes will be convertible into common shares of the Company at a conversion price of US$20.29 (Cdn$20.32) per share, equivalent to a conversion rate of 49.2974 shares per US$1,000 principal amount of notes, subject to customary adjustments. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC were the underwriters in connection with the offering and have an over-allotment option to acquire up to an additional US$45 million of convertible senior notes exercisable until August 22, 2008.

As indicated in its previous press release, the net proceeds of the offering are intended to be used for the acquisition of commercial plantation forests in the Fujian Province, subject to the specific terms and conditions of the purchases to be determined upon the execution of definitive agreements between the relevant parties. The net proceeds of the offering are also intended to be used to lease land and plant with Jatropha trees, with the balance of the net proceeds being employed for general corporate purposes.

The Company has received conditional approval to list the common shares issuable on conversion of the notes on the TSX, which listing is subject to the fulfilment of certain conditions by the Company.

The notes have been assigned a provisional (P)Ba2 rating by Moody's Investors Service.

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This press release does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities of Sino-Forest Corporation may be offered or sold in the United States unless they are registered under the US Securities Act of 1933, as amended (the "Securities Act"), or exempt from the registration requirements of the Securities Act. Sino-Forest Corporation does not intend to conduct a public offering in the United States and the securities referred to herein have not been and will not be registered under the Securities Act.

About Sino-Forest Corporation

Sino-Forest Corporation is a leading commercial forestry plantation operator in China. The Canadian company started its operations in 1994 and was of the first few foreign and privately managed operators involved in forest products in China. Its principal businesses include the ownership and management of forestry plantation trees and sales of standing timber, wood logs and complementary manufacturing of downstream engineered-wood products. The Corporation's common shares trade on the Toronto Stock Exchange under the symbol TRE since 1995.

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Please note: This press release contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of the Company and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but not limited to, changes in China and international economies; changes in currency exchange rates; changes in worldwide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products and changes in wood and timber costs.

SCHEDULE “D”

Final Offering Memorandum dated July 18, 2008

OFFERING MEMORANDUM **CONFIDENTIAL**

US$300,000,000

Sino-Forest Corporation

(a company existing under the laws of Canada with limited liability)

5.00% Convertible Senior Notes due 2013

The Offering:

The Notes will bear interest at the rate of 5.00% per year, payable semi-annually on February 1 and August 1 of each year, beginning February 1, 2009. The Notes will mature on August 1, 2013. The Notes will be our general senior unsubordinated obligations guaranteed by certain of our subsidiaries organized outside the PRC that have also guaranteed our existing significant obligations.

Convertibility of the Notes:

Holders may convert their Notes, at any time prior to the close of business on the business day immediately preceding the stated maturity date of the Notes based on an initial conversion rate of 49.2974 Common Shares per US$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately Cdn.$20.32, based on a fixed exchange rate applicable on conversion of the Notes of US$1.00 = Cdn.$1.0016), subject to adjustment. Upon conversion, at our option, we may elect to deliver, in lieu of Common Shares, cash or a combination of cash and Common Shares. Holders who convert their Notes in connection with certain fundamental changes may be entitled to a make whole premium upon conversion in some circumstances. Our Common Shares are listed on the Toronto Stock Exchange (the "TSX") under the symbols "TRE" and "TRE.S." On July 17, 2008, the last quoted sale price of our Common Shares was Cdn.$15.05 per Common Share. Application has been made for the Common Shares issuable upon conversion of the Notes to be listed on the TSX.

Purchase of the Notes by Us at the Option of the Holder:

If we experience a fundamental change, we will be required to make an offer to each holder to purchase for cash all or a portion of its Notes at such holder's option.

The Notes sold to qualified institutional buyers, as defined in, and in reliance on, Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended (the "Securities Act"), are expected to be eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") system, the NASDAQ screen-based automated market for trading of securities eligible for resale under Rule 144A, at the time of issuance thereof.

The Notes are being offered to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons outside the United States in accordance with Regulation S under the Securities Act ("Regulation S").

Investing in the Notes involves risks. See "Risk Factors" beginning on page 12.

Neither the Notes nor the Common Shares issuable upon conversion of the Notes (the "Conversion Shares") have been registered under the Securities Act or any other securities laws. Neither the Notes nor the Conversion Shares may be offered or sold in the United States or any other jurisdiction where such registration is required and has not been effected, except in a transaction not subject to, or exempt from, the registration requirements of the Securities Act and any other applicable securities laws. See "Transfer Restrictions."

The Initial Purchasers may also purchase up to an additional US$45,000,000 principal amount of Notes within 30 days from the date of this Offering Memorandum to cover overallotments, if any.

The Notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company ("DTC") on or about July 23, 2008.

Merrill Lynch & Co.

Credit Suisse

The date of this Offering Memorandum is July 17, 2008.

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This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as of any time after that date.

We, having made all reasonable inquiries, confirm that (i) this Offering Memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this Offering Memorandum and the Notes (including the Subsidiary Guarantee attached thereto) and the Common Shares that is material in the context of the offering; (ii) the statements contained in this Offering Memorandum relating to us and our subsidiaries and affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates and the Notes (including the Subsidiary Guarantee attached thereto) and the Common Shares, the omission of which would, in the context of the offering, make this document, as a whole, misleading in any material respect; and (v) we have made all reasonable inquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This Offering Memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this Offering Memorandum before making a decision whether to purchase the Notes. You must not use this Offering Memorandum for any other purpose, or disclose any information in this Offering Memorandum to any other person.

You should rely only on the information contained in this Offering Memorandum. We have not, and the Initial Purchasers have not, authorized any other person to provide you with information that is different from what is contained in this Offering Memorandum. This Offering Memorandum may only be used where it is legal to offer and sell these securities. The information appearing in this Offering Memorandum is accurate only as of the date on the front cover of this Offering Memorandum or otherwise as of the date specifically referred to in connection with the particular information. Our business, financial condition, results of operations and prospects may have changed since that date.

You may not construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own professional advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes. In making any investment decision regarding the Notes, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. In addition, there may be legal restrictions on the distribution of this Offering Memorandum or this offering in certain jurisdictions. If you come into possession of this Offering Memorandum, we and the Initial Purchasers require that you inform yourself about and observe any such restrictions. For a further description of certain restrictions on this offering, and the offer, sale or resale of our Notes and Conversion Shares, see "Plan of Distribution" and "Transfer Restrictions." Neither we nor the Initial Purchasers are making any representation or warranty to any offeree or purchaser of the Notes regarding the legality of an investment in the Notes by such offeree or purchaser under applicable legal investment or similar laws or regulations.

Prospective purchasers are hereby notified that sellers of the securities (the Notes and the Conversion Shares) may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. No action is being taken to permit a public offering of the Notes or the Conversion Shares in any jurisdiction where action would be required for such purposes.

THE NOTES (INCLUDING THE SUBSIDIARY GUARANTEES ATTACHED THERETO) AND THE CONVERSION SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES, ANY OTHER U.S. REGULATORY AUTHORITY OR THE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY OF ANY NON-U.S. JURISDICTION, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES (INCLUDING THE SUBSIDIARY GUARANTEE ATTACHED THERETO) OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES AND MAY BE A CRIMINAL OFFENSE IN OTHER JURISDICTIONS.

We have provided information contained in this Offering Memorandum and have also relied on other identified sources. The Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and you should not rely on anything contained in this Offering Memorandum as a promise or representation by the Initial Purchasers. By purchasing the Notes offered by this Offering Memorandum, you will be deemed to have acknowledged that you have reviewed this Offering Memorandum and to have made certain acknowledgements, representations and agreements as set forth under the caption "Transfer Restrictions" in this Offering Memorandum. You may not reproduce or distribute this Offering Memorandum, in whole or in part, and you may not disclose any contents or use any information in this Offering Memorandum for any purpose other than considering an investment in our Notes offered hereby. By accepting delivery of this Offering Memorandum, you agree to these terms.

IN CONNECTION WITH THE ISSUE OF THE NOTES, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED OR ITS AFFILIATES, AS THE STABILIZING MANAGER (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER), MAY OVERALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAT THAT WHICH MIGHT OTHERWISE PREVAIL, IN COMPLIANCE WITH ALL APPLICABLE LAWS AND REGULATORY REQUIREMENTS. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTIONS. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OF OVERALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Offering Memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company" and words of similar import, 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 Offering Memorandum 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 Offering Memorandum contains translations of certain Canadian dollar, H.K. dollar and Renminbi amounts into U.S. dollars. All such translations have been made at the rate indicated thereof being the noon buying rate in The City of New York for cable transfers in Canadian dollars, Renminbi or Euro, as applicable, as certified for customs purposes by the Federal Reserve Bank of New York on the date indicated thereof. All such H.K. dollar translations have been made at the rate of HK$7.824 to US$1.00, the linked exchange rate between such currencies under policies of the Hong Kong government in effect as of the date of this Offering Memorandum. On July 15, 2008, the noon buying rate for cable transfers in Renminbi was RMB6.8211 to US$1.00. See "Exchange Rates." All translations in this Offering Memorandum are provided solely for your convenience, and 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.

References to "the People's Republic of China" or to the "PRC," for purposes of this Offering Memorandum, do not include the Hong Kong Special Administrative Region, or Hong Kong, the Macau Special Administrative Region, or Taiwan.

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

A hectare is a metric unit of area equal to 10,000 square meters 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 the PRC in accordance with the relevant PRC laws, with capital provided solely by foreign investors. Such enterprises do not include branches and offices established in the PRC by foreign enterprises and other economic entities.

Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements. All statements other than statements of historical fact contained in this Offering Memorandum, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- political, social and economic considerations in the PRC;
- restrictions on foreign currency convertibility and remittance abroad;
- exchange rate fluctuations and changes in interest rates;
- developing legal system in the PRC;
- regulations and restrictions;
- change in policies, laws or regulations in the PRC;
- export tariffs imposed by the governments of timber exportation countries, including Russia;
- governmental approval processes;
- our ability to expand and manage our tree plantations;
- our business and operating strategies;
- our capital expenditure and forestry development plans;
- the amount and nature of, and potential for, future development of our business and new projects;
- our ability to acquire rights to additional standing timber;
- our ability to meet our expected plantation yields;
- our ability to rely on authorized intermediaries, key customers, suppliers and third party service providers;

- our ability to operate our production facilities on a profitable basis;
- our evaluation of our provision for income and related taxes;
- the cyclical nature of the forest products industry, price fluctuations for wood products and logs, and the demand and supply of logs;
- various business opportunities that we may pursue;
- changes in competitive conditions and our ability to compete under these conditions;
- other operating risks and factors referenced in this Offering Memorandum; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this Offering Memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this Offering Memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur.

AVAILABLE INFORMATION

During any period in which we are not subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to each holder of our Notes or Conversion Shares, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of our Notes or Conversion Shares for so long as any such Notes or Conversion Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act. So long as any of the Notes remains outstanding, we will provide to the Trustee for forwarding to the holders of the Notes our quarterly and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are organized under the federal laws of Canada. All of our directors and officers and certain of the experts named herein reside outside the United States and all or a substantial portion of their assets and substantially all of our assets are located outside the United States. Therefore, it may not be possible for you to effect service of process within the United States against such persons or us or to enforce in the United States judgments rendered against them or us. In addition, you should not assume that the courts of Canada (i) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States, or (ii) would enforce, in original actions, claims against us or such persons predicated upon the U.S. federal securities laws.

INDUSTRY AND MARKET DATA

The information regarding markets, market size, market position, growth rates and other industry data pertaining to our business contained in this Offering Memorandum consists of estimates based on data reports compiled by consulting and engineering firms, data from other external sources, such as the PRC State Forestry Administration, and our knowledge of sales and markets. In certain cases, there is no readily external information to validate market-related analyses and estimates, requiring us to rely on internally developed estimates. Some of the market information provided under the heading "Industry" was taken from the PRC State Forestry Administration's Sixth Enumeration of the Nation's Forest Resources, dated as of September 28, 2006, and Sino-Forest Corporation Valuation of China Forest Assets Report (the "Pöyry Report"), dated March 14, 2008, prepared by Pöyry Forest Industry Pte. Ltd. ("Pöyry"), a consulting and engineering firm specializing in the forest industry sector. We commissioned this report to provide us with, among other things, PRC forestry industry data and a valuation of our forestry assets.

While we have compiled, extracted and reproduced market or other industry data from external sources, including third parties, analysts or industry or general publications, we have not independently verified that data. Information in this Offering Memorandum which is based on third-party sources has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Subject to the foregoing, we cannot assure investors of the accuracy and completeness of, or take any responsibility for, such data. The source of such third-party information is cited whenever such information is used in this Offering Memorandum.

While we believe our internal estimates to be reasonable, such estimates have not been verified by any independent sources and we cannot assure potential investors as to their accuracy or that a third party using different methods to assemble, analyze or compute market data would obtain the same result. We do not intend to, and do not, assume any obligations to update industry or market data set forth in this Offering Memorandum. Finally, behaviour, preferences and trends in the marketplace tend to change. As a result, investors should be aware that data in this Offering Memorandum and estimates based on that data may not be reliable indicators of future results.

PRESENTATION OF FINANCIAL INFORMATION

We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which differ in certain material respects from generally accepted accounting principles in the United States ("U.S. GAAP"), as discussed in the section headed "Summary of Certain Differences between Canadian GAAP and U.S. GAAP" below. Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada.

Our reporting currency is the U.S. dollar.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

The Company

Overview

We are one of the largest foreign-owned commercial tree plantation operators in the PRC. As of March 31, 2008, we had approximately 328,000 hectares of tree plantations under management located in six provinces of the PRC and we have entered into long-term master agreements that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 653,000 additional hectares of plantation trees. We have been operating tree plantations in the PRC since 1995.

Our business operations consist of two core businesses: wood fiber operations and manufacturing operations. Our wood fiber operations are our largest revenue contributor and consist of acquiring, cultivating and selling standing timber or harvested logs from our purchased or planted tree plantations, selling wood logs sourced from PRC suppliers and selling wood products imported from outside the PRC. Our wood fiber operations accounted for 94.6% and 93.2%, respectively, of our total revenue for the year ended December 31, 2007 and the three-month period ended March 31, 2008. As of March 31, 2008, eucalyptus trees and pine and fir trees accounted for approximately 17.5% and 77.5%, respectively, of the total area under cultivation of our tree plantations.

Our manufacturing and other operations represent our secondary source of revenue and consist of sales of wood-based products, such as particleboard, melamine chipboard, engineered wood flooring, oriented strand board and finger-joint board manufactured at our own production plants. We currently operate manufacturing plants in Gaoyao, Guangdong Province, Suzhou, Jiangsu Province, Muling City, Heilongjiang Province, and Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province, which complement our wood fiber operations. We also operate a greenery and nursery business based in Suzhou, Jiangsu Province. Our manufacturing and other operations represented 5.4% and 6.8%, respectively, of our total revenue for the year ended December 31, 2007 and the three-month period ended March 31, 2008.

We operate our plantations using three business models: purchased, planted and integrated. In our purchased tree plantation model, we purchase young trees and subsequently sell the trees as standing timber when they reach maturity. This model allows us to capture wood fiber growth during our ownership of the trees and take advantage of increasing wood fiber prices. We refer to plantations managed under our purchased tree plantation model as "purchased tree plantations." In our planted tree plantation model, we assess the suitability of land where trees have been recently harvested for replanting and conversion into fast-growing high-yielding plantations. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. We then replant and cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to plantations managed under our planted tree plantation model as "planted tree plantations." In our integrated tree plantation model, instead of selling trees from purchased or planted tree plantations as standing timber, we either sell the logs or vertically integrate the wood fiber with our manufacturing facilities to produce value-added wood products. We are in the early stages of implementing our integrated tree plantation model.

As of March 31, 2008, approximately 273,000 hectares (83.2%) of our plantations were purchased tree plantations and approximately 55,000 hectares (16.8%) were planted tree plantations. In the years ended December 31, 2005, 2006 and 2007 and in the three-month period ended March 31, 2008, we sold approximately 108,013, 111,367, 146,037 and 13,493 hectares of standing timber from our tree plantations, respectively.

According to Research and Markets, a market research resource, the PRC's forested areas represent 4.6% of the total global forested area with 174.90 million hectares. The forest coverage in the PRC reaches only 18.21% of the total area of the PRC, which is significantly lower than the world average level of forest coverage per country of 61.52%. PRC forest reserves are 12.46 billion cubic meters and represent less than 3% of the total worldwide reserves. PRC forest reserves per capita are 9.421 cubic meters, which is less than one sixth of the average per capita forest reserves worldwide. PRC forest reserves per hectare represent only 84.73 cubic meters which is equal to 84.86% of the average forest reserve per hectare worldwide. In terms of forest area per capita, the PRC has scarce forestry resources compared to other countries with abundant forest resources.

In 2005, 2006 and 2007 and the three-month period ended March 31, 2008, we had revenue of US$341.3 million, US$555.5 million, US$713.9 million and US$136.1 million, respectively, and net income of US$76.2 million, US$113.5 million, US$152.3 million and US$14.5 million, respectively.

As of December 31, 2007 and March 31, 2008, we had cash, cash equivalents and short-term deposits of US$350.9 million and US$259.3 million, respectively. Adjusted EBITDA (including the addback of depletion of timber holdings from cost of sales) for the year ended December 31, 2007 and the three-month period ended March 31, 2008 was US$487.6 million and US$73.6 million, respectively.

Our Common Shares have been listed on the TSX since 1995 and, as of July 15, 2008, our market capitalization was approximately Cdn.$2,813.76 million (US$2,809.54 million) based on a closing price of our Common Shares of Cdn.$15.41 on the TSX on such date.

Our Competitive Strengths

We believe that we have the following strengths:

- we are currently one of the largest foreign-owned commercial tree plantation operators in the PRC with our own sustainable and large-scale supply of forestry resources;
- strategically located plantations in six provinces of the PRC;
- strong track record in obtaining and developing commercial tree plantations and ability to leverage our industry foresight;
- extensive forestry and management expertise with local knowledge in the PRC;
- systematic application of advanced planting and silviculture techniques;
- strong research and development capability;
- expertise in sustainable plantation development; and
- established relationships in the PRC.

Our Business Opportunities

We believe we are well-positioned to benefit from the following factors:

- strong and growing consumption of wood fiber from downstream producers;
- a growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries; and
- recent changes in the forestry industry that favor sustainable plantations.

Our Strategy

Our strategy is to build on our competitive strengths and our business opportunities in the PRC in order to become a leading plantation developer and wood resource supplier in the PRC with established operations in or close to PRC regional markets, providing wood fiber to downstream consumers in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements for executing our strategy:

- expand our geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fiber, and develop regional wood fiber markets in the PRC by providing quality logs and value-added manufacturing products;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;

- improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing; and
- strengthen management processes and information systems to support the growth of our multi-faceted businesses.

Our Corporate Information

We were 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. Our Common Shares were listed and posted for trading on the TSX on October 12, 1995.

Our 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 share capital. On June 25, 2002, we filed articles of continuance to continue under the Canada Business Corporations Act (the "CBCA"). On June 22, 2004, we filed articles of amendment to reclassify our class A subordinate-voting shares as Common Shares on a one-for-one basis and to eliminate our authorized class B multiple-voting shares.

We have offices in Toronto, Canada, Hong Kong and the PRC. Our principal executive office is located at 3815-29, 38th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong Special Administrative Region, the PRC, and our telephone number is (852) 2877-0078. Our registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, Canada L5B 3C3. Our telephone number at our registered office is (905) 281-8889.

The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see the section titled "Description of the Notes" included in this Offering Memorandum.

Notes Offered	US$300 million aggregate principal amount (or US$345 million aggregate principal amount if the Initial Purchasers exercise their overallotment option to purchase additional Notes in full) of 5.00% convertible senior notes due 2013.
Maturity Date	August 1, 2013.
Interest and Payment Dates	5.00% per year, payable semi-annually in arrears in cash on February 1 and August 1 of each year, beginning February 1, 2009.
Ranking of the Notes	The Notes will be: • our general senior unsubordinated obligations; • senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes; • effectively subordinated to our secured obligations, to the extent of the assets serving as security therefor; • at least *pari passu* in right of payment with all of our other unsecured, unsubordinated indebtedness (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); • guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described under "Risk Factors — Risks Related to the Subsidiary Guarantees" and "Description of the Notes — The Subsidiary Guarantees"; and • effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries. We have pledged the capital stock of the Subsidiary Guarantors directly held by us to secure the 2004 Senior Notes and the Syndicated Term Loan. See "Description of Other Indebtedness" and "Risk Factors — Risks Related to the Notes and Our Common Shares — The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors or the Initial Non-Guarantor Subsidiaries while certain of our other significant obligations are so secured."
Subsidiary Guarantees	Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes and the Indenture. A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes — The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The Subsidiary Guarantors will initially be Sino-Panel Holdings Limited (BVI), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), SFR (China) Inc. (BVI), Sino-Wood Partners, Limited (H.K.), Sino-Forest Resources Inc. (BVI), Suri-Wood Inc. (BVI), Sino-Plantation Limited (H.K.), Sino-Wood (Guangxi) Limited (H.K.), Sino-Wood (Jiangxi) Limited (H.K.), Sino-Global Holdings Inc. (BVI), Sinowin Investments Limited (BVI), Sino-Wood (Guangdong) Limited (H.K.), Sino-Panel (North East China) Limited (BVI), Sino-Panel [Hunan] Limited (BVI), Sino-Panel [Xiangxi] Limited (BVI), Sino-Forest Bio-Science Limited (BVI) (formerly known as Sino-Two Limited), Sino-Panel (Guangzhou) Limited (BVI), Sino-Panel [Suzhou] Limited (BVI), Sino-Panel (Yunnan) Limited (BVI), Sino-Panel (Guangxi) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Qinzhou) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Sino-Panel (Yongzhou) Limited (BVI), and Sino-Panel (Fujian) Limited (BVI).

Sino-Capital Global Inc. (BVI), Dynamic Profit Holdings Limited (BVI), Sino-Forest Investments Limited (BVI), Grandeur Winway Limited (BVI), Sinowood Limited (Cayman Islands), Sino-Wood (Fujian) Limited (H.K.), Sino-Panel (North Sea) Limited (BVI) and Sino-Panel (Huaihua) Limited (the "Initial Non-Guarantor Subsidiaries"), which are our subsidiaries that have guaranteed the 2004 Senior Notes and the Syndicated Term Loan, will not be Subsidiary Guarantors at the date of issue of the Notes. See "Risk Factors — Risks Related to the Notes and Our Common Shares — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries."

Under certain circumstances, we will cause the Initial Non-Guarantor Subsidiaries to provide a guarantee of the Notes. See "Description of the Notes —The Subsidiary Guarantees."

In addition, each of our future subsidiaries (other than subsidiaries organized under the laws of the PRC) will provide a guarantee of the Notes immediately upon becoming our subsidiary.

Ranking of Subsidiary Guarantees........ The Subsidiary Guarantee of each Subsidiary Guarantor will be:

- a general senior unsubordinated obligation of such Subsidiary Guarantor;
- effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;

	• senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and • at least *pari passu* with all other unsecured, unsubordinated indebtedness of such Subsidiary Guarantor. The Subsidiary Guarantors have also guaranteed the 2004 Senior Notes and the Syndicated Term Loan. The capital stock of the Subsidiary Guarantors have been pledged to secure the 2004 Senior Notes and the Syndicated Term Loan. See "Description of Other Indebtedness" and "Risk Factors — Risks Related to the Notes and Our Common Shares — The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors while certain of our other significant obligations are so secured" and other risks relating to the Subsidiary Guarantees under "Risk Factors — Risks Related to the Subsidiary Guarantees."
Conversion Rights................................	The Notes are convertible, at the option of the holder, at any time prior to the close of business on the business day immediately preceding the stated maturity date of the Notes, into our Common Shares at an initial conversion rate of 49.2974 Common Shares per US$1,000 principal amount of Notes, which represents an initial conversion price of approximately Cdn.$20.32 per Common Share based on the Fixed Exchange Rate applicable on conversion of the Notes of US$1.00 = Cdn.$1.0016. Upon conversion, at our option, we may elect to deliver, in lieu of Common Shares, cash or a combination of cash and Common Shares. Upon conversion, a holder will not receive any cash payment or additional Common Shares representing any accrued interest, except in limited circumstances. Instead, accrued interest will be deemed paid by our Common Shares (or any cash in lieu thereof) received by the holder on conversion. The conversion rate is subject to adjustment. In particular, holders who convert their Notes in connection with certain fundamental changes may be entitled to a make whole premium in the form of additional Common Shares (or cash in lieu thereof). See "Description of the Notes — Make Whole Premium Upon a Fundamental Change."
Purchase of Notes at the Holders' Option Upon Fundamental Change.......	If a fundamental change occurs, we will be required to make an offer to each holder, subject to the terms and conditions of the Indenture, to purchase for cash all or a portion of its Notes, at such holder's option, at a purchase price equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest to, but excluding, the purchase date. See "Description of the Notes — Offer to Purchase at Option of the Holder Upon a Fundamental Change."

Make Whole Premium Upon Fundamental Change	If any of the fundamental changes as described under "Description of the Notes — Make Whole Premium Upon a Fundamental Change" occurs, we will pay, to the extent described in this Offering Memorandum and as more particularly described in the Indenture, a make whole premium on Notes converted in connection with the fundamental change by increasing the conversion rate for the Notes so surrendered for conversion. The amount of make whole premium, if any, will be based on the price paid for our Common Shares in the transaction constituting the fundamental change and the effective date of the fundamental change. A description of how the increase in the applicable conversion rate will be determined and a table showing the increase that would apply at various Common Shares prices and fundamental change effective dates are set forth under "Description of the Notes — Make Whole Premium Upon a Fundamental Change."
Use of Proceeds	We estimate that the net proceeds from the offering of the Notes will be approximately US$291.0 million (or approximately US$335.0 million if the Initial Purchasers' overallotment option is exercised in full), after giving effect to the Initial Purchasers' discount and offering expenses payable by us. We intend to use the net proceeds for the following purposes: • approximately US$230.0 million as initial capital for the acquisition of plantations in the Fujian Province, PRC; • approximately US$15.0 million to lease land and plant with Jatropha trees in Southern PRC, and then to collect and extract raw seeds oil from Jatropha seeds; and • as to the balance, which represents approximately US$46.0 million, for general corporate purposes. For further details, see "Use of Proceeds."
Additional Amounts	All payments made by us, the Surviving Person (as defined under "Description of the Notes — Consolidation, Mergers and Sales of Assets") or any Subsidiary Guarantor under or with respect to the Notes or the Subsidiary Guarantees (including payments of cash or delivery of Conversion Shares), will be made without withholding or deductions for any taxes, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, we, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts as may be necessary to ensure that the net amount received by the holder of each Note or the Subsidiary Guarantee, as the case may be, after such withholding or deduction (and after deducting any taxes on the Additional Amounts) shall equal the amounts which would have been received by such holder had no such withholding or deduction been required, subject to certain exceptions set forth under "Description of the Notes — Additional Amounts."

Tax Redemption	Subject to certain exceptions and as more fully described in this Offering Memorandum, we or the Surviving Person may redeem, in whole but not in part, the Notes for a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest to, but excluding, the redemption date if we, the Surviving Person or any of the Subsidiary Guarantors would become obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws or certain other circumstances. Upon receiving a notice of redemption, a holder may elect not to have its Notes redeemed in which case such holder would not be entitled to receive the Additional Amounts referred to in "Additional Amounts" above after the redemption date. See "Description of the Notes — Redemption for Tax Reasons."
DTC Eligibility	The Notes will be issued in fully registered book-entry form and will be represented by one or more Global Notes. Global Notes will be deposited with a custodian and registered in the name of a nominee of The Depository Trust Company, or DTC, in New York, New York. Beneficial interests in Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, and your interest in any Global Note may not be exchanged for certificated notes, except in limited circumstances described in this Offering Memorandum. See "Description of the Notes — Global Notes; Book entry; Form."
Transfer Restrictions	The Notes and the Conversion Shares have not been registered under the Securities Act or the securities laws of any other jurisdiction and are subject to restrictions on transfer. See "Transfer Restrictions."
Form and Denomination	The Notes will be issued in minimum denominations of US$1,000 and any integral multiple of US$1,000.
Listing and Trading...............................	The Notes will not be listed on any securities exchange or included in any automated quotation system. However, the Notes sold to qualified institutional buyers in reliance on Rule 144A are expected to be eligible for the PORTAL Market at the time of issuance thereof. The Notes will be new securities for which there is currently no public market. Our Common Shares are listed on the TSX under the symbols "TRE" and "TRE.S."
Governing Law	The Indenture and the Notes will be governed by the laws of the State of New York.
Risk Factors	See "Risk Factors" beginning on page 12 of this Offering Memorandum and other information included in this Offering Memorandum for a discussion of the factors you should carefully consider before deciding to invest in the Notes.
Trustee, Conversion Agent, Registrar, Transfer Agent, Paying Agent...............	The Bank of New York Mellon

SUMMARY FINANCIAL DATA

The summary financial data in this section has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2005, 2006 and 2007 and our unaudited consolidated financial statements as of and for the three-month periods ended March 31, 2007 and 2008. The unaudited interim financial statements reflect all adjustments which are, in our opinion, necessary to provide a fair statement of the results for the interim period indicated. The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between Canadian GAAP and U.S. GAAP." The following summary financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited and unaudited consolidated financial statements and the related notes thereto and other information included elsewhere in this Offering Memorandum. The results in the three-month periods ended March 31, 2007 and 2008 are not necessarily indicative of the results that may be expected for the full year, and our historical results in general do not necessarily indicate results expected for any future period.

	As of and for the Year Ended December 31,			As of and for the Three-Month Period Ended March 31,	
	2005[1]	2006 [1]	2007	2007 [1]	2008
	(Restated)	(Restated)		(Restated)	
	(US$ thousands, except per share amounts and margins)				
Consolidated Income Statement Data:					
Revenue	341,260	555,480	713,866	112,777	136,137
Cost of sales	(237,222)	(380,508)	(470,825)	(80,686)	(89,258)
Selling, general and administrative expenses	(20,611)	(35,852)	(40,209)	(6,765)	(11,322)
Depreciation and amortization	(3,099)	(3,975)	(5,364)	(1,143)	(1,001)
Income from operations[2]	80,328	135,145	197,468	24,183	34,556
Net income from continuing operations	47,100	92,212	142,431	11,706	15,614
Net income/(loss) from discontinued operations	29,052	21,268	9,842	(196)	(1,087)
Net income	76,152	113,480	152,273	11,510	14,527
Basic earnings per share	0.55	0.82	0.91	0.08	0.08
Diluted earnings per share	0.55	0.81	0.90	0.08	0.08
Other Consolidated Financial Data:					
Gross profit[3]	104,038	174,972	243,041	32,091	46,879
Gross profit margin[4]	30.5%	31.5%	34.0%	28.5%	34.4%
EBITDA[5] (without depletion of timber holdings)	83,427	139,120	202,832	25,326	35,557
Adjusted EBITDA[6]	223,631	316,850	487,640	46,951	73,611
Adjusted EBITDA margin[7]	65.5%	57.0%	68.3%	41.6%	54.1%
Balance Sheet Data:					
Cash, cash equivalents and short-term deposits	138,686	171,437	350,853	143,738	259,282
Current assets	277,340	333,609	527,028	291,676	473,406
Non-current assets	617,931	873,646	1,310,469	926,685	1,441,632
Total assets	895,271	1,207,255	1,837,497	1,218,361	1,915,038

	As of and for the Year Ended December 31,			As of and for the Three-Month Period Ended March 31,	
	2005(1)	2006 (1)	2007	2007 (1)	2008
	(Restated)	(Restated)		(Restated)	
			(US$ thousands)		
Current liabilities (including current portion of long term debt)	155,356	179,048	197,003	177,349	195,348
Long-term debt (net of current portion)	300,000	450,000	441,985	440,675	443,310
Total liabilities	455,356	629,048	650,199	627,788	650,283
Total shareholders' equity (net assets)	439,915	578,207	1,187,298	590,573	1,264,755
Cash Flow Statement Data:					
Cash flows from operating activities of continuing operations	152,871	264,203	482,501	46,300	32,021
Cash flows from/(used in) investing activities	(301,398)	(423,036)	(692,322)	(80,065)	(121,958)
Cash flows from/(used in) financing activities	11,203	176,200	376,912	1,040	(9,940)
Net increase (decrease) in cash and cash equivalents	(92,748)	44,469	175,803	(28,556)	(98,468)

Notes:

(1) Results for the years ended December 31, 2005 and 2006, and the three-month period ended March 31, 2007, have been restated to reflect the adoption of a new accounting policy for uncertainty in income tax, and the classification of wood chips and commission operations to discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See notes 2 and 18 to our audited consolidated financial statements as at and for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this Offering Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Components of Income Statement Items" for a detailed description of our revenue components.

(2) Income from operations excludes interest income and expense, exchange (gains)/losses, loss on changes in fair value of financial instruments and other income, write-down of capital assets, and amortization of deferred financing costs.

(3) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

(4) Gross profit margin is calculated by dividing gross profit by revenue. Gross profit margin is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit margin may not be comparable to similar measures presented by other companies.

(5) EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

(6) Adjusted EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), as well as depletion of timber holdings from cost of sales, for the period. Adjusted EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. Adjusted EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, Adjusted EBITDA may not be comparable to similar measures presented by other companies.

(7) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenue. Adjusted EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, Adjusted EBITDA may not be comparable to similar measures presented by other companies.

A reconciliation from net income from continuing operations to Adjusted EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Three-Month Period Ended March 31,	
	2005[(1)]	2006 [(1)]	2007	2007 [(1)]	2008
	(Restated)	(Restated)		(Restated)	
			(US$ thousands)		
Net income from continuing operations	47,100	92,212	142,431	11,706	15,614
Add/(subtract):					
Interest expense	28,994	37,340	43,960	11,114	10,571
Provision for income taxes	9,010	13,192	18,034	2,346	4,274
Depreciation and amortization	3,099	3,975	5,364	1,143	1,001
Other expenses/(income)[(2)]	(4,776)	(7,599)	(6,957)	(983)	4,097
EBITDA[(3)] (without depletion of timber holdings)	83,427	139,120	202,832	25,326	35,557
Add:					
Depletion of timber holdings included in cost of sales	140,204	177,730	284,808	21,625	38,054
Adjusted EBITDA[(4)] (with depletion of timber holdings)	223,631	316,850	487,640	46,951	73,611

Notes:

(1) See note (1) above.

(2) Other expenses/(income) include interest income, exchange/(gains) losses, loss on changes in fair value of financial instruments, other income, write-down of capital assets and amortization of deferred financing costs.

(3) See note (5) above.

(4) See note (6) above.

RISK FACTORS

An investment in the Notes or our Common Shares is subject to a number of risks. You should consider the risks described below carefully and all of the information contained in this Offering Memorandum before deciding whether to purchase the Notes or to convert the Notes into Common Shares. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Any of the following risks could materially and adversely affect our business, financial condition and results of operations. In that event, the price of the Notes and our Common Shares could decline, and you may lose all or part of your investment in the Notes and our Common Shares. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements."

Risks Related to Our Business

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

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Market prices and demand for standing timber, wood logs and wood products have been, and in the future are expected to be, subject to cyclical fluctuations, which have a significant effect on our business, results of operations and financial condition. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration materials and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes. The markets for wood products are sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior decoration activity 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;
- changes in market prices of commodities;
- governmental regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters).

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

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

Expanding our tree plantations and our manufacturing operations requires intensive capital investment. During the years ended December 31, 2005, 2006 and 2007 and the three-month period ended March 31, 2008, we incurred approximately US$283.1 million, US$407.2 million, US$647.0 million and US$82.3 million, respectively, in capital expenditures to acquire tree plantations. We have also recently expanded our manufacturing operations through investments in an engineered wood flooring plant in Suzhou, an oriented strand board plant in Heilongjiang, and finger-joint board and block board plants in Hunan. We have financed our expansion of tree plantations and manufacturing operations primarily from internal cash flows and debt and equity financing and, if we require additional debt or equity financing for future capital expenditures, we can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, we have substantial indebtedness currently outstanding, including US$300 million 9⅛% guaranteed senior notes due 2011 that we issued in 2004 (the "2004 Senior Notes") and a US$150 million loan facility with several financial institutions (the "Syndicated Term Loan"), the terms of which restrict our ability to raise additional debt financing. Such restrictions could affect our ability to raise financing in the future. If we are not able to obtain financing for expanding our tree plantations and/or manufacturing operations and/or other capital requirements our business, financial condition and results of operations may be materially and adversely affected.

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

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

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

Our expansion in Hunan and Yunnan pursuant to our integrated tree plantation model may pose certain implementation risks

We commenced operations in Hunan and Yunnan Provinces for the first time in the fourth quarter of 2006 and the first quarter of 2007, respectively. We are exposed to certain risks relating to our ability to successfully operate our plantations in those regions, primarily because we have no operating history in Hunan and Yunnan Provinces, and also because we do not have extensive experience interacting with local governments, business counterparties and original plantation rights holders in these provinces. These risks include: (i) risks of disagreement with counterparties regarding entering into specific agreements for the implementation of our plantation acquisition plan, (ii) the failure of any such counterparty to obtain any requisite consents from the original plantation rights holders (see "— Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights") and (iii) risks of the counterparties failing to coordinate with us to obtain the requisite governmental approvals and complete the related registration procedures (see "— Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights"). In addition, we may not have the ability to allocate proper management resources and attention to the implementation of our integrated tree plantation model as well as coordinate the integration of our tree plantations with our downstream manufacturing activities.

We are subject to risks presented by fluctuations in exchange rates

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

Since 1994, the conversion of Renminbi into U.S. dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The relative value and rate of exchange of the Renminbi against the U.S. dollar is affected by, among other things, changes in the PRC's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar of more than 17.6% since the July 21, 2005 change in exchange rate policy. The PRC government may decide to adopt an even more flexible currency policy in the future, which could result in a further and more significant appreciation or depreciation of the Renminbi against the U.S. dollar.

Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because we have substantial foreign currency-denominated indebtedness, expenses and other requirements while most of our revenues are denominated in Renminbi. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors. To the extent the Renminbi appreciates against the U.S. dollar or other currencies, it will make it more expensive for us to finance the expansion of our plantations in the PRC through equity or non-Renminbi borrowings. See "— Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights."

At March 31, 2008 (after giving pro forma effect to the application of the proceeds of the Notes on the completion of this offering and assuming the Initial Purchasers do not exercise their overallotment option), our total long-term debt was US$743.3 million of which a significant amount was denominated in currencies other than Renminbi, including US$742.5 million denominated in U.S. dollars. Except for the U.S. dollar semi-annual interest payments due under the 2004 Senior Notes, we do not currently hedge exchange rate fluctuations between the Renminbi and other currencies.

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

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

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

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

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

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

The success of our business depends upon the productivity of our tree plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our eucalyptus trees ranges from approximately 100 to 150 cubic meters per hectare per six-year cycle. See "Business — Our Wood Fiber Operations — Harvest Yields." Tree plantation yields depend on a number of factors, many of which are beyond our control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that we may obtain in the future.

Our ability to improve or maintain our yields will depend on the factors described above as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus tree plantations. As a result, we cannot provide any assurance that we will be able to realize the historical or future yields 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.

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

As of March 31, 2008, we had over 2,700 permanent employees based in Canada, Hong Kong and the PRC to manage our operations. We also engage third parties to perform the day-to-day operations of our tree plantations. However, as we expand the area of our tree plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our tree plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary for us to strengthen our internal controls and corporate governance as we continue to build our business. Should we fail to take the measures described in this paragraph, we may not be able to implement our expansion strategy or to manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected.

The forest products industry is highly competitive

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

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

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

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

In addition, we rely on our relationships with local plantation landowners and/or plantation land use rights holders to enter into any plantation land use agreements on commercially acceptable terms for our purchased tree plantations. We cannot give any assurance that we will be able to enter into any such agreements on commercially acceptable terms. See "— Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights."

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

A few large customers account for a significant percentage of our total revenue. During the years ended December 31, 2005, 2006 and 2007 and the three-month period ended March 31, 2008, our top five customers accounted for approximately 54.8%, 57.5%, 58.7% and 76.9%, respectively, of our total revenue. For the same periods, our largest customer accounted for approximately 17.6%, 12.9%, 15.8% and 38.5%, respectively, of our total revenue. These major 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.

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

A few large suppliers account for a significant percentage of our timber supply. For the years ended December 31, 2005, 2006 and 2007, and in the three-month period ended March 31, 2008, our five largest timber suppliers accounted for approximately 71.8%, 44.2%, 54.8% and 69.4%, respectively, of our total costs of sales. For the same periods, our largest supplier of timber accounted for approximately 28.6%, 12.6%, 32.2% and 21.6%, respectively, of our total costs of sales. These major 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.

We depend on services provided by third party service providers

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

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

We are heavily dependent upon our senior management in relation to their expertise in the forestry industry and research and development in forest plantation management practices and wood-based products manufacturing production processes, and the relationships cultivated by them with our major customers and others. We have no long-term contracts with any of our senior management. We do not have key person life insurance policies covering any of our employees, including 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 may face difficulties during the transitional stages of our expansion; we may experience difficulties in managing future growth and potential acquisitions

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

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

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

We are in the process of implementing our integrated tree plantation model which consists of selling the trees from our plantations as logs or using the wood fiber for producing value-added wood products at our own manufacturing facilities. Our integrated tree plantation model is in an early, transitional stage of development and has a short operating history. Results of operations and gross profit margins generated by sales of logs pursuant to our integrated tree plantation model in the three-month period ended March 31, 2008 are not necessarily indicative of results that may be achieved in the full year 2008 or in the future. We may be subject to operational and execution risks of integrating our upstream plantation activities to our downstream manufacturing operations, among other things.

Our 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 to (i) further develop our facility in Gaoyao, with a plan to expand its particleboard operating capacity to 175,000 cubic meters up from 100,000 cubic meters, and its annual operating capacity to 6.4 million square meters of laminated particleboard from 2.0 million square meters, (ii) complete the second phase expansion of an engineered wood flooring plant in Suzhou, with a total production capacity of 6.0 million square meters, (iii) develop an oriented strand board plant in Heilongjiang with a production capacity of 12,000 cubic meters, and (iv) develop finger-joint board and block board processing facilities in Hunan Province with a total annual production capacity of 150,000 cubic meters. We can give no assurance that the expansion of these facilities will be completed on time or within budget, or that these facilities will operate at their planned operating capacity.

Our insurance coverage may be insufficient to cover losses

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

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

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

The operation of manufacturing plants involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards, and industrial accidents. In addition, the costs of repairing or replacing our production equipment and the associated downtime of the affected production line may not be 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.

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

Our principal operating subsidiaries are incorporated in the British Virgin Islands (the "BVI Subsidiaries") and are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AIs") that are domestic enterprises of the PRC. In accordance with PRC laws and regulations relating to company income tax ("PRC Income Tax Laws"), foreign companies, such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applies to income and commission revenue that the BVI Subsidiaries received from sales of wood chips. These wood-chipping activities were discontinued during the third quarter of 2007.

Under the terms of master agreements, relevant sales and purchase contracts, and commission agreements made with the AIs, the AIs are responsible for paying PRC taxes on behalf of the BVI Subsidiaries that arise from the Authorized Sales Activities. Accordingly, the BVI Subsidiaries do not pay any PRC taxes directly with respect to the profits earned in the PRC.

If PRC tax authorities were to determine that the AIs did not pay applicable PRC taxes on the Authorized Sales Activities on behalf of the BVI Subsidiaries, they may attempt to recover the applicable PRC taxes or any shortfall from the BVI Subsidiaries. Since the BVI Subsidiaries have difficulties in ascertaining whether the AIs have properly handled such tax settlements and/or are able to recover relevant PRC taxes required to be paid by the BVI Subsidiaries from the AIs, a provision for income tax at an amount representing our management's best estimate of the amount the PRC tax authorities might seek to recover is recognized in the financial statements each quarter and year end in accordance with the accounting for uncertainty in income tax.

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. In other jurisdiction where we earn income, assessments are also open for several fiscal years in practice. For instance, under Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

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 our management. A change in the facts and these estimates and judgment could have a material effect on our tax expense. We have 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 we operate, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which we operate. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

Significant estimates and judgments 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. 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.

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

The Russian government significantly increased the export tariffs on logs from 6.5% in early 2007 to 20% and 25% in July 2007 and April 2008, respectively, with a further planned increase to 80% in January 2009 according to RISI, Inc., an information provider for the global forestry industry ("RISI"). These increases primarily had an impact on our revenue from sales of imported wood products, which decreased by 56.3% in the three-month period ended March 31, 2008 compared to the three-month period ended March 31, 2007, and by 15.5% in the year ended December 31, 2007 compared to the year ended December 31, 2006. Although taxes levied will be passed on to our customers, we do anticipate that demand for logs we import from Russia will continue to decrease as a result of increased prices, which could have a material adverse effect on our results of operations.

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

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

Our tree 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 (中華人民共和國森林法) and its Implementation Regulations (中華人民共和國森林法實施條例), the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures (林木和林地權屬登記管理辦法), the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Administrative Measures on Foreign Investment Forestation of Guangdong Province (廣東省外商投資造林管理辦法). Violations of any of the wide range of PRC laws and regulations that we may be subject to, including PRC environmental policies and programs that apply to our tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage in the following activities that are subject to regulation:

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

For further details on these regulations and risks relating to them, see "— Risks Related to the PRC — Operational licenses and permits," "— Environmental regulations," and "— Implementation of new form Plantation Rights Certificate."

Risks Related to the PRC

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

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

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

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

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

In addition, the growth of demand in the PRC for forestry products depends heavily on economic growth. According to the National Bureau of Statistics of China, between 1994 and 2007, the PRC's GDP, based on current prices, increased from approximately RMB482 billion to approximately RMB25.0 trillion. The annual per capita GDP, based on current prices, also rose during this period, from RMB4,044 to RMB18,934. This growth, however, has been uneven both geographically and among various sectors of the economy. From time to time, the central government of the PRC has taken corrective measures and actions to stabilize the country's economy and any possible social unrest, and has implemented various measures in strengthening and improving macroeconomic regulation. We cannot assure that such growth will be sustained in the future. There have been indications that rates of inflation have increased in 2007 and that the PRC's growth rate has been moderating in the first quarter of 2008. In order to control inflation, the PRC has improved controls on bank credits, limits on loans for fixed costs, and restrictions on state bank lending. Since January 2007, the People's Bank of China ("PBOC") has increased the reserve requirement ratio for commercial banks 10 times to 17.5%, including a one percentage point increase in June 2008. These and similar measures to address inflation or other economic problems in the PRC may lead to a slowing in economic growth or economic downturn. If the PRC's economic growth slows down or if the Chinese economy experiences a recession, the growth of demand for forestry products may also slow down or stop, and our business, financial condition and results of operations could 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, interpretation of many laws, regulations and rules has not always been uniform, and enforcement of these laws and regulations involve significant uncertainties, which may limit or otherwise adversely affect legal protections available to us. Moreover, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of any violation by us of these policies or rules until some time after such violation. In addition, litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

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

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

The reform of the collectively owned plantation rights system has been ongoing in the PRC in recent years in order to enhance the rural land contract relationship and ensure that farmers have proper legal plantation rights. Farmers are currently permitted to transfer their plantation rights to third parties pursuant to existing PRC laws and regulations. We cannot assure you that the PRC government will not promulgate new rules and regulations that may be more detailed and complex than existing ones for regulating the transfer of plantation rights. Such rules may restrict or delay the acquisition of any new plantation rights from original plantation rights holders. Moreover, we cannot assure you that the enforcement of such rules and regulations will not have a material adverse effect on our business, financial condition and results of operations.

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

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

- purchase timber imported from other countries;
- fund other business activities outside the PRC, such as the purchase of equipment for our manufacturing plants;
- service and repay our indebtedness, including the Notes; and
- pay out dividends to our shareholders.

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

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

We cannot assure you that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi, including the Notes, or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay dividends to us, repay intercompany loans or to satisfy their other foreign currency requirements. Our capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at March 31, 2008, the Company has retained earnings of US$555 million in the PRC which may be restricted. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from SAFE, this could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

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

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

Operational licenses and permits

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

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

Environmental regulations

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

Implementation and Issuance of new form Plantation Rights Certificate

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

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

Agricultural Taxes and Other Related Forestry Fees

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

We face risks related to health epidemics and other outbreaks

Adverse public health epidemics or pandemics could disrupt business and the economies of the PRC and other countries where we do business. From December 2002 to June 2003, the PRC and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome ("SARS"). On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated new cases of SARS were subsequently reported, most recently in the central regions of the PRC in April 2004. During May and June 2003, many businesses in the PRC were closed by the PRC government to prevent transmission of

SARS. Moreover, some Asian countries, including the PRC, have recently encountered incidents of the H5N1 strain of bird flu ("avian flu"). We are unable to predict the effect, if any, that avian flu may have on our business. In particular, any future outbreak of SARS, avian flu or other similar adverse public developments may, among other things, significantly disrupt our business, including limiting our ability to travel or ship our products within or outside PRC and forcing us to temporarily close our manufacturing facilities. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of SARS, avian flu or any other epidemic.

Risks Related to the Notes and Our Common Shares

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries

We are primarily a holding company that operates through subsidiaries. The Notes are guaranteed by the Subsidiary Guarantors, which are also primarily holding companies that operate through subsidiaries. However, the Notes will not be guaranteed at their issue date by the Initial Non-Guarantor Subsidiaries, specifically Sino-Capital Global Inc. (BVI), Dynamic Profit Holdings Limited (BVI), Sino-Forest Investments Limited (BVI), Grandeur Winway Limited (BVI), Sinowood Limited (Cayman Islands), Sino-Wood (Fujian) Limited (H.K.), Sino-Panel (North Sea) Limited (BVI) and Sino-Panel (Huaihua) Limited, which are our subsidiaries that have guaranteed the 2004 Senior Notes with an aggregate outstanding principal amount of US$300 million and the Syndicated Term Loan with an aggregate outstanding principal amount of US$150 million. See "Description of Other Indebtedness." Certain Initial Non-Guarantor Subsidiaries, such as Sino-Capital Global Inc. (BVI), have significant assets. In addition, the Notes will not be guaranteed by any of our current or future subsidiaries organized under the laws of the PRC (''PRC Subsidiaries''), which are our operating subsidiaries. As a result, (i) our obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries and our current or future PRC Subsidiaries (collectively, the "Non-Guarantor Subsidiaries") and (ii) all claims of creditors of our Non-Guarantor Subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over claims of ours or the Subsidiary Guarantors and those of creditors of ours or the Subsidiary Guarantors, including the holders of the Notes. Secured creditors of us or any Subsidiary Guarantor would have priority as to our assets or the assets of the Subsidiary Guarantors securing the related obligations over claims of any holder of a Note in relation to the Notes. See "— The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors while certain of our significant obligations are so secured." We and our subsidiaries may incur significant additional secured or unsecured indebtedness in the future. As of March 31, 2008, our PRC Subsidiaries had total borrowings of approximately US$34.0 million and capital commitments of approximately US$25.3 million with third parties. The Notes and the indenture relating to the issue of the Notes do not restrict the ability of our subsidiaries to incur indebtedness or issue guarantees.

The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors while certain of our other significant obligations are so secured

All the capital stock of the Subsidiary Guarantors and the Initial Non-Guarantor Subsidiaries has been pledged to secure the 2004 Senior Notes and the Syndicated Term Loan. Accordingly, these other obligations will rank ahead of the Notes with respect to the capital stock of the Subsidiary Guarantors pledged. The Subsidiary Guarantors have also provided guarantees for the Notes, the 2004 Senior Notes and the Syndicated Term Loan on a pari passu basis and, therefore, each of the holders of the Notes, the holders of the 2004 Senior Notes and the lenders of the Syndicated Term Loan should have the same direct claim against any Subsidiary Guarantor, including those Subsidiary Guarantors that own the shares of the PRC Subsidiaries that have not been pledged to secure the 2004 Senior Notes or the Syndicated Term Loan. However, there is no assurance that the 2004 Senior Notes and the Syndicated Term Loan would not effectively rank senior to the Notes with respect to the other assets held by any Subsidiary Guarantor, including the shares of our PRC Subsidiaries and certain of the Initial Non-Guarantor Subsidiaries, because the holders of the Notes do not have the benefit of such share pledges and any

Subsidiary Guarantee may be voided or subordinated to other claims or held to be unenforceable in a court or other proceedings. See "— Risks Related to the Subsidiary Guarantees — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

We have made only limited covenants in the indenture for the Notes, and these limited covenants may not protect your investment

The indenture relating to the Notes does not:

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, does not protect holders of the Notes in the event that we experience significant adverse changes in our financial condition or results of operations;
- limit our subsidiaries' ability to incur indebtedness which would effectively rank senior to the Notes;
- restrict our subsidiaries' ability to issue securities that would be senior to the Common Shares of our subsidiaries held by us;
- restrict our ability to repurchase our securities;
- restrict our ability to pledge our assets or those of our subsidiaries; or
- restrict our ability to make investments or to pay dividends or make other payments in respect of our Common Shares or other securities ranking junior to the Notes.

Furthermore, the indenture for the Notes contains only limited protections in the event of a change in control. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations, which could substantially affect our capital structure and the value of the Notes and our Common Shares but may not constitute a "fundamental change" that requires us to offer to each holder to repurchase their Notes at their option. For these reasons, you should not consider the covenants in the indenture or the repurchase features of the Notes as a significant factor in evaluating whether to invest in the Notes.

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

As a holding company, we depend upon the receipt of dividends and the repayment of intercompany loans or advances from our subsidiaries and affiliates, including our PRC Subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our direct and indirect subsidiaries to pay dividends and repay intercompany loans or advances to their shareholders (including us) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in debt instruments of such subsidiaries. Covenants in the debt instruments of certain direct and indirect subsidiaries of ours limit their ability to pay dividends. See "— We have substantial indebtedness and may incur substantial additional indebtedness in the future, which adversely affects our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations." In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which could restrict our ability to meet our payment obligations under the Notes. Our ability to utilize cash resources we have from our subsidiaries to finance the needs of other subsidiaries, to a significant extent, is subject to the same restrictions.

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

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

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

As a result of the foregoing, there can be no assurance that we will have sufficient cash flow from dividends or payments on inter-company loans or advances from our subsidiaries to satisfy our obligations under the Notes or make dividend payments on the Conversion Shares.

Our ability to pay dividends to our shareholders is subject to restrictive covenants under the indenture relating to the 2004 Senior Notes and the Syndicated Term Loan

On August 17, 2004, we issued the 2004 Senior Notes. The indenture pertaining to the 2004 Senior Notes contains restrictive covenants limiting our ability and the ability of our subsidiaries to make certain restricted payments, including dividends. Such covenants in the indenture relating to the 2004 Senior Notes prevent us and our subsidiaries from making dividend payments, except under certain circumstances, unless our restricted payments under the indenture (including such dividends) shall not exceed a certain threshold based on financial aggregates such as our consolidated net income, net cash proceeds from asset sales or issuance or sale of equity securities, and net reductions in our consolidated investments due, among other things, to specific payments by us or certain of our subsidiaries. Similar restrictions on payment of dividends are contained in our Syndicated Term Loan dated as of February 24, 2006. If you convert all or part of your Notes into our Common Shares, no assurance can be given that we will be able to make dividend payments under these covenants should we ever decide to do so in the future. See "— We have substantial indebtedness and may incur substantial additional indebtedness in the future, which adversely affects our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations" and "Description of Other Indebtedness."

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

We have now and will continue to have after the offering of the Notes a substantial amount of indebtedness. On an adjusted basis, after giving effect to the offering of the Notes and the repayment of a portion of our existing indebtedness, as of March 31, 2008 our total debt was US$493.2 million.

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

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

- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In particular, the Syndicated Term Loan and the indenture relating to our 2004 Senior Notes include restrictive covenants limiting our ability to incur additional debt. Such debt covenants in the indenture relating to the 2004 Senior Notes and the Syndicated Term Loan proscribe us from incurring new debt, except under certain circumstances, unless we meet a specified financial ratio. See "Description of Other Indebtedness."

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

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

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

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

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

You may be unable to enforce your rights under the bankruptcy laws of the United States or other relevant jurisdictions

We are incorporated under the laws of Canada and our principal assets are located in the PRC. Under bankruptcy laws in the United States, courts typically have jurisdiction over a debtor's property, wherever located, including property situated in other countries. However, courts outside of the United States may not recognize the United States bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Canadian debtor with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable outside of the United States.

In addition, because we are incorporated under the laws of Canada, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Canadian bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or those of other relevant jurisdictions. The rights of the Trustee and the holders of the Notes to enforce remedies are likely to be significantly impaired by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to us. For example, both of the Bankruptcy and Insolvency Act (Canada) and the Companies' Creditors Arrangement Act (Canada) contain provisions enabling "an insolvent person" to obtain a stay of proceeding as against its creditors and others and to prepare and file a proposal for consideration by all or some of its creditors to be voted on by the various classes of its creditors. Such a restructuring proposal, if accepted by the requisite majorities of creditors and if approved by the court, would be binding on persons who may not otherwise be willing to accept it. Moreover, this ''proposal'' legislation permits, in certain circumstances, the insolvent debtor to retain possession and administration of its property, even though it may be in default under the applicable debt instrument.

The powers of the court under the Bankruptcy and Insolvency Act (Canada) and particularly under the Companies' Creditors Arrangement Act (Canada) have been exercised broadly to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, it is impossible to predict if payments under the Notes would be made following commencement of or during such a proceeding, whether or when the Trustee and the holders could exercise their rights under the Indenture or whether and to what extent holders of the Notes would be compensated for any delays in payments, if any, of principal and interest. Furthermore, the Subsidiary Guarantors are incorporated in Hong Kong, the British Virgin Islands or the Cayman Islands and the insolvency laws of these jurisdictions may also differ significantly from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

The increase in the conversion rate applicable to Notes that holders convert in connection with certain fundamental changes may not adequately compensate you for the lost option time value of your Notes that result from that make-whole change of control

If a fundamental change occurs, we will, under certain circumstances, increase the conversion rate applicable to holders who convert their Notes within a specified time frame. The amount of the increase in the conversion rate depends on the date when the relevant transaction resulting in the fundamental change becomes effective and the applicable price described in this Offering Memorandum. See "Description of the Notes — Make Whole Premium Upon a Fundamental Change." Although the increase in the conversion rate is designed to compensate you for the lost option time value of your Notes as a result of the fundamental change, the increase in the conversion rate is only an approximation of the lost value and may not adequately compensate you for the loss. In addition, you will not be entitled to an increased conversion rate if the applicable price is greater than US$45.00 per Common Share or less than US$15.03 per Common Share (in each case, subject to adjustment). Our obligation to increase the conversion rate as described above also could be considered a penalty, in which case its enforceability would be subject to general principles of reasonableness of economic remedies.

We may be unable to raise the funds to pay interest on the Notes or to purchase the Notes upon a fundamental change or at maturity

The Notes initially bear interest semi-annually at a rate of 5.00%. If a fundamental change occurs, we are required to make an offer to each holder to purchase, for cash, all or a portion of its Notes at such holder's option. We are obligated to pay the principal amount of the Notes outstanding at the maturity date. We may not have sufficient funds for any required repurchase of the Notes or required payment of principal or interest, and we may have to refinance other indebtedness or otherwise secure funds in order to make payments under the Notes. We are required to make an offer to repurchase the 2004 Senior Notes and to repay the Syndicated Term Loan under circumstances similar to those constituting a fundamental change. For instance, under the indenture relating to the issue of the 2004 Senior Notes (the "2004 Indenture"), in case of the occurrence of certain changes of control, we are required to commence an offer to purchase for all of the 2004 Senior Notes then outstanding and failure by us to do so within 30 days of the occurrence of such changes of control is an event of default under the 2004 Indenture. In addition, the terms of any borrowing agreements may subject us to similar obligations. These agreements may also make our repurchase of Notes an event of default under such agreements. If we fail to pay interest on the Notes or repurchase the Notes when required, we will be in default under the indenture governing the Notes.

The conversion rate of the Notes may not be adjusted for all dilutive events

The conversion rate of the Notes is subject to adjustment upon the occurrence of certain events, including, but not limited to, the issuance of share dividends on our Common Shares, the issuance of certain rights or warrants, subdivisions, combinations, distributions of share capital, indebtedness or assets, cash dividends and certain issuer tender or exchange offers as described under "Description of the Notes — Conversion Rights — Conversion Rate Adjustments." Such conversion rate will not be adjusted, however, for other events, such as a third party tender or exchange offer or an issuance of Common Shares for cash, any of which may adversely affect the trading price of the Notes or our Common Shares. In addition, an event that adversely affects the value of the Notes may occur, and that event may not result in an adjustment to the conversion rate.

Certain significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to purchase the Notes

The fundamental change provisions will only afford protection to holders of the Notes upon the occurrence of certain transactions. Other transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a fundamental change. In the event of any such transaction, the holders would not have the right to require us to purchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the value of Notes.

The market price of our Common Shares may be volatile, which could have a direct effect on the trading price for the Notes

The market price of our Common Shares experienced, and may continue to experience, significant volatility. For the period from January 1, 2008, to July 15, 2008, the trading price of our Common Shares on the TSX has ranged from a low of Cdn.$14.92 per share to a high of Cdn.$21.92 per share. Because the Notes are convertible into Common Shares, volatility in the price of our Common Shares may depress the trading price of the Notes. The risk of volatility and depressed prices of our Common Shares also applies to holders who receive Common Shares upon conversion of their Notes. Numerous factors, including many over which we have no control, may have a significant impact on the market price of our Common Shares, including, among other things:

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

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our Common Shares, regardless of our operating performance. These factors, among others, could significantly depress the trading price of the Notes and the price of our Common Shares issued upon conversion of the Notes.

The holders of the Notes will not be able to benefit from any appreciation of U.S. dollars against Canadian dollars

The Notes will be issued in minimum denominations of US$1,000 and integral multiples thereof. The number of Common Shares (or cash in lieu thereof) deliverable upon conversion of any Note by its holder is in effect determined by dividing the principal amount of all the Notes to be converted (translated into Canadian dollars at a fixed exchange rate set forth under "Description of the Notes — Conversion Rights") by the applicable conversion price (denominated in Canadian dollars) on the conversion date. As the translation of the U.S. dollar-denominated principal amount is based on a fixed exchange rate, the number of Common Shares (or cash in lieu thereof) deliverable to a holder of the Notes upon conversion will not increase even if U.S. dollars appreciate against Canadian dollars and, as a result, the holders of the Notes would not be able to benefit from such appreciation.

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

Any issuance of equity securities after this offering could dilute the interests of our existing shareholders and could substantially decrease the trading price of our Common Shares. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust our ratio of debt to equity and to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons. Sales of a substantial number of Common Shares or other equity-related securities in the public market (or the perception that such sales may occur) could depress the market price of our Common Shares, and impair our ability to raise capital through the sale of additional equity securities. Our Company has agreed that it shall not, and shall cause any of its subsidiaries not to, subject to certain exceptions, sell or issue (in the case of the Company) securities of our Company for a period of 90 days from the date of the final offering memorandum prepared in relation to this offering. Except for such restrictions, there is no restriction on our ability to issue securities or the ability of any of our shareholders to dispose of, encumber or pledge its Common Shares, and there can be no assurance that we will not issue securities or that such shareholder will not dispose of, encumber or pledge its Common Shares. We cannot predict the effect that future sales of our Common Shares or other equity-related securities would have on the market price of our Common Shares. In addition, the price of our Common Shares could be affected by possible sales of our Common Shares by investors who view the Notes as a more attractive means of obtaining equity participation in our Company and by hedging or arbitrage trading activity that may develop involving the Notes.

Because your right to require repurchase of the Notes is limited, the market price of the Notes may decline if we enter into a transaction that is not a fundamental change under the indenture relating to the Notes

The term "fundamental change" is limited and may not include every event that might cause the market price of the Notes to decline or result in a decrease in creditworthiness of the Notes. The term "fundamental change" does not apply to certain transactions in which 100% of the consideration is paid for our Common Shares in a merger or similar transaction in securities traded on the TSX or United States national securities exchange or quoted on a U.S. national automated dealer quotation system. Our obligation to repurchase the Notes upon a fundamental change may not preserve the value of the Notes in the event of a highly leveraged transaction, reorganization, merger or similar transaction. See "Description of the Notes — Offer to Purchase at the Option of the Holder Upon a Fundamental Change."

If you hold Notes, you are not entitled to any rights with respect to our Common Shares, but you are subject to all changes made with respect to our Common Shares

If you hold Notes, you are not entitled to any rights with respect to our Common Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on our Common Shares), but you are subject to all changes affecting the Common Shares. You will only be entitled to rights on the Common Shares if, and when, we deliver Common Shares to you in exchange for your Notes. For example, in the event that an amendment is proposed to our Articles of Continuance requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of the Common Shares, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any resulting changes in the powers, preferences or special rights that affect our Common Shares.

The rating assigned for the Notes may be lowered or withdrawn in the future

The Notes have been assigned a rating of (P)Ba2 by Moody's Investors Service. The rating is provisional and subject to change. The rating addresses our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you 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 Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

There is no existing market for the Notes, an active and liquid trading market for the Notes may not develop and there are restrictions on resale of the Notes

The Notes are a new issue of securities for which there is currently no public market, and no active trading market might ever develop. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the price, and volatility in the price, of our Common Shares, our performance and other factors. To the extent that an active trading market does not develop, the liquidity and trading prices for the Notes may be harmed. We have no plans to list the Notes on a securities exchange; however, the Notes sold to qualified institutional buyers in reliance on Rule 144A are expected to be eligible for the PORTAL market at the time of issuance thereof. We have been advised by the Initial Purchasers that they presently intend to make a market in the Notes. However, the Initial Purchasers are not obligated to do so. Any market-making activity, if initiated, may be discontinued at any time, for any reason or for no reason, without notice. If the Initial Purchasers cease to act as the market makers for the Notes, we cannot assure you another firm or person will make a market in the Notes. The liquidity of any market for the Notes will depend upon the number of holders of the Notes, our results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the Notes and other factors. An active or liquid trading market for the Notes may not develop, and you may be unable to resell your Notes or may only be able to sell them at a substantial discount.

In addition, we have not registered the Notes or the Conversion Shares under the Securities Act or any state securities laws. The Notes are being offered pursuant to exemptions from registration requirements under the Securities Act, and as a result, you will only be able to resell your Notes and the Conversion Shares in transactions not subject to or exempt from the registration and qualification requirements of U.S. federal and state securities law. See "Transfer Restrictions." Moreover, we may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under certain circumstances, U.S. holders may be unable to exercise such rights unless a registration statement under the Securities Act is effective with respect to such securities or an exemption from registration of such securities under the Securities Act is available. We are under no obligation to file a registration statement under the Securities Act with respect to any securities which we may offer rights to acquire.

Canadian Laws and provisions in our articles of continuance could delay or deter a change in control

Our articles of continuance contain provisions that may prevent or discourage a third party from acquiring us, even if the acquisition would be beneficial to our shareholders. Our articles of continuance allow for the issuance of preference shares, although there are at present no preference shares outstanding. Our board of directors may fix the rights, privileges, restrictions, conditions and other provisions of any series of preference shares in its sole discretion and issue such shares without the approval of our shareholders. The rights and preferences of the preference shares may be superior to those of our Common Shares.

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

Limitations on the ability to acquire and hold our Common Shares may be imposed by the *Competition Act* (Canada). This legislation permits the Commissioner of Competition to review any acquisition of a significant interest in our Company. This legislation grants the Commissioner jurisdiction to challenge such an acquisition before the Competition Tribunal if the Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada. The *Investment Canada Act* (Canada) may subject an acquisition of control of a company by a non-Canadian to government review if, among other things, the value of its assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied or is deemed to be satisfied that there is likely to be a net benefit to Canada from the transaction.

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

If we issue a cash dividend on our Common Shares, U.S. investors may be deemed to have received a taxable dividend without the receipt of any cash

If we issue any cash dividend on our Common Shares in the future, the conversion rate will be adjusted and U.S. investors may be deemed to have received a taxable dividend subject to U.S. federal income tax without the receipt of any cash. See "Taxation — U.S. Federal Income Taxation."

Third party statistical and financial data in this Offering Memorandum may be incomplete or unreliable

This Offering Memorandum contains statistical and financial data from industry publications and other third party sources. Although we believe the information to be correct, we have not independently verified such data and therefore we cannot assure you that they are complete or reliable. Such data may also be produced on different bases from those used in other countries. Therefore, discussions of matters relating to the PRC, different regions and markets within the PRC, their respective economies and our industries in this Offering Memorandum are subject to the caveat that the statistical and other data upon which such discussions are based may be incomplete or unreliable.

Enforcement of the rights of holders of the Notes under the Notes across multiple jurisdictions may prove difficult

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, Canada, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts. The PRC has not entered into any treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of other countries or regions (such as the United Kingdom, the United States, Canada or Hong Kong). Therefore, it may also be difficult to seek the recognition and enforcement of judgments obtained in these and other jurisdictions in the PRC.

Risks Related to the Subsidiary Guarantees

The Subsidiary Guarantors also guarantee our other significant obligations and they may not have the funds necessary to satisfy our financial obligations under the Notes

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. In addition to the Notes, the Subsidiary Guarantors also guarantee the 2004 Senior Note and the Syndicated Term Loan. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes pursuant their respective Subsidiary Guarantees if we are unable to do so.

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong, the British Virgin Islands, Canada or other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, however, the guarantor would be considered insolvent at a particular time if it is unable to pay its debts as they fall due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder was incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantors, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of ours and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. There can be no assurance that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the Initial Purchasers' underwriting commissions and the other estimated expenses payable in connection with this offering will be approximately US$291.0 million (or approximately US$335.0 million if the Initial Purchasers' overallotment option is exercised in full) after giving effect to the Initial Purchasers' discount and offering expenses payable by us. See "Plan of Distribution." We intend to use the net proceeds for the following purposes:

1. approximately US$230.0 million as initial capital for the acquisition of commercial plantation forests in the Fujian Province, PRC to develop fast-growing high-yielding plantations. We intend to vertically integrate these plantations in Fujian with our downstream wood processing facilities in the PRC. We have already entered into a non-binding memorandum of understanding under which the seller has agreed to sell to us 200,000 hectares of Chinese fir, pine and eucalyptus trees over a ten-year period. Under this memorandum of understanding, the consideration price shall not exceed RMB350 per cubic meter. The specific terms and conditions of the aforementioned purchases in Fujian Province are to be determined upon the execution of definitive agreements between the relevant parties;

2. approximately US$15.0 million to lease land and plant with Jatropha trees, a drought-resistant perennial and fast-growing species that grows on fertile and non-fertile soil, in Southern PRC. We intend to collect and extract raw seeds oil from Jatropha seeds. As a founding member of China Green Carbon Foundation, we plan to collaborate with the PRC State Forestry Administration to research and develop Jatropha species for large-scale propagation; and

3. as to the balance, which represents approximately US$46.0 million, for general corporate purposes.

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

MARKET PRICE INFORMATION FOR OUR COMMON SHARES

Our Common Shares have been listed on the TSX since 1995, and trade under the stock symbols "TRE" and "TRE.S." The table below sets forth, for the periods indicated, the high and low prices for our Common Shares on the TSX and the average daily trading volumes. On July 15, 2008, the closing price of our Common Shares on the TSX was Cdn.$15.41 per Common Share.

	Actual Closing Price per Common Share		
Year Ended December 31,	**Period High**	**Period Low**	**Average Daily Trading Volume**
	(Cdn.$)	**(Cdn.$)**	**(Shares)**
2004[1][2]	6.98	2.32	552,764
2005[3]	5.40	2.54	453,503
2006			
First quarter	6.75	4.70	548,474
Second quarter	6.55	4.94	460,667
Third quarter	5.90	3.70	339,204
Fourth quarter	7.83	4.25	646,874
2007			
First quarter	13.42	7.46	917,468
Second quarter[4]	17.19	12.49	891,301
Third quarter	22.86	13.97	1,321,913
Fourth quarter	25.12	18.30	1,746,314
2008			
First quarter	21.92	14.92	1,132,523
From April 1, 2008 to July 15, 2008	20.80	15.10	994,612

Notes:

(1) In May 2004, we issued 38,970,000 Common Shares in a private placement, which increased the number of outstanding Common Shares to 135,289,548. In August 2004, we issued 1,200,000 Common Shares to management as consideration for the purchase of certain rights to acquire shares in Sino-Wood Partners, Limited, which increased the number of outstanding Common Shares to 136,589,548.

(2) On June 22, 2004, we filed articles of amendment which reclassified our existing class A subordinate-voting shares as Common Shares on a one-for-one basis and eliminated our authorized class B multiple-voting shares. Consequently, all references in this Offering Memorandum to the issuance or existence of our Common Shares prior to June 22, 2004 relate to our former class A subordinate-voting shares.

(3) In May 2005, we issued 1,200,000 Common Shares to management as consideration for the purchase of certain rights to acquire shares in Sino-Wood Partners, Limited, which increased the number of outstanding Common Shares to 137,789,548.

(4) In April 2007, we issued 25,355,191 Common Shares in a private placement, which increased the number of outstanding shares to 163,354,739. In June 2007, we issued 15,900,000 Common Shares in a public offering, which increased the number of outstanding Common Shares to 180,454,739 (including 1,200,000 Common Shares issued in May 2007 upon the exercise of stock options by one of our directors).

There is no public market for our Common Shares other than the TSX. Application has been made for the Common Shares issuable upon the conversion of the Notes to be listed on the TSX.

EXCHANGE RATES

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply of and demand for Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. From July 21, 2005 to December 31, 2007, the value of the Renminbi appreciated by approximately 11.9% against the U.S. dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

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

	Noon Buying Rate			
Period	**Period End**	**Average(1)**	**High**	**Low**
	(RMB per US$1.00)			
2002	8.2800	8.2772	8.2800	8.2700
2003	8.2767	8.2771	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
January 2008	7.1818	7.2405	7.2946	7.1818
February 2008	7.1115	7.1644	7.1973	7.1100
March 2008	7.0120	7.0722	7.1110	7.0105
April 2008	6.9870	6.9997	7.0185	6.9840
May 2008	6.9400	6.9725	7.0000	6.9377
June 2008	6.8591	6.8993	6.9633	6.8591
July 2008 (through July 15, 2008)	6.8211	6.8482	6.8632	6.8211

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2008, which is determined by averaging the daily rates during the respective periods.

On July 15, 2008, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US$1.00 = RMB6.8211 as certified for customs purposes by the Federal Reserve Bank of New York.

Hong Kong

The H.K. dollar is freely convertible into other currencies, including the U.S. dollar. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, or the Basic Law, which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong. Therefore, under existing Hong Kong law, (i) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of dividend payments to U.S. residents and (ii) there are no limitations on the rights of non-residents or foreign owners to hold the Notes offered in this offering.

Since October 17, 1983, the H.K. dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to US$1.00. The central element in the arrangements which gave effect to the peg is that by agreement between the Hong Kong Special Administrative Region government and the three Hong Kong banknote issuing banks (i.e., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of HK$7.80 to US$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the H.K. dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to US$1.00 since the peg was first established. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong Special Administrative Region government has stated its intention to maintain the link at that rate range. The Hong Kong Special Administrative Region government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the H.K. dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Special Administrative Region government will maintain this rate range or the link at HK$7.75 to HK$7.85 per US$1.00, or maintain any rate range or link at all.

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

	Noon Buying Rate			
Period	**Period End**	**Average(1)**	**High**	**Low**
	(HK$ per US$1.00)			
2002	7.7988	7.7996	7.8095	7.7970
2003	7.7640	7.7864	7.8001	7.7085
2004	7.7723	7.7899	7.8010	7.7632
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
January 2008	7.7961	7.8044	7.8107	7.7961
February 2008	7.7807	7.7963	7.8012	7.7807
March 2008	7.7819	7.7813	7.7897	7.7642
April 2008	7.7950	7.7910	7.7963	7.7863
May 2008	7.8041	7.7988	7.8060	7.7931
June 2008	7.7970	7.8073	7.8159	7.7970
July 2008 (through July 15, 2008)	7.7967	7.8010	7.8039	7.7967

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2008, which is determined by averaging the daily rates during the period.

On July 15, 2008, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was HK$7.7967 per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York.

Canada

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

	Noon Buying Rate			
Period	**Period End**	**Average(1)**	**High**	**Low**
	(Cdn.$ per US$1.00)			
2002	1.5800	1.5702	1.6128	1.5108
2003	1.2923	1.3916	1.5750	1.2923
2004	1.2034	1.2984	1.3970	1.1775
2005	1.1656	1.2083	1.2703	1.1507
2006	1.1652	1.1307	1.1726	1.0989
2007	0.9881	1.0665	1.1852	0.9168
January 2008	1.0018	1.0099	1.0294	0.9905
February 2008	0.9796	0.9986	1.0188	0.9717
March 2008	1.0275	1.0029	1.0275	0.9841
April 2008	1.0092	1.0137	1.0268	1.0021
May 2008	0.9938	0.9993	1.0187	0.9840
June 2008	1.0185	1.0166	1.0282	1.0011
July 2008 (through July 15, 2008)	1.0015	1.0131	1.0220	1.0015

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2008, which is determined by averaging the daily rates during the period.

For a recent noon buying rate for U.S. dollars in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York, see “Certain Definitions, Conventions and Currency Presentation.”

CONSOLIDATED CAPITALIZATION

The following table sets out our consolidated short-term debt and capitalization as of March 31, 2008 on (i) an actual basis and (ii) an as adjusted basis after giving effect to this offering. See "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financing Arrangements and Contractual Obligations" and "Description of the Notes." The following table should be read in conjunction with the selected consolidated financial data and the audited and unaudited consolidated financial statements and related notes included in this Offering Memorandum.

	As of March 31, 2008	
	Actual	**As Adjusted**
	(US$ thousands)	
Short-term debt:		
Bank indebtedness	49,863	49,863
Current portion of long-term debt	—	—
Total short-term debt	49,863	49,863
Long-term debt:		
2004 Senior Notes[(1)]	300,000	300,000
Syndicated Term Loan[(1)]	150,000	150,000
Bank Loans	855	855
The Notes[(2), (3)]	—	300,000
Unamortized deferred financing costs	(7,545)	(7,545)
Total long-term debt[(4)]	443,310	743,310
Shareholders' equity:		
Common Shares, no par value, unlimited shares authorized, 182,592,961 shares outstanding	537,141	537,141
Contributed surplus	5,039	5,039
Accumulated other comprehensive income	167,084	167,084
Retained earnings	555,491	555,491
Total shareholders' equity	1,264,755	1,264,755
Total capitalization[(5)]	1,708,065	2,008,065

Notes:

(1) The 2004 Senior Notes and the Syndicated Term Loan are secured by pledges of the capital stock of the Subsidiary Guarantors and the Initial Non-Guarantor Subsidiaries. See "Risk Factors — Risks Related to the Notes and Our Common Shares — The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors and the Initial Non-Guarantor Subsidiaries while certain of our other significant obligations are so secured."

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

(3) Assuming the Initial Purchasers do not exercise the over allotment option.

(4) "Long-term debt" includes all long-term debt other than the current portion of long-term debt.

(5) "Total capitalization" includes long-term debt plus shareholders' equity. As of March 31, 2008, we had outstanding options to acquire an aggregate of 3,948,453 Common Shares pursuant to our stock option plan at prices ranging between Cdn.$2.70 and Cdn.$19.00 per Common Share with expiry dates to November 28, 2012.

DIVIDENDS AND DIVIDEND POLICY

We have never paid cash dividends on our Common Shares. Currently, we intend to retain our future earnings, if any, to fund the development and growth of our business, and do not anticipate paying any cash dividends on our Common Shares in the near future. As a result, shareholders will have to rely on capital appreciation, if any, to earn a return on investment in our Common Shares in the foreseeable future.

SELECTED FINANCIAL DATA

The selected financial data in this section has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2005, 2006 and 2007 and our unaudited consolidated financial statements as of and for the three-month periods ended March 31, 2007 and 2008. The unaudited interim financial statements reflect all adjustments which are, in our opinion, necessary to provide a fair statement of the results for the interim periods indicated. The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between Canadian GAAP and U.S. GAAP." The following summary financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited and unaudited consolidated financial statements and the related notes thereto and other information included elsewhere in this Offering Memorandum. The results in the three-month periods ended March 31, 2007 and 2008 are not necessarily indicative of the results that may be expected for the full year, and our historical results in general do not necessarily indicate results expected for any future period.

	As of and for the Year Ended December 31,			As of and for the Three-Month Period Ended March 31,	
	2005(1)	2006(1)	2007	2007(1)	2008
	(Restated)	(Restated)		(Restated)	
	(US$ thousands, except per share amounts and margins)				
Consolidated Income Statement Data:					
Revenue	341,260	555,480	713,866	112,777	136,137
Cost of sales	(237,222)	(380,508)	(470,825)	(80,686)	(89,258)
Selling, general and administrative expenses	(20,611)	(35,852)	(40,209)	(6,765)	(11,322)
Depreciation and amortization	(3,099)	(3,975)	(5,364)	(1,143)	(1,001)
Income from operations(2)	80,328	135,145	197,468	24,183	34,556
Net income from continuing operations(1)	47,100	92,212	142,431	11,706	15,614
Net income/(loss) from discontinued operations(1)	29,052	21,268	9,842	(196)	(1,087)
Net income	76,152	113,480	152,273	11,510	14,527
Basic earnings per share	0.55	0.82	0.91	0.08	0.08
Diluted earnings per share	0.55	0.81	0.90	0.08	0.08
Other Consolidated Financial Data:					
Gross profit (3)	104,038	174,972	243,041	32,091	46,879
Gross profit margin (4)	30.5%	31.5%	34.0%	28.5%	34.4%
EBITDA(5) (without depletion of timber holdings)	83,427	139,120	202,832	25,326	35,557
Adjusted EBITDA(6)	223,631	316,850	487,640	46,951	73,611
Adjusted EBITDA margin(7)	65.5%	57.0%	68.3%	41.6%	54.1%
Balance Sheet Data:					
Cash, cash equivalents and short-term deposits	138,686	171,437	350,853	143,738	259,282
Current assets	277,340	333,609	527,028	291,676	473,406
Non-current assets	617,931	873,646	1,310,469	926,685	1,441,632
Total assets	895,271	1,207,255	1,837,497	1,218,361	1,915,038
Current liabilities (including current portion of long-term debt)	155,356	179,048	197,003	177,349	195,348
Long-term debt (net of current portion)	300,000	450,000	441,985	440,675	443,310
Total liabilities	455,356	629,048	650,199	627,788	650,283
Total shareholders' equity (net assets)	439,915	578,207	1,187,298	590,573	1,264,755

	As of and for the Year Ended December 31,			As of and for the Three-Month Period Ended March 31,	
	2005[(1)]	2006[(1)]	2007	2007[(1)]	2008
	(Restated)	(Restated)		(Restated)	
			(US$ thousands)		
Cash Flow Statement Data:					
Cash flows from operating activities of continuing operations	152,871	264,203	482,501	46,300	32,021
Cash flows (used in) investing activities	(301,398)	(423,036)	(692,322)	(80,065)	(121,958)
Cash flows from/(used in) financing activities	11,203	176,200	376,912	1,040	(9,940)
Net increase/(decrease) in cash and cash equivalents	(92,748)	44,469	175,803	(28,556)	(98,468)

Notes:

(1) Results for the years ended December 31, 2005 and 2006, and the three-month period ended March 31, 2007, have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes and the classification of wood chips and commission operations to discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See notes 2 and 18 to our audited consolidated financial statements as at and for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this Offering Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Components of Income Statement Items" for a detailed description of our revenue components.

(2) Income from operations excludes interest income and expense, exchange (gains)/losses, loss on changes in fair value of financial instruments and other income, write-down of capital assets, and amortization of deferred financing costs.

(3) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

(4) Gross profit margin is calculated by dividing gross profit by revenue. Gross profit margin is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit margin may not be comparable to similar measures presented by other companies.

(5) EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

(6) Adjusted EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), as well as depletion of timber holdings from cost of sales, for the period. Adjusted EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. Adjusted EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, Adjusted EBITDA may not be comparable to similar measures presented by other companies.

(7) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenue. Adjusted EBITDA margin is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, Adjusted EBITDA margin may not be comparable to similar measures presented by other companies.

A reconciliation from net income from continuing operations to Adjusted EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Three-Month Period Ended March 31,	
	2005[1]	**2006[1]**	**2007**	**2007[1]**	**2008**
	(Restated)	**(Restated)**		**(Restated)**	
			(US$ thousands)		
Net income from continuing operations	47,100	92,212	142,431	11,706	15,614
Add/(subtract):					
Interest expense	28,994	37,340	43,960	11,114	10,571
Provision for income taxes	9,010	13,192	18,034	2,346	4,274
Depreciation and amortization	3,099	3,975	5,364	1,143	1,001
Other expenses (income)[1]	(4,776)	(7,599)	(6,957)	(983)	4,097
EBITDA[2] (without depletion of timber holdings)	83,427	139,120	202,832	25,326	35,557
Add:					
Depletion of timber holdings included in cost of sales	140,204	177,730	284,808	21,625	38,054
Adjusted EBITDA[3] (with depletion of timber holdings)	223,631	316,850	487,640	46,951	73,611

Notes:

(1) See note (1) above.

(2) Other expenses include interest income, exchange (gains)/losses, loss on changes in fair value of financial instruments, other income, write-down of capital assets and amortization of deferred financing costs.

(3) See note (5) above.

(4) See note (6) above.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto and other financial information included elsewhere in this Offering Memorandum. Our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007 and our unaudited consolidated financial statements for the three-month periods ended March 31, 2007 and 2008 have been prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between Canadian GAAP and U.S. GAAP" for a discussion of certain differences between Canadian GAAP and U.S. GAAP. Investors are advised that any evaluation of our business should be made with reference to the information contained in this Offering Memorandum under the heading "Risk Factors."

Overview

We are one of the largest foreign-owned commercial tree plantation operators in the PRC. As of March 31, 2008, we had approximately 328,000 hectares of tree plantations under management located in six provinces of the PRC and we have entered into long-term master agreements that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 653,000 additional hectares of plantation trees. We have been operating tree plantations in the PRC since 1995.

Our business operations consist of two core businesses: wood fiber operations and manufacturing operations. Our wood fiber operations are our largest revenue contributor and consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased or planted tree plantations, selling wood logs sourced from PRC suppliers and selling wood products imported from outside the PRC. Our wood fiber operations accounted for 94.6% and 93.2%, respectively, of our total revenue for the year ended December 31, 2007 and the three-month period ended March 31, 2008. As of March 31, 2008, eucalyptus trees and pine and fir trees accounted for approximately 17.5% and 77.5%, respectively, of the total area under cultivation of our tree plantations.

Our manufacturing and other operations represent our secondary source of revenue and consist of sales of wood-based products, such as particleboard, melamine chipboard, engineered wood flooring, oriented strand board and finger-joint board manufactured at our own production plants. We currently operate manufacturing plants in Gaoyao, Guangdong Province, Suzhou, Jiangsu Province, Muling City, Heilongjiang Province, and Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province, which complement our wood fiber operations. We also operate a greenery and nursery business based in Suzhou, Jiangsu Province. Our manufacturing and other operations represented 5.4% and 6.8%, respectively, of our total revenue for the year ended December 31, 2007 and the three-month period ended March 31, 2008.

We operate our plantations using three business models: purchased, planted and integrated. In our purchased tree plantation model, we purchase young trees and subsequently sell the trees as standing timber when they reach maturity. This model allows us to capture wood fiber growth during our ownership of the trees and take advantage of increasing wood fiber prices. We refer to plantations managed under our purchased tree plantation model as "purchased tree plantations." In our planted tree plantation model, we assess the suitability of land where trees have been recently harvested for replanting and conversion into fast-growing high-yielding plantations. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. We then replant and cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to plantations managed under our planted tree plantation model as "planted tree plantations." In our integrated tree plantation model, instead of selling trees from purchased or planted tree plantations as standing timber, we either sell the trees as logs or vertically integrate the wood fiber with our manufacturing facilities to produce value-added wood products. We are in the early stages of implementing our integrated tree plantation model.

We sell wood fiber either as standing timber by hectare, or as logs by cubic meter. Prices per hectare of standing timber vary according to a variety of factors, including the yield, age and species of the trees sold, whereas the price of logs varies according to diameter, age, density of fiber and species of tree. See "Business — Sales and Marketing."

Approximately 93.2% and 6.8% of our revenue for the three-month period ended March 31, 2008 were generated by our wood fiber operations (including 75.4% and 17.8% from sales of our plantation fiber segment and other fiber segment, respectively) and our manufacturing and other operations, respectively. As of March 31, 2008, 99.7% of our revenue was derived from customers located in the PRC and 90.5% of our assets were located in the PRC.

Until the third quarter of 2007, we conducted our wood chip sales activities in the PRC through domestic wood dealers who acted as our authorized intermediaries to purchase timber supplies and sell processed wood chips to the market. During the third quarter of 2007, wood chips and commission revenue terminated when our two authorized intermediaries who processed wood chips for us ceased to provide us with wood chipping services. As a result, the operations from wood chips and commission are shown as net income/(loss) from discontinued operations in our consolidated statements of income and retained earnings for the three-month period ended March 31, 2008. In order to improve the comparability of our period-to-period results of operations, our consolidated statements of income and retained earnings for the years ended December 31, 2005 and 2006, as well as for the three-month period ended March 31, 2007, have been restated accordingly. See note 18 to our consolidated financial statements for the year ended December 31, 2007 and the three-month period ended March 31, 2008 included elsewhere in this Offering Memorandum.

In determining our geographical segments, revenues are attributed to the segments based on the location of our customers, and assets are attributed to the segments as over 90.0% of our revenue is derived from customers based in the PRC, and 85.0% of our assets are located in the PRC.

Factors Affecting Results of Operations

We believe that the following principal factors affect our business and results of operations.

Cyclical Price Fluctuations

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 material and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes, changes in industry capacity and output levels, general timber industry condition and cyclical changes in the world and PRC economies. Log prices vary according to the species and size of the logs, with large diameter logs commanding higher prices than small diameter logs. In addition, the market for wood products is 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. Increases or decreases in selling prices could have positive or negative effects on our business, financial condition and results of operations.

Changes in Demand for Wood Products

The demand for our products is directly correlated to demand for the wood products they are used to make. Demand for wood products is substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior decoration activity 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;
- changes in market prices of commodities;
- government regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters) and other factors affecting tree growth.

Seasonality

In general, our revenue is lowest in the first quarter of the year and represents approximately 15.0% of the revenue of the entire year. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in logging and hauling timber during the rainy season in the first half of the year.

Our Tree Plantation Yields

The success of our business depends upon the productivity of our tree plantations and our ability to realize our expected yields. Tree plantation yields depend on a number of factors, many of which are beyond our control. Our ability to maintain and improve our yields will depend on these factors and the results of our research and development efforts. A decrease in the productivity of our tree plantations would adversely affect our business, financial condition and results of operations.

Acquisition/Availability of Standing Timber

Revenue from our sales of standing timber was US$240.8 million, US$352.6 million, US$521.5 million and US$102.7 million in the years ended December 31, 2005, 2006 and 2007 and the three-month period ended March 31, 2008, respectively, which represented approximately 70.6%, 63.5%, 73.1% and 75.4% of our total revenue in the years ended December 31, 2005, 2006 and 2007 and the three-month period ended March 31, 2008, respectively. Hence, our ability to source standing timber may have a significant impact on our revenue. In addition, fluctuations in the cost of sales of standing timber also have a direct impact on our gross profit margin and our results of operations.

Critical Accounting Policies

The preparation of financial statements in conformity with Canadian GAAP requires us to make estimates and assumptions, as well as to exercise our judgment, in the process of applying our accounting policies. This affects the amounts or values reported in our consolidated financial statements and accompanying notes. These estimates form a basis for making judgments about carrying values of assets and liabilities. Actual amounts or values could differ under different assumptions or conditions. We consider our critical accounting policies, meaning those which require us to make the most significant estimates and exercise the most amount of judgment, to be the following.

Asset Impairment

Timber Holdings

Timber holdings represented 66.4% of our consolidated total assets as of March 31, 2008. Timber holdings are carried on our consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. We review the recoverability of the carrying value of our timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carry amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

We believe that accounting estimates related to timber holding impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding timber market demand and pricing, cost of production such as harvesting costs, transportation costs, taxes and overhead costs, plantation risk such as fire, pest and disease, frost and typhoons, plantation growth and yield, future yield development and our weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on our consolidated income statement and the reported timber holdings amount in our consolidated balance sheet.

To assist with our impairment assessments, we engage an outside consultant to help derive cash flow estimates and to estimate the fair value of our existing timber holdings using a discounted cash flow valuation model. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, we could potentially experience future impairment charges and such charges could be material.

Capital Assets

We evaluate the recoverability of the carrying value of our capital assets whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing capital asset. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on capital assets are measured as the amount by which the carrying value of the asset exceeds its fair value.

We believe that estimates related to capital assets impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, other new business opportunities, particleboard market demand and pricing, forecasted production volumes and cost of production assumptions on current and future business; and (ii) any resulting impairment loss could have a material impact on our consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

Revenue Recognition of Standing Timber Sales

We sell standing timber at various stages of maturity to domestic wood dealers from our tree plantations. Standing timber revenue represents a significant portion of our consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of our contractual arrangements with our customers. To date, substantially all of our standing timber revenue has been recognized when we and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, we and the buyer negotiate the approximate timber volume and the expected harvest yield associated with a specified plantation area. The sales agreement typically provides the buyer with a fixed period of time over which the buyer is entitled to harvest the timber on the specified plantation area and amounts due from the buyer are fixed at the time of entering into the agreement and are not subject to adjustment based on the actual amount of timber harvested by the buyer. Harvesting and all related costs have to date been the responsibility of the buyer and we have not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the timber on the specified plantation area over the harvest period.

Provision for Tax-Related Liabilities

Our principal operating subsidiaries, the BVI Subsidiaries, are engaged in Authorized Sales Activities in the PRC through AIs that are domestic enterprises of the PRC. In accordance with PRC Income Tax Laws, foreign companies such as the BVI Subsidiaries deriving income from sources in the PRC are subject to enterprise income tax. This also applies to income and commission revenue that the BVI Subsidiaries received from sales of wood chips. These wood-chipping activities were discontinued during the third quarter of 2007.

Under the terms of the master agreements (i.e. relevant AI agreements made with the AIs) the AIs are responsible for paying relevant PRC taxes that arise from the Authorized Sales Activities. It is possible that in the future the PRC tax authorities may be successful in establishing that the BVI Subsidiaries engaged in business activities in the PRC with the AIs and that they are directly subject to 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.

Included in accounts payable and accrued liabilities including discontinued operations as of December 31, 2005, 2006 and 2007, and as of March 31, 2008 are the balances of the provisions for these tax-related liabilities amounting to US$53.5 million, US$66.6 million, US$80.2 million and US$88.6 million, based on the profits/income of the Authorized Sales Activities earned by the BVI Subsidiaries in the current year and in the three previous years.

Contingencies for Tax-Related Liabilities

The obligation relating to income taxes and tax-related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgments made by our management. A change in the facts and these estimates and judgments could have a material effect on our tax expense. We have 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 we operate, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which we operate. 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 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 Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

Significant estimates and judgments 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 a quarterly basis or as necessary and believes that an adequate but not excessive provision for tax-related liabilities has been recognized in the financial statements.

Change in Accounting Policies

Financial Instruments and Comprehensive Income

As of January 1, 2007, we adopted the following CICA Handbook Sections, Section 3855 Financial Instruments — Recognition and Measurement, Section 3861 Financial Instruments — Disclosure and Presentation, Section 3865 Hedges, Section 1530 Comprehensive Income and Section 3251 Equity. These accounting standards introduced new requirements for recognition and measurement of financial instruments, the application of hedge accounting, the reporting and display of comprehensive income as well as the recognition of certain transition adjustments. We adopted these Sections retroactively without restatement of the consolidated financial statements of the prior period except for the presentation of unrealized foreign currency translation adjustments arising from self-sustaining foreign operations which are presented as part of other comprehensive income retroactively.

Deferred financing costs relating to the 2004 Senior Notes and the Syndicated Term Loan amounting to US$8.7 million as of January 1, 2007 that had previously been reported in other assets, are now recorded against the carrying value of the related debt and amortized into interest expense using the effective interest method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line item in the consolidated statement of income. Effective January 1, 2007, we no longer amortize deferred financing costs using the straight-line method, and instead have taken it into the income statement and recorded it as interest expense using the effective interest method over the term of the related debt. Effective January 1, 2007, a cumulative adjustment was made to account for the difference between the accumulated amortization of deferred financing costs using the effective interest method and the straight-line method. This resulted in a decrease in long-term debt and an increase in equity of US$1.1 million net of tax of nil.

Upon adoption of CICA Section 3865, we determined that our foreign currency swap did not qualify for hedge accounting treatment. As a result, the fair value of the swap as of January 1, 2007 was included as a liability on the balance sheet through an adjustment to equity, decreasing it by US$9.8 million.

Income Taxes

Effective January 1, 2007, we voluntarily adopted a new policy for accounting for uncertainty in income taxes. Under our previous policy, we would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated.

Under our new accounting policy, we evaluate a tax position using a two-step process.

Step 1 — Recognition requires us to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50% ("more-likely-than-not") that the tax position taken or to be taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 — Measurement, which is only addressed if the recognition threshold has been met, requires us to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that has a greater than 50% likelihood of being realized upon ultimate settlement.

As a result of this change in accounting policy, we recorded a non-cash charge of US$22.6 million to our opening retained earnings as of January 1, 2005 with an offset to current liabilities in the year ended December 31, 2005. See note 2 in the accompanying consolidated financial statements for the year ended December 31, 2007 for further details regarding the adoption of these standards.

Capital Disclosures

During the fourth quarter of 2006, the CICA issued three new accounting standards: CICA Handbook Section 1535 "Capital Disclosure," CICA Handbook Section 3863 "Financial Instruments — Presentation" and CICA Handbook Section 3862 "Financial Instruments — Disclosure." These standards were effective for interim and annual financial statements for our reporting period beginning on January 1, 2008.

The Capital Disclosure section describes the standards for disclosing information about a company's objectives, policies and processes for managing capital, quantitative data about what a company regards as capital and whether a company has complied with any capital requirements and, if not, the consequences of such non-compliance. Financial Instruments — Presentation carries forward the guidance under Section 3861 with little change and Financial Instruments — Disclosure requires disclosure on the face of the balance sheet of each of the financial instrument categories as well as additional disclosure regarding credit, market and liquidity risks we face.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard was effective for our reporting period beginning on January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

Components of Income Statement Items

Set forth below is a description of the key line items of our consolidated income statement:

Revenue

We derive our revenue from our two core business segments, i.e., our wood fiber operations which generate revenue from sales of plantation fiber and other fiber (e.g. wood logs and other wood products), and our manufacturing and other operations which generate revenue from sales of manufactured wood products such as particleboard, engineered wood flooring, oriented strand board and finger-joint board, as well as from greenery and nursery activities.

The table below presents a breakdown of revenue for the periods indicated by business segment:

	Year Ended December 31,			Three-Month Period Ended March 31,	
	2005(1)	2006(1)	2007	2007(1)	2008
	(Restated)	(Restated)		(Restated)	
			(US$ millions)		
Wood Fiber Operations:					
Plantation Fiber	240.8	352.6	521.5	51.3	102.7
Other Fiber	88.0	178.9	154.0	55.8	24.2
Total	328.8	531.5	675.5	107.1	126.9
Manufacturing and Other Operations	12.5	24.0	38.4	5.7	9.3
Total Revenue	**341.3**	**555.5**	**713.9**	**112.8**	**136.2**

Note:

(1) Results for the years ended December 31, 2005 and 2006, and the three-month period ended March 31, 2007, have been restated to reflect the adoption of a new accounting policy for uncertainty in income tax, and the classification of wood chips and commission operations to discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See notes 2 and 18 to our audited consolidated financial statements as at and for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this Offering Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Components of Income Statement Items" for a detailed description of our revenue components.

Cost of Sales

Our cost of sales consists of: (i) depletion of timber holdings as they are harvested and sold; (ii) the cost of imported logs and wood-based products acquired in our sales and trading activities of these products; and (iii) the costs incurred at our manufacturing plants.

Timber holdings include acquisition costs for young trees and standing timber and planting, maintenance and harvesting costs, which, until the trees are sold, are capitalized at cost in our financial statements. Planting, maintenance and harvesting costs include the following: planning, operations design, site preparation, terracing, fertilization, planting, thinning, tending, protection, research and development, forestry bureau service charge, overhead and lease costs. Timber holdings from standing timber sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into.

The table below presents a breakdown of our cost of sales for the periods indicated and by business segment:

	Year Ended December 31,			Three-Month Period Ended March 31,	
	2005(1)	2006(1)	2007	2007(1)	2008
	(Restated)	(Restated)		(Restated)	
			(US$ millions)		
Wood Fiber Operations:					
Plantation Fiber	140.2	184.4	284.8	21.6	56.5
Other Fiber	85.5	173.8	149.3	54.1	23.5
Total	225.7	358.2	434.1	75.7	80.0
Manufacturing and Other Operations	11.5	22.3	36.7	5.0	9.3
Total Costs of Sales	**237.2**	**380.5**	**470.8**	**80.7**	**89.3**

Note:

(1) See note (1) above.

Selling, General and Administration

Our selling, general and administration expenses consist of salaries and bonuses, legal and professional fees, stock-based compensation, insurance, advertising, rent and other expenses.

Interest Expense

Our interest expense consists of interest paid on the 2004 Senior Notes, the Syndicated Term Loan, bank loans and other bank indebtedness. For additional information on the 2004 Senior Notes and the Syndicated Term Loan, see "Description of Other Indebtedness."

Interest Income

Our interest income consists of income earned on cash balances and the US$15.0 million loan provided to Mandra Forestry Holdings Limited ("Mandra Forestry") in the second quarter of 2005.

Exchange Gains/(Losses)

Our exchange gains (losses) represent translation adjustments of Canadian dollar or Hong Kong dollar transactions or balances which are included in our consolidated statements of income.

Loss on Changes in Fair Value of Financial Instruments

Our loss on changes in fair value of financial instruments represents the fair value adjustment on the currency swap contract and the Omnicorp embedded conversion option.

Other Income

Our other income mainly consists of gains on disposal of other assets and management fees from Mandra Forestry.

Net Income/(Loss) from Discontinued Operations

Our discontinued operations consists of wood chip and commission income sales activities that we conducted through our subsidiary Suri-Wood Inc. until the third quarter of 2007, when our two authorized intermediaries who processed wood chips for us ceased to provide us with wood chipping services.

Results of Operations

The table below sets forth, for the periods indicated, certain revenue and expense items for our consolidated operations, both in absolute amounts and expressed as a percentage of total revenue:

	Year Ended December 31,						Three-Month Period Ended March 31,			
	2005(1)		2006(1)		2007		2007(1)		2008	
	(US$ thousands)	(% of total revenue)	(US$ thousands)	(% of total revenue)	(US$ thousands)	(% of total revenue)	(US$ thousands)	(% of total revenue)	(US$ thousands)	(% of total revenue)
	(Restated)		(Restated)				(Restated)			
Revenue	**341,260**	**100.0**	**555,480**	**100.0**	**713,866**	**100.0**	**112,777**	**100.0**	**136,137**	**100.0**
Cost of sales	(237,222)	69.5	(380,508)	68.5	(470,825)	66.0	(80,686)	71.5	(89,258)	65.6
Gross Profit(2)	**104,038**	**30.5**	**174,972**	**31.5**	**243,041**	**34.0**	**32,091**	**28.5**	**46,879**	**34.4**
Selling, general and administration	(20,611)	6.0	(35,852)	6.5	(40,209)	5.6	(6,765)	6.0	(11,322)	8.3
Depreciation and amortization	(3,099)	0.9	(3,975)	0.7	(5,364)	0.8	(1,143)	1.0	(1,001)	0.7
Interest expense	(28,994)	8.5	(37,340)	6.7	(43,960)	6.2	(11,114)	9.9	(10,571)	7.8
Interest income	4,179	1.2	6,486	1.2	15,184	2.1	1,467	1.3	2,595	1.9
Exchange gains/(loss)	1,253	0.4	3,676	0.7	12,409	1.7	(467)	0.4	(2,839)	2.1
Write-down of capital assets	—	—	(877)	0.2	(20,846)	2.9	—	—	—	—
Loss on changes in fair value of financial instruments	(554)	0.2	(1,179)	0.2	(2,996)	0.4	(314)	0.3	(4,535)	3.3
Other income	1,236	0.4	1,312	0.2	3,206	0.4	297	0.3	682	0.5
Amortization of deferred financing costs	(1,338)	0.4	(1,819)	0.3	—	—	—	—	—	—
Income before income taxes	**56,110**	**16.4**	**105,404**	**19.0**	**160,465**	**22.5**	**14,052**	**12.5**	**19,888**	**14.6**
Provision for income taxes	(9,010)	2.6	(13,192)	2.4	(18,034)	2.5	(2,346)	2.1	(4,274)	3.1
Net income from continuing operations (1)	**47,100**	**13.8**	**92,212**	**16.6**	**142,431**	**20.0**	**11,706**	**10.4**	**15,614**	**11.5**
Net income/(loss) from discontinued operations(1)	**29,052**	**8.5**	**21,268**	**3.8**	**9,842**	**1.4**	**(196)**	**0.2**	**(1,087)**	**0.8**
Net income for the year/period	**76,152**	**22.3**	**113,480**	**20.4**	**152,273**	**21.3**	**11,510**	**10.2**	**14,527**	**10.7**

Notes:

(1) Results for the years ended December 31, 2005 and 2006, and the three-month period ended March 31, 2007, have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes, and the classification of wood chips and commission operations to discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See notes 2 and 18 to our audited consolidated financial statements as at and for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this Offering Memorandum. See "— Components of Income Statement Items" for a detailed description of our revenue components.

(2) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

Comparison for the Three-Month Periods Ended March 31, 2007 and 2008

Revenue

Our revenue increased 20.7%, from US$112.8 million in the three-month period ended March 31, 2007 to US$136.1 million in the three-month period ended March 31, 2008. This increase was primarily due to higher plantation fiber revenues, notably sales of timber from purchased plantations and revenue from our manufactured and other products segment, partially offset by a decrease in revenue from our other fiber segment, largely due to a decrease in sales of imported wood products in the three-month period ended March 31, 2008.

Wood Fiber Operations Revenue

Revenue from wood fiber operations increased 18.5%, from US$107.1 million in the three-month period ended March 31, 2007 to US$126.9 million in the three-month period ended March 31, 2008. This increase was primarily due to increased sales of standing timber, partially offset by decreased sales of imported wood products and wood logs.

Revenue From Plantation Fiber. Revenue from sales of standing timber increased US$51.4 million, from US$51.3 million in the three-month period ended March 31, 2007 to US$102.7 million in the three-month period ended March 31, 2008. This increase was primarily due to the sale of approximately 509,000 cubic meters of logs harvested from approximately 4,254 hectares of trees from plantations managed under our integrated tree plantation model in the three-month period ended March 31, 2008. We had not yet made plantation fiber sales from tree plantations managed under our integrated tree plantation model in the three-month period ended March 31, 2007. In the three-month period ended March 31, 2007, we sold approximately 1.0 million cubic meters of fiber from standing timber, compared to approximately 1.4 million in the three-month period ended March 31, 2008. In the three-month period ended March 31, 2008, the average yield of harvested logs sold under our integrated tree plantation model was approximately 120 cubic meters and harvested logs had an average selling price of approximately US$102.9 per cubic meter. In addition, in the three-month period ended March 31, 2008, the average yield and average selling price of standing timber sold under the purchased and planted plantations were approximately 93 cubic meters per hectare and approximately US$58.3 per cubic meter, respectively, compared to approximately 84 cubic meters per hectare and approximately US$49.9 per cubic meter (representing an averaged selling price increase of approximately 16.8%), respectively, in the three-month period ended March 31, 2007. Standing timber sales comprised 45.5% of total revenue in the three-month period ended March 31, 2007, compared to 75.4% in the three-month period ended March 31, 2008.

Revenue From Other Fiber. Revenue from other fiber decreased 56.6%, from US$55.8 million (representing 49.5% of our total revenue) in the three-month period ended March 31, 2007 to US$24.2 million (representing 17.8% of our total revenue) in the three-month period ended March 31, 2008. This decrease was due to the decrease in revenue from sales of imported wood products and wood logs.

Revenue from sales of imported wood products decreased 56.3%, from US$55.0 million in the three-month period ended March 31, 2007 to US$24.1 million in the three-month period ended March 31, 2008. This decrease was primarily due to decreased sales volume as we reduced imports from Russia due to significant timber export duties levied by the Russian government in 2007. Effective April 1, 2008, the Russian government increased its export tariffs to 25% from 20%. Imported wood products sales comprised 48.8% of total revenue in the three-month period ended March 31, 2007, compared to 17.7% in the three-month period ended March 31, 2008.

Revenue from sales of wood logs decreased 83.1%, from US$0.7 million in the three-month period ended March 31, 2007 to US$0.1 million in the three-month period ended March 31, 2008. This decrease was primarily due to limited harvesting of secondary natural forest as our local partner in Inner Mongolia decided to suspend its harvest until further details on tariffs to be imposed by the Russian government were disclosed.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 63.2% from US$5.7 million in the three-month period ended March 31, 2007 to US$9.3 million in the three-month period ended March 31, 2008. This increase was primarily due to increased revenue from sales of engineering wood flooring and sales from relatively new processing facilities in Hunan Province which did not contribute revenue in the three-month period ended March 31, 2007. Revenue from manufacturing and other operations comprised 5.0% of total revenue in the three-month period ended March 31, 2007, compared to 6.8% in the three-month period ended March 31, 2008.

Cost of Sales

Our cost of sales increased 10.6%, from US$80.7 million in the three-month period ended March 31, 2007 to US$89.3 million in the three-month period ended March 31, 2008. This increase was primarily due to increased sales volumes of fiber from standing timber and wood logs and manufacturing products.

Wood Fiber Operations Cost of Sales

Wood fiber operations cost of sales increased 5.7%, from US$75.7 million in the three-month period ended March 31, 2007 to US$80.0 million in the three-month period ended March 31, 2008. This increase was primarily due to increased sales of standing timber and wood logs, partially offset by decreased sales of imported wood products.

Cost of Sales of Plantation Fiber. Plantation fiber cost of sales increased US$34.9 million, from US$21.6 million in the three-month period ended March 31, 2007 to US$56.5 million in the three-month period ended March 31, 2008. This increase reflected primarily the US$2,425 increase in cost of sales per hectare of standing timber from US$1,759 per hectare in the three-month period ended March 31, 2007 to US$4,184 per hectare in the three-month period ended March 31, 2008. This increase resulted primarily from our sales of logs harvested from our plantations in Hunan and Yunnan which generally carried harvesting costs.

Cost of Sales of Other Fiber. Cost of sales of other fiber decreased 56.5%, from US$54.1 million in the three-month period ended March 31, 2007 to US$23.5 million in the three-month period ended March 31, 2008. This decrease was due to the decrease in the cost of sales of imported wood products and wood logs.

Imported wood products cost of sales decreased 56.2%, from US$53.4 million in the three-month period ended March 31, 2007 to US$23.4 million in the three-month period ended March 31, 2008. This decrease reflected primarily the decrease in the sales volume of our imported log trading business.

Wood logs cost of sales decreased 82.1%, from US$0.7 million in the three-month period ended March 31, 2007 to US$0.1 million in the three-month period ended March 31, 2008. This decrease was primarily due to the absence of sales of logs from Inner Mongolia in the three-month period ended March 31, 2008.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 85.4%, from US$5.0 million in the three-month period ended March 31, 2007 to US$9.3 million in the three-month period ended March 31, 2008. This increase was primarily due to increased sales volume of our manufactured products and the related increase in cost of production of such products, as well as to downtime due to snowstorms in the three-month period ended March 31, 2008.

Gross Profit

Our gross profit increased 46.1%, from US$32.1 million in the three-month period ended March 31, 2007 to US$46.9 million in the three-month period ended March 31, 2008. Gross profit margin (gross profit as a percentage of total revenue) on average increased from 28.5% in the three-month period ended March 31, 2007 to 34.4% in the three-month period ended March 31, 2008. This increase in gross profit margin was primarily due to the higher proportion of sales of plantation fiber in the three-month period ended March 31, 2008 which carried a higher gross profit margin compared to sales of other fiber.

Wood Fiber Operations Gross Profit

Wood fiber operations gross profit margin increased from 29.3% in the three-month period ended March 31, 2007 to 37.0% in the three-month period ended March 31, 2008.

Gross Profit Margin from Sales of Plantation Fiber. Gross profit margin from sales of purchased and planted plantations increased from 57.9% in the three-month period ended March 31, 2007 to 63.0% in the three-month period ended March 31, 2008, which was primarily due to increased selling prices. The gross profit margin for sales of logs under our integrated tree plantation model operations was 27.7% in the three-month period ended March 31, 2008.

Gross Profit Margin from Sales of Other Fiber. Gross profit margin from sales of other fiber decreased from 3.1% in the three-month period ended March 31, 2007 to 2.8% in the three-month period ended March 31, 2008.

Gross profit margin from sales of imported wood products decreased from 3.0% in the three-month period ended March 31, 2007 to 2.8% in the three-month period ended March 31, 2008.

Gross profit margin from sales of wood logs decreased from 10.4% in the three-month period ended March 31, 2007 to 4.9% in the three-month period ended March 31, 2008. This decrease was primarily due to the absence of sales of logs from Inner Mongolia.

Manufacturing and Other Operations Profit Margin

Gross profit margin from manufacturing and other operations decreased from 11.9% in the three-month period ended March 31, 2007 to breakeven in the three-month period ended March 31, 2008. This decrease was primarily due to increased cost of production of our manufacturing plants and downtime due to snowstorms in the three-month period ended March 31, 2008.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased 67.4%, from US$6.8 million in the three-month period ended March 31, 2007 to US$11.3 million in the three-month period ended March 31, 2008. This increase was primarily due to an increase in the number of staff and the setting up of new companies to support our expansion in the three-month period ended March 31, 2008.

Depreciation and Amortization

Depreciation and amortization decreased 12.4%, from US$1.1 million in the three-month period ended March 31, 2007 to US$1.0 million in the three-month period ended March 31, 2008. This decrease was primarily due to the write-down of certain manufacturing facilities during the fourth quarter of 2007.

Income from Operations

Our income from operations increased 42.9%, from US$24.2 million in the three-month period ended March 31, 2007 to US$34.6 million in the three-month period ended March 31, 2008 due to the factors explained above. Income from operations as a percentage of revenue increased from 21.4% in the three-month period ended March 31, 2007 to 25.4% in the three-month period ended March 31, 2008.

Interest Expense

Our interest expense decreased 4.9%, from US$11.1 million in the three-month period ended March 31, 2007 to US$10.6 million in the three-month period ended March 31, 2008. This decrease was primarily due to the decrease in the average balance of bank indebtedness.

Interest Income

Our interest income increased 76.9%, from US$1.5 million in the three-month period ended March 31, 2007 to US$2.6 million in the three-month period ended March 31, 2008. This increase was primarily due to increased cash and cash equivalents and short-term deposits from the financings completed in 2007 and interest income earned on a US$15.0 million loan provided to Mandra Forestry in the second quarter of 2005.

Exchange Losses

Exchange losses increased US$2.3 million, from US$0.5 million in the three-month period ended March 31, 2007 to US$2.8 million in the three-month period ended March 31, 2008. This increase was due to the weakening of the U.S. dollar against the Hong Kong dollar and Renminbi.

Loss on Changes in Fair Value of Financial Instruments

The loss on changes in fair value of financial instruments increased US$4.2 million from US$0.3 million in the three-month period ended March 31, 2007 to US$4.5 million in the three-month period ended March 31, 2008. The loss in the three-month period ended March 31, 2008 included a loss of US$2.0 million relating to the embedded conversion option of the convertible notes issued by Omnicorp Limited ("Omnicorp").

Other Income

Other income increased US$0.4 million, from US$0.3 million in the three-month period ended March 31, 2007 to US$0.7 million in the three-month period ended March 31, 2008. This increase was primarily due to the accretion of convertible notes of Omnicorp during the three-month period ended March 31, 2008.

Provision for Income Taxes

Provision for income taxes was US$2.3 million in the three-month period ended March 31, 2007 compared to US$4.3 million in the three-month period ended March 31, 2008. This increase was primarily due to the adoption of a new accounting policy for uncertainty in income tax. For more information on this new accounting policy, see "— Change in Accounting Policies — Income Taxes."

Net Income from Continuing Operations

As a result of the foregoing, our net income from continuing operations increased 33.4%, from US$11.7 million in the three-month period ended March 31, 2007 to US$15.6 million in the three-month period ended March 31, 2008. Our net profit margin from continuing operations increased from 10.4% in the three-month period ended March 31, 2007 to 11.5% in the three-month period ended March 31, 2008.

Net Loss from Discontinued Operations

Our net loss from discontinued operations increased US$0.9 million, from US$0.2 million in the three-month period ended March 31, 2007 to US$1.1 million in the three-month period ended March 31, 2008. This increase was due primarily to a decrease in the volume of wood chips sold and the adoption of a new accounting policy for uncertainty in income taxes. For more information on this new accounting policy, see "— Change in Accounting Policies — Income Taxes."

Comparison of the Years Ended December 31, 2006 and 2007

Revenue

Our revenue increased 28.5%, from US$555.5 million in the year ended December 31, 2006 to US$713.9 million in the year ended December 31, 2007. The increase was primarily due to increased sales of standing timber and manufacturing and other operations, partially offset by a decrease in the sales of imported wood products in the year ended December 31, 2007.

Wood Fiber Operations Revenue

Revenue from wood fiber operations increased 27.1%, from US$531.4 million in the year ended December 31, 2006 to US$675.5 million in the year ended December 31, 2007. This increase was primarily due to increased sales of standing timber, partially offset by decreased sales of imported wood products and wood logs.

Revenue From Plantation Fiber. Revenue from sales of standing timber increased 47.9%, from US$352.6 million in the year ended December 31, 2006 to US$521.5 million in the year ended December 31, 2007. In the year ended December 31, 2006, we sold approximately 111,367 hectares of standing timber at an average selling price of approximately US$3,166 per hectare, compared to approximately 146,037 hectares at an average selling price of approximately US$3,571 per hectare in the year ended December 31, 2007. The increase in the average selling price in the year ended December 31, 2007 was primarily attributable to the higher proportion of sales of purchased plantations to total sales, which had a higher yield and therefore a higher average selling price per hectare. Plantation fiber sales comprised 63.5% of total revenue in the year ended December 31, 2006, compared to 73.1% in the year ended December 31, 2007, which reflected our business focus on growing our timber plantation operations. Included in our sales of fiber from standing timber were the sales of logs harvested from our plantations in Hunan Province in the amount of US$6.2 million in the year ended December 31, 2007. There were no such sales of logs from our plantations in Hunan Province in the year ended December 31, 2006.

Revenue From Other Fiber. Revenue from other fiber decreased 13.9%, from US$178.9 million (representing 32.2% of our total revenue) in the year ended December 31, 2006 to US$154.0 million (representing 21.6% of our total revenue) in the year ended December 31, 2007. This decrease was due to the decrease in revenue from sales of imported wood products, partially offset by an increase in sales of wood logs.

Revenue from sales of imported wood products decreased 15.5%, from US$178.4 million in the year ended December 31, 2006 to US$150.7 million in the year ended December 31, 2007. This decrease was primarily due to a lower sales volume relating to increased Russian log export duties. Imported wood products sales comprised 32.1% of total revenue in the year ended December 31, 2006, compared to 21.1% in the year ended December 31, 2007.

Revenue from sales of wood logs increased US$2.7 million, from US$0.5 million in the year ended December 31, 2006 to US$3.2 million in the year ended December 31, 2007. The increase was primarily due to the increased sales volume of logs from Inner Mongolia. Wood log sales comprised 0.1% of total revenue in the year ended December 31, 2006, compared to 0.4% in the year ended December 31, 2007.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 59.8% from US$24.0 million in the year ended December 31, 2006 to US$38.4 million in the year ended December 31, 2007. This increase was primarily due to the increased sales volume of engineered wood flooring. Revenue from manufacturing and other operations comprised 4.3% of total revenue in the year ended December 31, 2006, compared to 5.4% in the year ended December 31, 2007.

Cost of Sales

Our cost of sales increased 23.7%, from US$380.5 million in the year ended December 31, 2006 to US$470.8 million in the year ended December 31, 2007. The increase in cost of sales was primarily due to increased sales volumes of standing timber, wood logs and manufacturing products.

Wood Fiber Operations Cost of Sales

Wood fiber operations cost of sales increased 21.2%, from US$358.2 million in the year ended December 31, 2006 to US$434.1 million in the year ended December 31, 2007. This increase was primarily due to increased sales of standing timber and wood logs, partially offset by decreased sales of imported wood products.

Cost of Sales of Plantation Fiber. Plantation fiber cost of sales increased 54.5%, from US$184.4 million in the year ended December 31, 2006 to US$284.8 million in the year ended December 31, 2007. This increase reflected primarily the 17.8% increase in cost of sales per hectare of standing timber from US$1,656 per hectare in the year ended December 31, 2006 to US$1,950 per hectare in the year ended December 31, 2007. This increase in cost of sales per hectare reflected the higher proportion of hectares of purchased tree plantations to total sales of standing timber in the year ended December 31, 2007, as standing timber from our purchased tree plantations generally had a higher average cost per hectare compared to our other available sources of standing timber.

Cost of Sales of Other Fiber. Cost of sales of other fiber decreased 14.0%, from US$173.8 million in year ended December 31, 2006 to US$149.3 million in the year ended December 31, 2007. This decrease was due to the decrease in the cost of sales of imported wood products, partially offset by an increase in the cost of sales of wood logs.

Imported wood products cost of sales decreased 15.5%, from US$173.3 million in the year ended December 31, 2006 to US$146.4 million in the year ended December 31, 2007. This decrease reflected primarily the decrease in the sales volumes of our imported log trading business.

Wood logs cost of sales increased US$2.4 million, from US$0.5 million in the year ended December 31, 2006 to US$2.9 million in the year ended December 31, 2007. This increase was primarily due to sales of logs from Inner Mongolia. There were no sales of logs from Inner Mongolia in the year ended December 31, 2006.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 64.1% from US$22.3 million in the year ended December 31, 2006 to US$36.7 million in the year ended December 31, 2007. This increase was primarily due to increased sales volume of engineered wood flooring.

Gross Profit

Our gross profit increased 38.9%, from US$175.0 million in the year ended December 31, 2006 to US$243.0 million in the year ended December 31, 2007. Our gross profit margin (gross profit as a percentage of total revenue) increased from 31.5% in the year ended December 31, 2006 to 34.0% in the year ended December 31, 2007. This increase was primarily due to the higher proportion of sales of standing timber, which generally earn a higher gross profit margin than our other business segments.

Wood Fiber Operations Gross Profit

Wood fiber operations gross profit margin increased from 32.6% in the year ended December 31, 2006 to 35.7% in the year ended December 31, 2007.

Gross Profit Margin from Sales of Plantation Fiber. Gross profit margin from sales of standing timber decreased from 47.7% in the year ended December 31, 2006 to 45.4% in the year ended December 31, 2007. This decrease was primarily due to a lower yield of plantations sold in the year ended December 31, 2007 compared to such yield in the year ended December 31, 2006.

Gross Profit Margin from Sales of Other Fiber. Gross profit margin from sales of other fiber increased from 2.9% in the year ended December 31, 2006 to 3.0% in the year ended December 31, 2007.

Gross profit margin from sales of imported wood products remained stable at 2.9% for the years ended December 31, 2006 and 2007.

Gross profit margin from sales of wood logs increased from 2.2% in the year ended December 31, 2006 to 8.8% in the year ended December 31, 2007. This increase was primarily due to sales of logs from Inner Mongolia which commanded higher margin.

Manufacturing and Other Operations Gross Profit

Gross profit margin from manufacturing and other operations decreased from 7.1% in the year ended December 31, 2006 to 4.6% in the year ended December 31, 2007. This decrease was primarily due to increased cost of production of manufacturing plants in the year ended December 31, 2007.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased 12.2%, from US$35.9 million in the year ended December 31, 2006 to US$40.2 million in the year ended December 31, 2007, reflecting primarily expenses relating to an additional staff complement and the establishment of new companies.

Depreciation and Amortization

Depreciation and amortization increased 34.9%, from US$4.0 million in the year ended December 31, 2006 to US$5.4 million in the year ended December 31, 2007, which reflected primarily increased depreciation charges for our manufacturing plants in connection with increased capital assets in the year ended December 31, 2007.

Income from Operations

Our income from operations increased 46.1%, from US$135.1 million in the year ended December 31, 2006 to US$197.5 million in the year ended December 31, 2007, due to the factors discussed above. Our income from operations as a percentage of revenue increased from 24.3% in the year ended December 31, 2006 to 27.7% in the year ended December 31, 2007.

Interest Expense

Our interest expense increased 17.7%, from US$37.3 million in the year ended December 31, 2006 to US$44.0 million in the year ended December 31, 2007. This increase was primarily due to partial drawdown of our Syndicated Term Loan in the second quarter of the year ended December 31, 2006 and to the reclassification of amortization of deferred financing cost to interest expense in the year ended December 31, 2007. For additional information on the Syndicated Term Loan, see "Description of Other Indebtedness — Syndicated Term Loan."

Interest Income

Our interest income increased 134.1%, from US$6.5 million in the year ended December 31, 2006 to US$15.2 million in the year ended December 31, 2007. This increase was primarily due to higher cash and cash equivalents and short-term deposits from the financings completed in the year ended December 31, 2006 and interest income earned on the loan to Mandra Forestry.

Exchange Gains

Exchange gains increased US$8.7 million from US$3.7 million in the year ended December 31, 2006 to US$12.4 million in the year ended December 31, 2007. This increase was due to the appreciation of the Canadian dollar against the U.S. dollar in the year ended December 31, 2007, since we held Canadian dollars representing the proceeds of a public offering of 15,900,000 Common Shares in Canada which was completed in the year ended December 31, 2007.

Write-down of Capital Assets

The write-down of capital assets in the year ended December 31, 2007 was US$20.8 million, representing write-down of certain manufacturing facilities to fair market value due to continued losses over the years. Write-down of capital assets was approximately US$0.9 million in the year ended December 31, 2006.

Loss on Changes in Fair Value of Financial Instruments

The loss on changes in fair value of financial instruments in the year ended December 31, 2007 increased US$1.8 million from US$1.2 million in the year ended December 31, 2006 to US$3.0 million in the year ended December 31, 2007. This increase was primarily due to the fair value increase in our currency swap contract. For additional information in this swap contract, see "— Financing Arrangements and Contractual Obligations."

Other Income

Other income increased US$1.9 million from US$1.3 million in the year ended December 31, 2006 to US$3.2 million in the year ended December 31, 2007. This increase was primarily due to the gain on disposal of investment in Greenheart Resources Holdings Limited ("Greenheart").

Provision for Income Taxes

Provision for income taxes was US$13.2 million in the year ended December 31, 2006 compared to US$18.0 million in the year ended December 31, 2007. The increase was primarily due to the adoption of a new accounting policy for uncertainty in income tax. For more information on this new accounting policy, see "— Change in Accounting Policies — Income Taxes."

Net Income from Continuing Operations

As a result of the foregoing, our net income from continuing operations for the year ended December 31, 2007 increased 54.5%, from US$92.2 million in the year ended December 31, 2006 to US$142.4 million in the year ended December 31, 2007. Our net profit margin from continuing operations increased from 16.6% in the year ended December 31, 2006 to 20.0% in the year ended December 31, 2007.

Net Income from Discontinued Operations

Our net income from discontinued operations decreased US$11.5 million, from US$21.3 million in the year ended December 31, 2006 to US$9.8 million in the year ended December 31, 2007. This decrease was due primarily to a decrease in the sales volume of wood chips and the adoption of a new accounting policy for uncertainty of income taxes. For more information on this new accounting policy, see "— Change in Accounting Policies — Income Taxes."

Comparison of the Years Ended December 31, 2005 and 2006

Revenue

Our revenue increased 62.8%, from US$341.3 million in the year ended December 31, 2005 to US$555.5 million in the year ended December 31, 2006. This increase was primarily due to increased sales of standing timber and imported wood products.

Wood Fiber Operations Revenue

Revenue from wood fiber operations increased 61.6%, from US$328.8 million in the year ended December 31, 2005 to US$531.4 million in the year ended December 31, 2006. This increase was primarily due to increased sales of standing timber and imported wood products, partially offset by decreased sales of wood logs.

Revenue From Plantation Fiber. Revenue from sales of plantation fiber increased 46.4%, from US$240.8 million in the year ended December 31, 2005 to US$352.6 million in the year ended December 31, 2006. In the year ended December 31, 2005, we sold approximately 108,013 hectares of standing timber at an average selling price of approximately US$2,230 per hectare, compared to approximately 111,367 hectares at an average selling price of approximately US$3,166 per hectare in the year ended December 31, 2006. The increase of 42.0% in the average selling price of standing timber in the year ended December 31, 2006 was primarily attributable to the higher proportion of sales of standing timber from our purchased plantations to total sales, which had a higher yield and therefore higher selling price per hectare. Standing timber sales comprised 70.6% of total revenue in the year ended December 31, 2005, compared to 63.5% in the year ended December 31, 2006.

Revenue From Other Fiber. Revenue from other fiber increased US$90.9 million, from US$88.0 million (representing 25.8% of our total revenue) in the year ended December 31, 2005 to US$178.9 million (representing 32.2% of our total revenue) in the year ended December 31, 2006. This increase was primarily due to the increase in revenue from sales of imported wood products, partially offset by a decrease in sales of wood logs.

Revenue from sales of imported wood products increased US$94.3 million, from US$84.1 million in the year ended December 31, 2005 to US$178.4 million in the year ended December 31, 2006. This increase was primarily due to an increased demand for imported logs. Imported wood products sales comprised 24.7% of total revenue in the year ended December 31, 2005, compared to 32.1% in the year ended December 31, 2006.

Revenue from sales of logs decreased 87.1%, from US$3.9 million in the year ended December 31, 2005 to US$0.5 million in the year ended December 31, 2006. This decrease was primarily due to decreased sales volume of wood logs.

Revenue from Manufacturing and Other Operations

Revenue from manufacturing and other operations increased 92.8% from US$12.5 million in the year ended December 31, 2005 to US$24.0 million in the year ended December 31, 2006. This increase was primarily due to increased sales volume of engineered wood flooring. Revenue from manufacturing and other operations comprised 3.7% of total revenue in the year ended December 31, 2005, compared to 4.3% in the year ended December 31, 2006.

Cost of Sales

Our cost of sales increased 60.4%, from US$237.2 million in the year ended December 31, 2005 to US$380.5 million in the year ended December 31, 2006. This increase was primarily due to increased sales volumes of standing timber, imported wood products and manufacturing products.

Wood Fiber Operations Cost of Sales

Wood fiber operations cost of sales increased 58.7%, from US$225.7 million in the year ended December 31, 2005 to US$358.2 million in the year ended December 31, 2006. This increase was primarily due to increased cost of sales of standing timber and imported wood products, partially offset by decreased cost of sales of wood logs.

Cost of Sales of Plantation Fiber. Plantation fiber cost of sales increased 31.5%, from US$140.2 million in the year ended December 31, 2005 to US$184.4 million in the year ended December 31, 2006. This increase reflected primarily the 27.6% increase in cost of sale per hectare of standing timber from US$1,298 per hectare in the year ended December 31, 2005 to US$1,656 per hectare in the year ended December 31, 2006. This increase in cost of sale per hectare was due to the substantially higher proportion of sales of purchased tree plantations to total sales of standing timber in the year ended December 31, 2006 (i.e., 82.7% of total standing timber sales in the year ended December 31, 2006 compared to 55.8% in the year ended December 31, 2005), which had a higher average cost per hectare compared to our other available sources of standing timber.

Cost of Sales of Other Fiber. Cost of sales of other fiber increased US$88.3 million, from US$85.5 million in the year ended December 31, 2005 to US$173.8 million in the year ended December 31, 2006. This increase was due to increased cost of sales of imported wood products, partially offset by decreased cost of sales of wood logs.

Imported wood products cost of sales increased US$91.4 million, from US$81.9 million in the year ended December 31, 2005 to US$173.3 million in the year ended December 31, 2006. This increase reflected primarily the increase in the sales volumes of our imported log trading business.

Wood logs cost of sales decreased 86.8%, from US$3.6 million in the year ended December 31, 2005 to US$0.5 million in the year ended December 31, 2006. This decrease was primarily due to decreased sales volume of wood logs.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 94.8%, from US$11.5 million in the year ended December 31, 2005 to US$22.3 million in the year ended December 31, 2006. This increase was primarily due to increased sales volumes of engineered wood flooring.

Gross Profit

Our gross profit increased 68.2%, from US$104.0 million in the year ended December 31, 2005 to US$175.0 million in the year ended December 31, 2006. Our gross profit margin (gross profit as a percentage of total revenue) increased from 30.5% in the year ended December 31, 2005 to 31.5% in the year ended December 31, 2006. This increase was primarily due to the higher proportion of sales of standing timber, which generally earn a higher gross profit margin than our other business segments.

Wood Fiber Operations Gross Profit

Wood fiber operations gross profit margin increased from 31.3% in the year ended December 31, 2005 to 32.6% in the year ended December 31, 2006.

Gross Profit Margin from Sales of Plantation Fiber. Gross profit margin from sales of plantation fiber increased from 41.8% in the year ended December 31, 2005 to 47.7% in the year ended December 31, 2006, which was primarily due to a change in the sales mix of standing timber. In the year ended December 31, 2005, we sold higher volumes of standing timber from the Heyuan Pine Undertaking at a lower margin compared to the year ended December 31, 2006. Under the Heyuan Pine Undertaking, we were granted a right to purchase mature trees in Heyuan, Guangdong Province by a PRC CJV partner. This arrangement expired on February 12, 2006.

Gross Profit Margin from Sales of Other Fiber. Gross profit margin from sales of other fiber increased from 2.7% in the year ended December 31, 2005 to 2.9% in the year ended December 31, 2006.

Gross profit margin from sales of imported wood products increased from 2.7% for the year ended December 31, 2005 to 2.9% for the year ended December 31, 2006.

Gross profit margin from sales of wood logs decreased from 3.9% in the year ended December 31, 2005 to 2.2% in the year ended December 31, 2006. This decrease was primarily due to decreased selling prices.

Gross Profit Margin from Manufacturing and Other Operations

Gross profit margin from manufacturing and other operations decreased from 8.0% in the year ended December 31, 2005 to 7.1% in the year ended December 31, 2006. This decrease was primarily due to increased cost of production at our particleboard plant in the year ended December 31, 2006.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased 73.9%, from US$20.6 million in the year ended December 31, 2005 to US$35.9 million in the year ended December 31, 2006, reflecting primarily a non-recurring compensation cost of US$5.4 million relating to the termination of employment of one of our executive officers in December 2006 and expenses relating to an additional staff complement.

Depreciation and Amortization

Depreciation and amortization increased 28.3%, from US$3.1 million in the year ended December 31, 2005 to US$4.0 million in the year ended December 31, 2006. This increase primarily reflected increased depreciation charges for our flooring manufacturing plants in connection with increased fixed assets in the year ended December 31, 2006.

Income from Operations

Our income from operations increased 68.2%, from US$80.3 million in the year ended December 31, 2005 to US$135.1 million in the year ended December 31, 2006, due to the factors discussed above. Our income from operations as a percentage of revenue increased from 23.5% in the year ended December 31, 2005 to 24.3% in the year ended December 31, 2006.

Interest Expense

Our interest expense increased 28.8%, from US$29.0 million in the year ended December 31, 2005 to US$37.3 million in the year ended December 31, 2006. This increase was primarily due to interest incurred and charged in connection with our US$150.0 million Syndicated Term Loan drawdown during the year ended December 31, 2006. For additional information on the Syndicated Term Loan, see "Description of Other Indebtedness — Syndicated Term Loan."

Interest Income

Our interest income increased 55.2%, from US$4.2 million in the year ended December 31, 2005 to US$6.5 million in the year ended December 31, 2006, primarily due to increased cash and cash equivalents and short-term deposits held throughout the year ended December 31, 2006.

Exchange Gains

Exchange gains increased US$2.4 million, from US$1.3 million in the year ended December 31, 2005 to US$3.7 million in the year ended December 31, 2006, due to the appreciation of the Renminbi against the U.S. dollar in the year ended December 31, 2006.

Loss on Changes in Fair Value of Financial Instruments

Loss on changes in fair value of financial instruments increased US$0.6 million from US$0.6 million in the year ended December 31, 2005 to US$1.2 million in the year ended December 31, 2006. This increase was primarily due to expenses incurred in the year ended December 31, 2006, relating to interest rate hedging in connection with the 2004 Senior Notes.

Amortization and Deferred Financing Costs

Amortization and deferred financing costs increased 35.9%, from US$1.3 million in the year ended December 31, 2005 to US$1.8 million in the year ended December 31, 2006. This increase was primarily due to higher amortization of deferred financing costs relating to the Syndicated Term Loan we entered into in the year ended December 31, 2006.

Other Income

Other income increased 6.1%, from US$1.2 million in the year ended December 31, 2005 to US$1.3 million in the year ended December 31, 2006.

Provision for Income Taxes

Provision for income taxes was US$9.0 million in the year ended December 31, 2005, compared to US$13.2 million in the year ended December 31, 2006. The increase was primarily due to the adoption of a new accounting policy for uncertainty in income tax. For more information on this new accounting policy, see "— Change in Accounting Policies — Income Taxes."

Net Income from Continuing Operations

As a result of the foregoing, our net income from continuing operations for the year ended December 31, 2006 increased 95.8%, from US$47.1 million in the year ended December 31, 2005 to US$92.2 million in the year ended December 31, 2006. Our net profit margin from continuing operations increased from 13.8% in the year ended December 31, 2005 to 16.6% in the year ended December 31, 2006.

Net Income from Discontinued Operations

Our net income from discontinued operations decreased US$7.8 million, from US$29.1 million in the year ended December 31, 2005 to US$21.3 million in the year ended December 31, 2006. This decrease was due primarily to a decreased sales volume of wood chips and the adoption of a new accounting policy for uncertainty of income taxes. For more information on this new accounting policy, see "— Change in Accounting Policies — Income Taxes."

Liquidity and Capital Resources

Our primary sources of funding have been short-term and long-term borrowings, equity offerings and cash provided by operating activities. Our primary uses of funding have been to obtain new tree plantations either in the form of standing timber or logs, to develop our existing tree plantations, for imported logs trading, for working capital requirements, to service our short-term and long-term borrowings and to invest in and develop our manufacturing facilities.

As of March 31, 2008, we had cash, cash equivalents and short-term deposits of US$259.3 million, and approximately US$106 million of unutilized bank credit facilities. As of March 31, 2008, our total debt was US$493.2 million, compared with US$497.4 million at December 31, 2007.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the periods indicated.

	Year Ended December 31,			Three-Month Period Ended March 31,	
	2005[1] (Restated)	2006[1] (Restated)	2007	2007[1] (Restated)	2008
			(US$ millions)		
Net cash provided by operations	194.0	280.7	455.5	35.8	63.1
Net change in working capital	(41.2)	(16.5)	27.0	10.5	(31.1)
Cash flows from operating activities of continuing operations	152.8	264.2	482.5	46.3	32.0
Cash flows used in investing activities	(301.4)	(423.0)	(692.3)	(80.1)	(122.0)
Cash flows from (used in) financing activities	11.2	176.2	376.9	1.1	(9.9)
Net increase (decrease) in cash and cash equivalents	(92.7)	44.5	175.8	(28.6)	(98.5)

Note:

(1) Results for the years ended December 31, 2005 and 2006, and the three-month period ended March 31, 2007, have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes, and the classification of wood chips and commission operations to discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See notes 2 and 18 to our audited consolidated financial statements as at and for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this Offering Memorandum. See "— Components of Income Statement Items" for a detailed description of our revenue components.

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities of continuing operations decreased from US$46.3 million in the three-month period ended March 31, 2007 to US$32.0 million in the three-month period ended March 31, 2008. This decrease mainly resulted from an increase in the cash used for working capital items, specifically accounts receivable of US$22.6 million, which increased significantly during the three-month period ended March 31, 2008.

Cash flows from operating activities of continuing operations increased 82.6% to US$482.5 million in the year ended December 31, 2007 from US$264.2 million in the year ended December 31, 2006. The increase was primarily due to an increase in cash provided by operations resulting from increased sales of standing timber.

Cash flows from operating activities of continuing operations were US$152.8 million in the year ended December 31, 2005. Increased in cash flows from operating activities of continuing operations in the year ended December 31, 2006 were primarily due to increased sales of standing timber in comparison to sales of standing timber in the year ended December 31, 2005.

Cash Flows Used in Investing Activities

Cash flows used in investing activities increased from US$80.1 million in the three-month period ended March 31, 2007 to US$122.0 million in the three-month period ended March 31, 2008. In the three-months periods ended March 31, 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities. Our cash outlays for our tree plantations amounted to US$77.3 million and US$83.6 million in the three-month periods ended March 31, 2007 and 2008, respectively. Our cash outlays for our manufacturing facilities and other capital assets amounted to US$1.0 million and US$10.0 million in the three-month periods ended March 31, 2007 and 2008, respectively. The increase in non-pledged short-term deposits in the three-month period ended March 31, 2008 amounted to US$3.9 million compared to US$1.8 million in the three-month period ended March 31, 2007. In addition, we paid US$1.9 million for a business acquisition and US$22.4 million in acquisitions of other assets in the three-month period ended March 31, 2008.

Cash flows used in investing activities increased 63.7%, from US$423.0 million in the year ended December 31, 2006 to US$692.3 million in the year ended December 31, 2007. In the years ended December 31, 2006 and 2007, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities. Our cash outlays for our tree plantations amounted to US$415.1 million in the year ended December 31, 2006 and US$640.3 million in the year ended December 31, 2007. Our cash outlays for our manufacturing facilities and other capital assets amounted to US$10.0 million in the year ended December 31, 2006 and US$12.6 million in the year ended December 31, 2007. The increase in non-pledged short-term deposits in the year ended December 31, 2007 amounted to US$8.7 million compared to a decrease in non-pledged short-term deposits of US$11.9 million in the year ended December 31, 2006. In addition, we invested US$6.0 million to acquire approximately 13% equity interest in Greenheart and US$1.8 million to acquire certain convertible notes issued by Omnicorp in the year ended December 31, 2007. We also paid US$23.6 million as prepaid plantation land leases in the year ended December 31, 2007.

Cash flows used in investing activities were US$301.4 million in the year ended December 31, 2005. In the year ended December 31, 2005, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities. Our cash outlays for our tree plantations amounted to US$265.2 million in the year ended December 31, 2005. Our cash outlays for our manufacturing facilities and other capital assets amounted to US$16.6 million in the year ended December 31, 2005. The increase in non-pledged short-term deposits in the year ended December 31, 2005 amounted to US$5.2 million. In addition, we provided a subordinated loan of US$15.0 million to Mandra Forestry in the second quarter of 2005.

Cash Flows (Used in) From Financing Activities

Cash flows from financing activities were US$1.1 million in the three-month period ended March 31, 2007, compared with a cash outflow used in financing activities of US$9.9 million in the three-month period ended March 31, 2008. In the three-month period ended March 31, 2007, cash flows from financing activities consisted of an increase in bank indebtedness of US$0.9 million and a decrease in pledged short-term deposits of US$1.1 million, offset by payments on derivative financial instruments of US$0.9 million. In the three-month period ended March 31, 2008, cash flows used in financing activities consisted of an increase in long-term debt of US$0.9 million, offset by an increase in pledged short-term deposits of US$1.9 million and payments on derivative financial instruments of US$2.1 million, and a decrease in bank indebtedness of US$6.8 million.

Cash flows from financing activities were US$176.2 million in the year ended December 31, 2006, compared with US$376.9 million in the year ended December 31, 2007. In the year ended December 31, 2006, cash flows from financing activities consisted of an increase in bank indebtedness of US$29.2 million and long-term debt of US$150.0 million and a decrease in pledged short-term deposits of US$0.4 million and net proceeds from the issuance of Common Shares of US$0.5 million offset by an increase in deferred financing costs of US$3.0 million and payments on derivative financial instruments of US$0.9 million. In the year ended December 31, 2007, cash flows from financing activities consisted of net proceeds from the issuance of Common Shares of US$389.9 million and a decrease in pledged short-term deposits of US$6.2 million offset by payments on derivative financial instruments of US$2.2 million and a decrease in bank indebtedness of US$17.0 million.

Cash flows from financing activities were US$11.2 million in the year ended December 31, 2005. In the year ended December 31, 2005, cash flows from financing activities consisted of an increase in bank indebtedness of US$12.5 million, offset by a decrease in pledged short-term deposits of US$1.0 million and payments on derivative financial instruments of US$0.3 million.

Financing Arrangements and Contractual Obligations

As of March 31, 2008, we had secured and unsecured short-term liabilities of US$49.9 million, comprising US$33.2 million of short-term bank loans and US$16.7 million of trust receipt loans. We had long-term debt of US$443.3 million as of such date. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of March 31, 2008, we had US$158.0 million of short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements of which US$52.0 million was being utilized. Interest is payable on these short-term borrowings at a weighted average rate of 7.5% per annum, and the borrowings are either repayable on demand or due in less than one year. As of March 31, 2008, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately US$7.1 million and certain bank deposits of US$2.2 million.

Long-Term Debt

As of March 31, 2008, our material long-term indebtedness consisted of the following:

Loan	March 31, 2008
	(US$ thousands)
2004 Senior Notes	300,000
Syndicated Term Loan	150,000
Bank Loans	855
Unamortized deferred financing costs	(7,545)
Total	**443,310**

2004 Senior Notes. On August 17, 2004, we issued the 2004 Senior Notes. The 2004 Senior Notes bear interest at a rate of 9.125% per annum, with interest payable in semi-annual installments. Their maturity date is August 17, 2011. The 2004 Senior Notes are (i) our general obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the Notes (as well as the Initial Non-Guarantor Subsidiaries) on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2004 Senior Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) secured by the pledge of the shares of the Subsidiary Guarantors and the Initial Non-Guarantor Subsidiaries. For additional information on the 2004 Senior Notes, see "Description of Other Indebtedness — 2004 Senior Notes."

On August 16, 2004, we entered into a currency swap contract to meet interest payments at US$27.4 million per annum over the years ending December 31, 2008 and 2009. The U.S. dollars will be used to fully pay our interest payments on the 2004 Senior Notes due on the relevant interest payment dates to and including August 17, 2009.

Total interest expense on the 2004 Senior Notes for the three-month period ended March 31, 2008 was US$7.2 million.

Syndicated Term Loan. We entered into the US$150.0 million Syndicated Term Loan on February 24, 2006 with a syndication of banks. This Syndicated Term Loan carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on our ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 0.8% per annum. Under the Syndicated Term Loan, consolidated EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated income (except depletion of timber holdings), less all other non-cash items increasing consolidated net income. The Syndicated Term Loan is guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the Notes (as well as the Initial Non-Guarantor Subsidiaries) and ranks at least *pari passu* with the claims of all other unsecured, unsubordinated creditors of us and such Subsidiary Guarantors, except for obligations mandatorily preferred by law applying to companies generally. This facility has been primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The Syndicated Term Loan was fully drawn down in 2006. Principal of US$37.5 million will be repayable in 2010 and the remaining balance will be repayable in 2011. Principal of US$37.5 million will be repayable in 2010, and the remaining balance in 2011. Total interest on the Syndicated Term Loan was US$2.4 million at March 31, 2008. For additional information on the Syndicated Term Loan, see "Description of Other Indebtedness — Syndicated Term Loan."

Bank Loans. Our bank loans consist of a bank loan one of our subsidiaries entered into with a PRC bank that bears an interest rate of 8.3% per annum and matures on December 9, 2010. The bank loan is secured by timber holdings which have a net book value at March 31, 2008 of US$1.2 million. Total interest expense on this bank loan for the three-month period ended March 31, 2008 was US$7,000.

Under the terms of our 2004 Senior Notes and Syndicated Term Loan, we are subject to significant restrictions on our ability to incur additional indebtedness and make investments. See "Description of Other Indebtedness."

Other Contractual Obligations

As of March 31, 2008, we had other contractual obligations relating to: (i) approximately US$15.5 million in respect of capital contributions to our WFOEs; (ii) US$25.3 million of capital commitments with respect to buildings, timber holdings, and plant and machinery; (iii) US$24.4 million of purchase commitments, mainly regarding logs; (iv) commitments under operating leases of approximately US$77.8 million; and (v) US$443.3 million relating to the 2004 Senior Notes, the Syndicated Term Loan and bank loans.

Scheduled Maturities of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of March 31, 2008:

	Payment Due by Period				
	Total	Due in less than one year	Due in two to three years	Due in four to five years	Due after five years
	(US$ thousands)				
Long-term debt(1)	443,310	—	75,855	367,455	—
Capital contributions	15,480	15,480	—	—	—
Capital commitments(2)	25,337	25,337	—	—	—
Purchase commitments	24,369	24,369	—	—	—
Operating leases(3)	77,768	22,871	4,948	4,440	45,509
Total contractual cash obligations	586,264	88,057	80,803	371,895	45,509

Notes:

(1) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.

(2) Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.

(3) These represent mainly leases of plantation land.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of March 31, 2008, we had provided guarantees of approximately US$130.4 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

Offerings of Common Shares

On April 10, 2007, we issued 25.4 million Common Shares 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 Cdn.$232 million.

On June 12, 2007, we issued 15.9 million Common Shares at Cdn.$12.65 per share for gross proceeds of approximately Cdn.$201 million in a public offering in Canada.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the years ended December 31, 2005, 2006 and 2007 and the three-month periods ended March 31, 2007 and 2008:

	Year Ended December 31,			Three-Month Period Ended March 31,	
	2005	2006	2007	2007	2008
	(US$ millions)				
Tree Acquisition: Purchased Plantations	180.0	365.5	623.7	73.6	77.9
Tree Acquisition: Heyuan Pine Undertaking	87.6	17.7	—	—	—
Replanting and Maintenance of Plantations	15.5	24.0	23.3	3.4	4.4
Panel Manufacturing and Other Operations	16.6	9.6	12.6	1.0	10.0

Capital expenditures incurred in relation to tree plantations were for obtaining additional purchased tree plantations and planted tree plantations, and a variety of plantation management costs, including land lease costs and the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures in relation to the manufacturing plants were for investing in manufacturing plants, including the costs of constructing the facilities and purchasing and installing production line equipment.

Under the master agreements entered into in September and December 2006 to acquire approximately 400,000 hectares of plantation trees for 14 years in Hunan, we have acquired 64,053 hectares of plantation trees for US$267.0 million as of March 31, 2008.

Under the master agreement entered into in March 2007 to acquire approximately 200,000 hectares of standing timber for 10 years in Yunnan, we have acquired 10,438 hectares of standing timber for US$88.1 million as of March 31, 2008.

Under the master agreement entered into in July 2006 to secure at least 1.5 million cubic meters of wood fiber annually for 12 years in Inner Mongolia, we have acquired 17,000 cubic meters of wood fiber as of March 31, 2008.

Under the master agreement entered into on December 10, 2007, to acquire approximately 150,000 hectares of plantation trees for five years in Guangxi, we have acquired 22,966 hectares of standing timber for US$60.9 million as of March 31, 2008.

For a further description of the terms of the master agreements that we have entered into to acquire plantation trees or standing timber, see "Business — Our Wood Fiber Operations — Purchased Tree Plantations" and "Tree Plantation Contractual Arrangements — Wood Fiber Purchase Agreements."

Tree plantations capital expenditures for 2008 are expected to exceed US$700 million, of which approximately US$82.3 million had already been incurred as at March 31, 2008. Capital expenditures in 2008 relating to the manufacturing operations are expected to be approximately US$30 million.

Without taking into account the expected net proceeds from this offering, it is expected that our cash flows from operations will be sufficient to fund most of our PRC capital expenditures in the year ending December 31, 2008.

Off-Balance Sheet Arrangements

We do not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, except for our currency swap contract (see "—Financing Arrangements and Contractual Obligations") which is fully accounted for in our financial statements included elsewhere in this Offering Memorandum, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of March 31, 2008. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

Related Party Transactions

Pursuant to their respective service agreements, we pay the salaries of certain executive officers in the form of consultancy fees to companies controlled by these executive officers. The consultancy fees incurred in the years ended December 31, 2006 and 2007, and for the quarter ended March 31, 2008, amounted to US$4.1 million, US$4.6 million, and US$152,000, respectively.

In addition, as of March 31, 2008, we owed an aggregate amount of US$4.0 million to these related parties.

Aging of Accounts Receivable

We recognize revenue from sales of standing timber when the buyer has signed the sales contract. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber up to 18 months to log and haul the timber from the plantations, and generally grant buyers a credit period of up to nine months from the date of the sales contract. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. In addition, we perform credit evaluation on customers as necessary and have monitoring processes intended to mitigate credit risk and maintain appropriate provisions for potential credit losses. We believe these measures mitigate our credit risks in our sales of standing timber. We generally grant our customers in our trading activities credit terms of 30 to 120 days with respect to domestic sales of imported logs and wood-based products. As a result, we may have large outstanding balances of accounts receivable with respect to sales of wood-based products and standing timber. The following table sets forth an aging analysis of our accounts receivable for the years ended December 31, 2005, 2006 and 2007 and for the three-month periods ended March 31, 2007 and 2008:

	Total Accounts Receivable	Aging Analysis 0 to 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	181 to 360 Days	Over One Year
	(US$ thousands)						
At December 31, 2005	114,960	50,187	38,695	22,546	3,030	502	—
At December 31, 2006	124,784	84,216	33,651	5,118	1,610	189	—
At December 31, 2007	105,329	81,980	6,006	13,360	3,704	279	—
At March 31, 2007	100,841	35,970	19,145	31,751	13,384	591	—
At March 31, 2008	134,560	95,949	2,777	14,774	19,797	1,263	—

Taxation

PRC WFOEs are governed by the Enterprise Income Tax Laws of the PRC （中華人民共和國企業所得税法） which came into effect on January 1, 2008 (the "New EIT Law") and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the New EIT Law, WFOEs are subject to enterprise income tax at an effective rate of 25% on taxable profits determined based on the income as reported in their statutory financial statements. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs engaged in agriculture and manufacturing are eligible for an exemption from state income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. Pursuant to the New EIT Law and relevant regulations, for enterprises which are entitled to the tax holiday under the old EIT law and if such tax holiday has not yet commenced, such tax holiday will be deemed to begin on January 1, 2008. The PRC WFOEs engaged in plantation operations which may be eligible for an exemption from income taxes under the New EIT Law. However, there are no detailed guidelines issued so far as to how the exemption can be applied and granted.

Our tax charges for the years ended December 31, 2005, 2006 and 2007 were US$9.0 million, US$13.2 million, and US$18.0 million and, respectively, which represented effective tax rates of 16.1%, 12.5%, and 11.2%, respectively. We believe we have made adequate tax provisions to meet our tax liabilities as they become due.

Market Risks

Exchange Rate Risk

We conduct our business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In the years ended December 31, 2006 and 2007, and in the three-month period ended March 31, 2008, 68.9%, 81.6% and 87.3% of our sales were received in Renminbi, respectively, and 31.1%, 18.4% and 12.7% of our sales were received in U.S. dollars and Hong Kong dollars, respectively. We translate our results of foreign operations into U.S. dollars. We expect in the future that substantially all of our sales will be in Renminbi. The majority of our operating expenses are denominated in Renminbi and Hong Kong dollars.

A portion of our revenue in Renminbi is converted into other currencies to meet foreign currency financial obligations denominated in currencies other than Renminbi. We have a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of U.S. dollars relative to other currencies will impact our reported net income. Such exchange rate fluctuations have historically not been material year on year relative to our overall earnings or financial position. We cannot predict the effect that currency exchange rate fluctuations may have on our U.S. dollar operating results or cash flows.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration for Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. We cannot predict nor give any assurance of the Renminbi's future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars, of our net assets, net profits and any declared dividends. We cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect our results of operations, financial condition and cash flows.

As of March 31, 2008, we had Renminbi-denominated bank accounts of RMB398.5 million (approximately US$56.8 million), U.S. dollar-denominated bank accounts of US$192.7 million, Canadian dollar-denominated bank accounts of Cdn.$7.8 million (approximately US$7.6 million), Hong Kong dollar-denominated bank accounts of HK$2.7 million (approximately US$0.3 million), and Euro-denominated bank accounts of €1.2 million (approximately US$1.9 million). We also had U.S. dollar- and Renminbi-denominated accounts receivable of US$15.0 million and RMB838.8 million (approximately US$119.6 million), respectively. In this paragraph, the translations into U.S. dollars were made using the noon buying rate in New York City for cable transfers payable in Renminbi, Canadian dollars, Hong Kong dollars and Euro, respectively, as certified for customs purposes by the Federal Reserve Bank of New York, on March 31, 2008. These rates were, RMB7.0120 to US$1.00, Cdn.$1.0275 to US$1.00, HK$7.7819 to US$1.00 and US$1.5805 to €1.00 on March 31, 2008.

We incurred foreign currency-denominated debt for capital expenditures primarily relating to the development and acquisition of our tree plantations and investment in our manufacturing plants. If the U.S. dollar devalues against any of these currencies, it would correspondingly increase our acquisition costs.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our bank indebtedness and syndicated notes. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at March 31, 2008, US$167.4 million or 33.9% of our total debt is subject to variations in interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding 12-month period, would have an impact on income after taxes for the period of approximately US$0.5 million. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk. We seek to mitigate our interest rate risk by managing our portfolio of variable and fixed rate debt, as well as managing the term to maturity.

We are also exposed to interest rate risk on cash equivalents. We do not use financial instruments to mitigate this risk.

Credit Risk

We are exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at March 31, 2008 included US$80.6 million due from three customers representing 59.9% of outstanding receivables. We undertake credit evaluations on customers as necessary and have monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically we have made arrangements with our debtors to settle amounts payable with respect to the purchase of standing timber on our behalf. As at March 31, 2008, US$21.1 million, or 15.7%, of accounts receivable were more than 90 days, which is generally consistent with historical aging profiles. We have no allowance for doubtful accounts for the three months ended March 31, 2008.

We are exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure. The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. We have deposited the cash equivalents in instruments that meet minimum requirements for quality and liquidity as stipulated by our Board of Directors. Our management believes the risk of loss to be remote.

Liquidity Risk

Liquidity risk is the risk that we may encounter difficulties in meeting obligations associated with financial liabilities. Our growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at March 31, 2008, we were holding cash and cash equivalents of US$230.2 million and had unutilized lines of credit of US$106.0 million. We believe that continued cash flow from operations in 2008 together with the cash and cash equivalents from previous equity financings will be sufficient to fund our requirements for investments in working capital, timber holdings and capital assets in 2008.

Commodity Price Risk

We are exposed to fluctuations in the prices of standing timber, wood chips and wood-based products. We import wood-based products from suppliers outside of the PRC. Such purchases are made at market prices. In addition, all our sales of standing timber, wood chips and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber, wood chips and wood-based products have a significant effect on our business, results of operation and financial condition.

We do not enter into any futures contracts to hedge our sales of standing timber and wood-based products.

Non-GAAP Financial Measures

We use EBITDA, Adjusted EBITDA and gross profit to provide additional information about our operating performance.

EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), for the period.

Adjusted EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), as well as depletion of timber holdings from cost of sales, for the period.

Gross profit for any period refers to our total revenue less cost of sales for the given period. Our gross profit margin for any period refers to our gross profit divided by our total revenue for the relevant period.

EBITDA, Adjusted EBITDA and gross profit are not measures of financial performance under either Canadian GAAP or U.S. GAAP. We believe that these measures are useful for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. We believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our business sector.

A reconciliation from net income from continuing operations to Adjusted EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Three-Month Period Ended March 31,	
	2005[1]	2006[1]	2007	2007[1]	2008
	(Restated)	(Restated)		(Restated)	
	(US$ thousands)				
Net income from continuing operations	47,100	92,212	142,431	11,706	15,614
Add/(less):					
Interest expense	28,994	37,340	43,960	11,114	10,571
Provision for income taxes	9,010	13,192	18,034	2,346	4,274
Depreciation and amortization	3,099	3,975	5,364	1,143	1,001
Other expenses/(income)[2]	(4,776)	(7,599)	(6,957)	(983)	4,097
EBITDA[3] (without depletion of timber holdings)	83,427	139,120	202,832	25,326	35,557
Add:					
Depletion of timber holdings included in cost of sales	140,204	177,730	284,808	21,625	38,054
Adjusted EBITDA[4] (with depletion of timber holdings)	223,631	316,850	487,640	46,951	73,611

Notes:

(1) Results for the years ended December 31, 2005 and 2006, and the three-month period ended March 31, 2007, have been restated to reflect the adoption of a new accounting policy for uncertainty in income tax, and the classification of wood chips and commission operations to discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See notes 2 and 18 to our audited consolidated financial statements as at and for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this Offering Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Components of Income Statement Items" for a detailed description of our revenue components.

(2) Other expenses include interest income, exchange/(gains) losses, loss on changes in fair value of financial instruments, other income, write-down of capital assets and amortization of deferred financing costs.

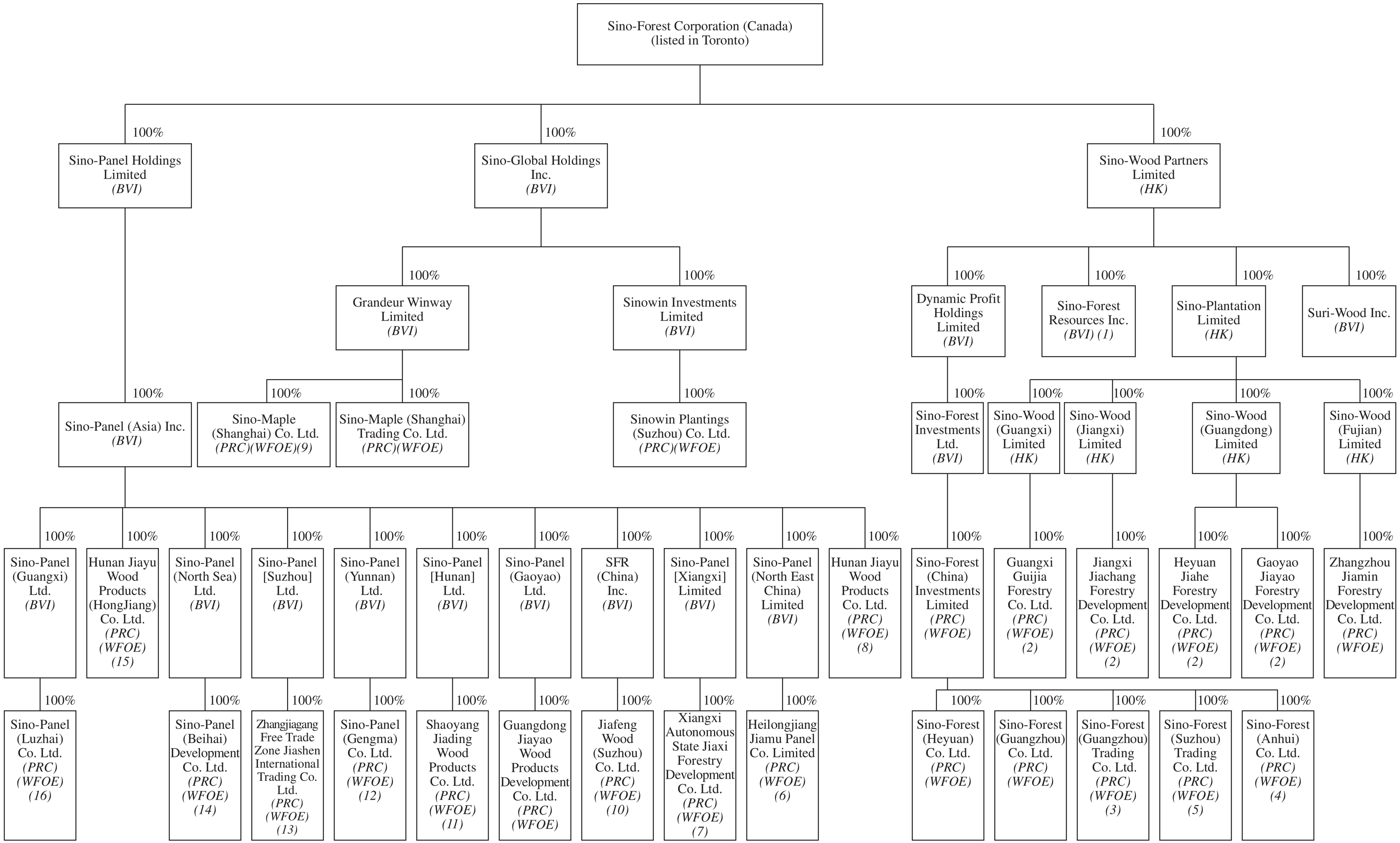
(3) EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

(4) Adjusted EBITDA for any period is defined as net income from continuing operations for the period after adding back interest expense, income taxes, depreciation and amortization and other expenses/(income), as well as depletion of timber holdings from cost of sales, for the period. Adjusted EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. Adjusted EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, Adjusted EBITDA may not be comparable to similar measures presented by other companies.

You should not consider our definition of EBITDA in isolation or construe it as an alternative to net income from continuing operations for the year/period or as an indicator of operating performance or any other standard measure under Canadian GAAP or U.S. GAAP. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

CORPORATE STRUCTURE

The following chart, which does not include certain non-material subsidiaries, shows our current corporate structure.



Notes:

(1) The trading activities of Sino-Forest Resources Inc. and Suri-Wood Inc. are conducted through AIs. Sino-Forest Resources Inc. engages in standing timber sales and import of wood-based products. Suri-Wood Inc. engages in standing timber and engaged in wood chips sales until such wood-chipping activities were terminated. Due to lack of available chipping capacity, wood chips sales were discontinued from the third quarter of 2007.

(2) The CJVs Guangxi Guijia Forestry Company Limited, Jiangxi Jiachang Forestry Development Co. Ltd., Heyuan Jiahe Forestry Development Ltd., and Gaoyao 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 the wood products trading business.

(4) Sino-Forest (Anhui) Co. Ltd., a WFOE which was established on July 25, 2005, engages in forest nursery and research and development of tree plantations, 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 Jiaxi 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) Sino-Maple (Shanghai) Ltd., a WFOE which was established on November 16, 2006, engages in wood products and flooring trading business.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) Sino-Panel (Beihai) Development Co. Ltd., a WFOE in Guangxi which was established on August 28, 2007, engages in the processing of wood-based panels.

(15) 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.

(16) Sino-Panel (Luzhai) Co. Ltd., a WFOE in Guangxi which was established on September 21, 2007, engages in processing and trading of plywood.

(17) Our non-material active subsidiaries that were not included in this corporate chart are:

Sino-Panel Corporation (Canada), Sino-Capital Global Inc. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio-Science Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Sino-Biotechnology (Guangzhou) Limited (PRC WFOE), Sino-Panel (Guangxi) Development Co. Ltd. (PRC WFOE), Sino-Panel (Hezhou) Co. Ltd. (PRC WFOE), Sino-Panel (Sanjiang) Co. Ltd. (PRC WFOE), Sino-Panel (Yunnan) Trading Co. Ltd. (PRC WFOE), Sino-Panel (Guangzhou) Co. Ltd (PRC WFOE), Hunan Jiayu Wood Products (Zhijiang) Co. Ltd. (PRC WFOE), Sino-Panel (Yuanling) Co. Ltd. (PRC WFOE), Sino-Panel (Jianghua) Co. Ltd. (PRC WFOE), Bei Hai Changqing Wooden Co. Ltd. (PRC Limited Company), Suzhou LvYun Garden Engineering Co. Ltd. (PRC Limited Company).

Overview

We are one of the largest foreign-owned commercial tree plantation operators in the PRC. As of March 31, 2008, we had approximately 328,000 hectares of tree plantations under management located in six provinces of the PRC and we have entered into long-term master agreements that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 653,000 additional hectares of plantation trees. We have been operating tree plantations in the PRC since 1995.

Our business operations consist of two core businesses: wood fiber operations and manufacturing operations. Our wood fiber operations are our largest revenue contributor and consist of acquiring, cultivating and selling standing timber or harvested logs from our purchased or planted tree plantations, selling wood logs sourced from PRC suppliers and selling wood products imported from outside the PRC. Our wood fiber operations accounted for 94.6% and 93.2%, respectively, of our total revenue for the year ended December 31, 2007 and the three-month period ended March 31, 2008. As of March 31, 2008, eucalyptus trees and pine and fir trees which accounted for approximately 17.5% and 77.5% respectively of the total area under cultivation of our tree plantations, respectively.

Our manufacturing and other operations represent our secondary source of revenue and consist of sales of wood-based products, such as particleboard, melamine chipboard, engineered wood flooring, oriented strand board and finger-joint board manufactured at our own production plants. We currently operate manufacturing plants in Gaoyao, Guangdong Province, Suzhou, Jiangsu Province, Muling City, Heilongjiang Province, and Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province, which complement our wood fiber operations. We also operate a greenery and nursery business based in Suzhou, Jiangsu Province. Our manufacturing and other operations represented 5.4% and 6.8%, respectively, of our total revenue for the year ended December 31, 2007 and the three-month period ended March 31, 2008.

We operate our plantations using three business models: purchased, planted and integrated. In our purchased tree plantation model, we purchase young trees and subsequently sell the trees as standing timber when they reach maturity. This model allows us to capture wood fiber growth during our ownership of the trees and take advantage of increasing wood fiber prices. We refer to plantations managed under our purchased tree plantation model as "purchased tree plantations." In our planted tree plantation model, we assess the suitability of land where trees have been recently harvested for replanting and conversion into fast-growing high-yielding plantations. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. We then replant and cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to plantations managed under our planted tree plantation model as "planted tree plantations." In our integrated tree plantation model, instead of selling trees from purchased or planted tree plantations as standing timber, we either sell the logs or vertically integrate the wood fiber with our manufacturing facilities to produce value-added wood products. We are in the early stages of implementing our integrated tree plantation model.

As of March 31, 2008, approximately 273,000 hectares (83.2%) of our plantations were purchased tree plantations and approximately 55,000 hectares (16.8%) were planted tree plantations. In the years ended December 31, 2005, 2006 and 2007 and in the three-month period ended March 31, 2008, we sold approximately 108,013, 111,367, 146,037 and 13,493 hectares of standing timber from our tree plantations, respectively.

According to Research and Markets, a market research resource, the PRC's forested areas represent 4.6% of the total global forested area with 174.90 million hectares. The forest coverage in the PRC reaches only 18.21% of the total area of the PRC, which is significantly lower than the world average level of forest coverage per country of 61.52%. PRC forest reserves are 12.46 billion cubic meters and represent less than 3% of the total worldwide reserves. PRC forest reserves per capita are 9.421 cubic meters, which is less than one sixth of the average per capita forest reserves worldwide. PRC forest reserves per hectare represent only 84.73 cubic meters which is equal to 84.86% of the average forest reserve per hectare worldwide. In terms of forest area per capita, the PRC has scarce forestry resources compared to other countries with abundant forest resources.

Our Competitive Strengths

We believe that we have the following strengths:

We are currently one of the largest foreign-owned commercial tree plantation operators in the PRC with our own sustainable and large-scale supply of forestry resources

We are currently one of the largest foreign-owned commercial plantation operators in the PRC in terms of plantation area with our own sustainable and large-scale supply of forestry resources subject to long-term master agreements. Our size allows us to benefit from economies of scale in our forestry operations and efficiently manage our tree plantations, and gives us the breadth to engage in extensive research and development activities. These factors give us a competitive advantage compared to smaller operators that have difficulties in efficiently managing their tree plantations. We further expect to maintain and expand our existing tree plantation resources and bring a sustainable supply, subject to long-term master agreements, of wood fiber to the market. We also expect to acquire additional tree plantations that we intend to use pursuant to our integrated tree plantation model. As of March 31, 2008, we had approximately 328,000 hectares of tree plantations under management and we have entered into long-term master agreements that give us a right to acquire up to approximately 653,000 additional hectares of plantation trees.

Strategically located plantations in six provinces of the PRC

We have developed our tree plantations in southern, south-western and eastern PRC. These regions offer favorable climate and soil conditions for eucalyptus and pine and Chinese fir plantations with easy access to transportation routes and are close to major population centers and the major markets in the PRC for wood panel, furniture, construction, interior decoration and pulp and paper.

Strong track record in obtaining and developing commercial tree plantations and ability to leverage our industry foresight

We are one of the first foreign companies to do business in the PRC's forestry sector and have a strong track record in obtaining, developing and cultivating commercial tree plantations since 1995. Once we obtain tree plantations in favorable locations, we operate the tree plantations using advanced, environmentally prudent plantation management practices focused on the development of sustainable commercial plantations. We believe our 13-year track record of developing fast-growing commercial tree plantations in the PRC using advanced plantation management techniques is a competitive advantage in the PRC, where the commercial tree plantation industry is comparatively undeveloped and where there are currently limited large-scale commercial tree plantations using advanced plantation management practices. In 2006, we announced our plan to move inland, starting in Hunan and Yunnan Provinces, to develop tree plantations in second- and third-tier cities in order to align our expansion strategy with the PRC government's Eleventh Five-Year Plan (2006-2010) of rural and regional development. We are leveraging our first-mover advantage in these new regions to obtain strategically located plantations and support from local provincial governments and forestry bureaus.

Extensive forestry and management expertise with local knowledge in the PRC

We have developed extensive forestry and management expertise with local knowledge in the PRC. Our management team has extensive experience in the forestry industry. We have recruited personnel with a great deal of experience in plantation management and research and development that have put in place advanced plantation management practices in our tree plantation operations. Our plantation planning and management team has an in-depth understanding of local forestry landscapes and markets based on the experience of most of its members who formerly worked with local forestry bureaus and/or state-owned plantation farms in various regions and provinces. We also utilize experts in the tree plantation industry as our consultants, advisers and employees, who provide expert advice on management, and ecological and plantation matters.

Systematic application of advanced planting and silviculture techniques

Our plantation program is designed to produce short-rotation high-yielding trees, primarily through the systematic application of advanced planting and silviculture techniques. These advanced techniques provide us with certain advantages, such as efficient growing rotations, more uniform timber, lower access and harvesting costs, better environmental protection and improved resistance to disease, frost and fire. Our planting expertise is aimed at enabling the plantation trees to grow with improved quality, reduced cost and increased yield, and in an environmentally responsible manner. More uniform plantations and our use of developed tree species with special features (e.g. fewer branches) enables us to increase our harvesting efficiency, reduce waste, increase yield and provide higher quality and more profitable timber.

Strong research and development capability

Our tree plantation research and development efforts are focused on increasing the yield of our plantations and improving the wood quality of the trees grown, particularly the standing wood volume per unit area. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, reduce cultivation costs, increase the quality and value of harvested wood output and to maintain or enhance forest ecosystems and land productivity. We conduct research and development on superior planting material breeding and propagation, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing and ecological and environmental technology. We have focused on improving our research and development capability and we obtain research and development support from local academic institutions. We carry out research and development projects by ourselves and/or jointly with a number of research or academic institutions in the PRC.

Expertise in sustainable plantation development

The PRC government promotes sustainable tree plantation development in the PRC. Consistent with this policy, we have developed and will continue to develop sustainable tree plantations in the PRC. We employ advanced forest management practices and adopt prudent environmental management of our tree plantations. We believe that we have gained recognition for our use of sustainable plantation development in the PRC and this should help us obtain additional business opportunities. Our scientific and conscientious approach to quality plantation management led us to receive the Forest Stewardship Council ("FSC") Certificate for certain areas of our planted plantation in Gaoyao, Guangdong Province, the first commercial tree plantation in the PRC to be granted and hold such accreditation.

Established relationships in the PRC

We believe that over the last 13 years we have established good relationships with local forestry bureaus, other tree plantation owners, plantation service providers and wood dealers in the PRC. We believe that our relationships with local forestry bureaus and tree plantation owners have supported the development of our tree plantation business in the past and will continue to benefit us in expanding our forestry resources in the future. We also maintain good relationships with plantation service providers and employ members of local village communities surrounding our tree plantations to provide labor to our plantations.

We believe that we have an in-depth understanding of the dynamics of the PRC forestry market. This enhances our ability to deal with market changes, such as changes in prices or customer requirements, and provides us with a competitive advantage over current and potential competitors.

Our Business Opportunities

We believe that we are well-positioned to benefit from the following factors:

Strong and growing consumption of wood fiber from downstream producers

As an upstream provider of wood fibers for downstream producers, we are well-positioned to benefit from increased demand for, and a limited supply of, wood fibers in the PRC.

According to Research and Markets, a market research resource, the PRC's forested areas represent 4.6% of the total global forested area with 174.90 million hectares. The forest coverage in the PRC reaches only 18.21% of the total area of the PRC, which is significantly lower than the world average level of forest coverage per country of 61.52%. PRC forest reserves are 12.46 billion cubic meters and represent less than 3% of the total worldwide reserves. PRC forest reserves per capita are 9.421 cubic meters, which is less than one sixth of the average per capita forest reserves worldwide. PRC forest reserves per hectare represent only 84.73 cubic meters which is equal to 84.86% of the average forest reserve per hectare worldwide. In terms of forest area per capita, the PRC has scarce forestry resources compared to other countries with abundant forest resources.

Pöyry estimates that domestic furniture production will grow approximately 11% per year between 2002 and 2010 and that consumption of paper and paperboard will exceed 60 million tons by 2010.

According to Pöyry, there are also new mills being constructed for medium-density fiberboard, particleboard and pulp and paper in the PRC that should also stimulate demand for wood fibers. The leading areas in the PRC for wood panel, furniture, construction and interior decoration manufacturing enterprises that could be large consumers of our wood fibers are generally located in southern, south-western and eastern regions of the PRC, like our tree plantations, a proximity which we believe gives us an advantage in transportation costs and delivery time. In addition, historically, paper and paperboard in the PRC has included wood and non-wood agricultural resources, such as grass fibers. As wood fibers from wood chips provide for better quality paper and paperboard, in terms of strength, pureness and whiteness, we believe that the proportion of wood fibers used to produce paper and paperboard in the PRC should increase in the future due to higher standards of living as a result of economic growth.

A growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries

Wood shortages are a persistent phenomenon in the PRC. Over the past few years, severe flooding, desertification, the loss of natural habitats and change in global weather conditions have led countries that have supplied natural forest wood and wood from tree plantations, including the PRC and the United States, to impose limits on annual allowable cuts ("AACs") and, in some cases, logging bans, as applicable. These AACs and logging bans have significantly decreased global natural forest and plantation wood supply. In 2001, the PRC State Council announced the National Forest Protection Program. The National Forest Protection Program limited the total forests that may be harvested, including natural and plantation forests, during the five-year period from 2001 to 2005, to 223 million cubic meters per year. According to Pöyry, this quota is planned to increase to 248 million cubic meters per year during the five-year period from 2006 to 2010. We believe that the supply of forest wood will remain restricted in the future.

The shortfall between domestic wood consumption and supply in the PRC was historically met by imports, which comprised 32 million cubic meters of logs in 2006, with 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian government raised round wood export duties from 6.5% to 25% as of April 2008 and announced according to RISI, potential future increases of such export duties to 80% by 2009. In light of the expected decrease in natural forest wood supply from within and outside of the PRC and the expected increase in demand for wood, we believe that sustainable tree plantations should play an increasingly important role in satisfying domestic demand in the future. In addition, we also examine, from time to time, opportunities to invest in, or acquire plantations or other sources of wood supply in the PRC and in the Asia Pacific region.

Recent changes in the forestry industry that favor sustainable plantations

The wood processing industry has recently begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter plantation wood into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. Tree plantations in the PRC have historically consisted of softwood plantations, such as pine. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of our planted tree plantations. We believe that these developments will benefit us by increasing demand for logs and/or standing timber from our tree plantations as well as increasing demand for wood-based products from our manufacturing plants.

Strategy

Our strategy is to build on our competitive strengths and our business opportunities in the PRC in order to become a leading plantation developer and wood resource supplier in the PRC with established operations in or close to PRC regional markets, providing wood fiber to downstream consumers in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements of our strategy:

Expand our geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fiber and develop regional wood fiber markets in the PRC by providing quality logs and value-added manufacturing products

We intend to become a regional plantation developer and wood resource supplier in the PRC to downstream users in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries and to supply the PRC market with 15 to 20 million cubic meters of standing timber, wood logs and imported wood products by the end of 2010. In order to do so, we will continue to invest in additional sustainable, short-rotation tree plantations in our current geographic locations, notably in Fujian Province, and expand into other geographic locations. We intend to significantly increase our area under plantation management by investing in additional tree plantations that we intend to use pursuant to our integrated tree plantation model, and, thereafter, expanding our planted tree plantations. We intend to replant with fast-growing short-rotation tree species, primarily eucalyptus, to cultivate sustainable, high-yielding tree plantations.

In expanding the area of our tree plantations, we will focus on our integrated tree plantation model, whereby we harvest trees from our plantation and sell them as logs or use the wood fiber in our manufacturing facilities to produce value-added wood products. We can then use the cash flows from the sale of such logs or wood products to finance our forestry expansion whereby, following the harvesting of these trees in our tree plantations in Hunan, Yunnan and Guangxi, we intend to exercise our right to enter into long-term plantation land leases for further developing sustainable tree plantations.

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

Our integrated model links our upstream tree plantations to our downstream manufacturing operations and is intended to produce value-added wood products to maximize fiber value. This is expected to further diversify our revenue streams.

Improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques

We seek to manage our tree plantations in a manner that optimizes the biological growth of our trees and enhances prudent environmental management. We will seek to develop improvements in forestry technology using genetics, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields. In order to aid these efforts, we intend to invest further in our research and development resources, and collaborate with PRC and overseas academic institutions. We aim to achieve higher than historical yields as a result. We are currently able to achieve an average standing timber yield of 100 to 150 cubic meters per hectare per six-year cycle for eucalyptus trees on our planted tree plantations.

Practice sustainable and environmentally responsible forestry and manufacturing

We believe that environmentally sound management practices will ensure the sustainable development of forest resources and provide greater predictability in plantation management. Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We intend to follow these management practices for additional tree plantations to be acquired in the future. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our tree plantations.

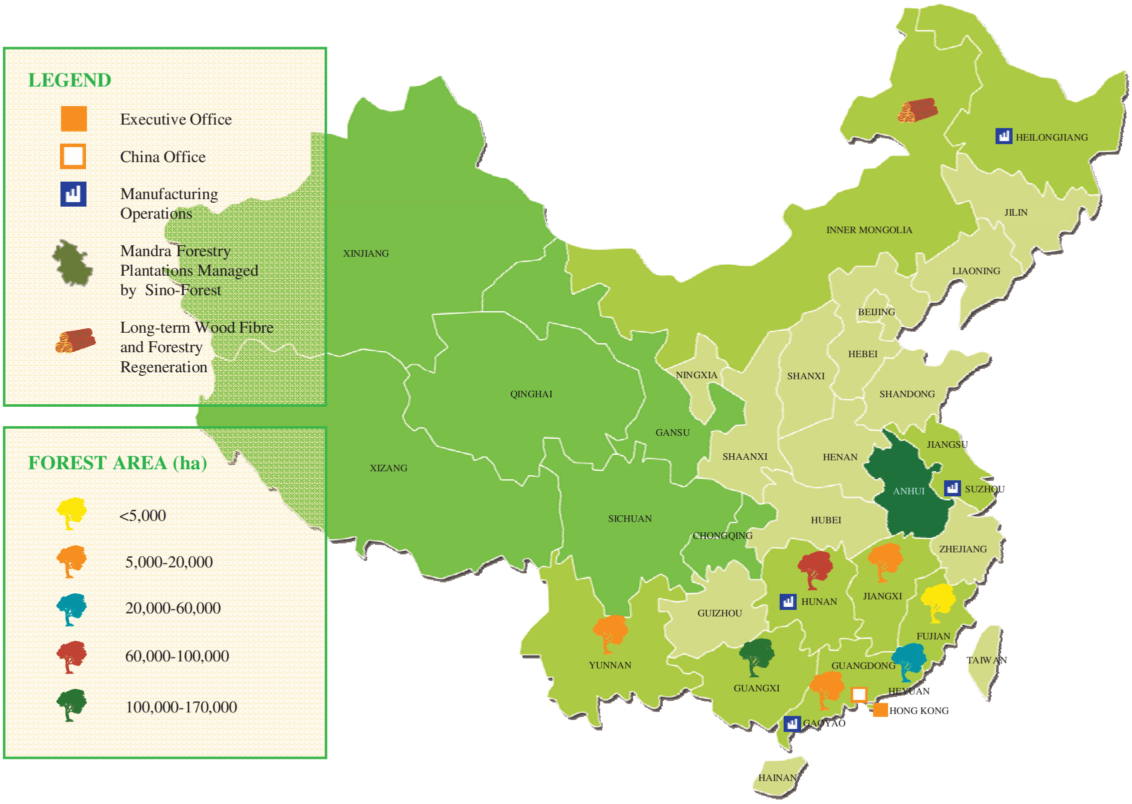
Strengthen management processes and information systems to support the growth of our multi-faceted businesses

We plan to invest in additional personnel, management and technology in order to improve our management processes and information systems. As the area of our tree plantations continues to grow, we will have to develop additional systems and management personnel to achieve greater planning and operational control of our plantations. This will allow us to conduct more frequent sampling checks of our timber resources, and would, in turn, allow us to analyze planting statistics, including growth conditions and the quality of our tree plantations, more quickly. It will also allow us to maintain more stringent controls over our tree plantation management processes.

Our Wood Fiber Operations

Overview

Our wood fiber operations generate the bulk of our revenue, accounting for 94.6% and 93.2%, respectively, of our revenue in the year ended December 31, 2007 and the three-month period ended March 31, 2008. These operations essentially consist of acquiring, cultivating, harvesting and selling logs and standing timber from our tree plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. Most of the standing timber and logs we sell come from our own tree plantations. All of our tree plantations are located in the southern, south-western and eastern regions of the PRC. The following map highlights the location of our tree plantations in the PRC as of March 31, 2008.



Tree Plantations and Plantation Business Models

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

Purchased Tree Plantation Model

In our purchased tree plantation model, we purchase young trees from local forestry entities and subsequently sell the trees as standing timber when they reach maturity. The purchase agreements for the trees also give us the right to lease the plantation land and replant after we harvest the trees. The right to lease the plantation is subject to negotiation of definitive plantation land-use agreement and obtaining and completing the requisite government approval and registration procedures. For a further description of these agreements, see "Tree Plantation Contractual Arrangements — Wood Fiber Purchase Agreements." We refer to plantations managed under our purchased tree plantation model as "purchased tree plantations."

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

As of March 31, 2008, our purchased tree plantations represented approximately 273,000 hectares under cultivation. Our purchased tree plantations are primarily located in Guangdong, Guangxi, Hunan and Yunnan Provinces. They consist of a diversified mix of tree species, predominantly pine, Chinese fir and eucalyptus. The advantages of purchasing trees include the ability to achieve an expansion of plantation reserves within a shorter time scale than by planting, while at the same time better positioning us to ensure a sizeable harvesting profile.

Planted Tree Plantation Model

In our planted tree plantation model, we assess the suitability of land where trees have been recently harvested for replanting and conversion into fast-growing high-yielding plantations. If we find the land to be suitable, we seek to lease the land under long term lease agreements. We then replant and cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to plantation managed under our planted tree plantation model as "planted tree plantations." We choose to plant trees in strategically located areas and operate our commercial plantations using advanced environmentally prudent plantation management practices. We believe our 14-year track record in the PRC using advanced plantation management techniques is a competitive advantage in the country, where the commercial tree plantation industry is comparatively underdeveloped and where there are currently limited large-scale plantations using advanced plantation management practices.

In the fourth quarter of 2007, we completed the conversion of the legal structure of all of our four CJVs to WFOEs in accordance with PRC law. Under the WFOE structure, we will have overall operational control and management rights of our plantation operations. We have leased and will continue to lease land from the original plantation rights holders and pay the land lease rent, which is settled mainly on an annual basis. Terms of land leases are between 30 and 50 years, depending on negotiations in different locations. The conversion is expected to provide us with greater control over plantation management through plantation land leasing rather than harvested timber sharing and allow us to capture higher margins. As of December 31, 2007, our planted tree plantations operated through WFOEs comprised approximately 54,000 hectares. For those plantations originally operated by CJVs, we are still in the process of negotiating with the original plantation land use rights holders to enter into plantation land use agreements and going through the requisite governmental approval and registration procedures. There is no assurance that we will secure all of these plantation land use rights from the farmers and collective organizations. See "Risk Factors — Risks Related to Our Business — Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights."

We started operating our first planted tree plantation on barren land in 1995. Our planted tree plantations now consist primarily of eucalyptus trees in Guangdong, Guangxi, Jiangxi and Fujian Provinces. As of March 31, 2008, our planted tree plantation represented approximately 55,000 hectares under cultivation.

Integrated Tree Plantation Model

Pursuant to our integrated tree plantation model, instead of selling trees from purchased or planted tree plantations as standing timber, we either sell the logs or vertically integrate them with our manufacturing facilities to produce value-added wood products.

The following table sets forth the location and approximate total hectares of our tree plantations as of December 31, 2007.

Tree Plantations Under Cultivation

PRC Province	Planted Tree Plantations (in hectares)	Purchased Tree Plantations (in hectares)	Total Hectares (approximate)
Guangdong	35,000	11,000	46,000
Guangxi	11,000	141,000	152,000
Jiangxi	7,000	—	7,000
Hunan	—	96,000	96,000
Yunnan	—	10,000	10,000
Fujian	1,000	—	1,000
Total	**54,000**	**258,000**	**312,000**

As of March 31, 2008, our tree plantations under cultivation represented approximately 328,000 hectares.

Access to Future Purchases of Tree Plantations

Pursuant to our strategy of acquiring plantations inland, where forests are denser and the acquisition of trees and leasing of underlying land tends to be more cost effective, we have entered into long-term master agreements in Hunan, Yunnan and Guangxi Provinces, giving us the right to acquire up to approximately 750,000 additional hectares of trees, of which approximately 97,000 hectares were already acquired as at March 31, 2008. A description of our main long-term master agreements is provided below. In addition, despite higher acquisition costs of trees in the Guangxi region in comparison to Hunan and Yunnan, the geographical location and climate of this region are conducive to fast-growing, high-yield species, such as eucalyptus.

The table below summarizes the main characteristics of the approximately 750,000 hectares of trees under the long-term master agreements:

Long-term Master Agreements	Hunan	Yunnan	Guangxi	Total
Hectares (approximate)	400,000	200,000	150,000	750,000
Duration of agreements (years)	14	10	5	—
Species	Chinese fir, pine	Pine, birch, broadleaved shaw	Chinese fir, pine	—
Estimated fiber yield (cubic meters/ha)	100-120	105-210	100-120	—
Estimated volume of wood fiber (million cubic meters)	40-48	21-42	15-18	76-108
Duration of land rental for replanting after securing land lease (years) up to	50	50	50	—

Agreement to Acquire Plantation Trees in Hunan Province

Pursuant to long-term master agreements we entered into in September and December 2006 with Hongjiang City Forestry Technology Integrated Development Services Company, who acted as the authorized agent for the original plantation rights holders, to acquire approximately 400,000 hectares of plantation trees for approximately RMB10.4 billion to RMB12.5 billion over 14 years in Hunan Province, we have acquired 64,053 hectares of plantation trees for US$267.0 million as of March 31, 2008. The purchase price is not to exceed RMB260 per cubic meter. The plantations under this agreement include mature trees with an estimated yield of 100 to 120 cubic meters per hectare, or an aggregate 40 to 48 million cubic meters of wood fiber.

Under the provisions of such master agreements, we have the pre-emptive rights to lease the underlying plantation land for up to 50 years. We intend to annually re-plant approximately the same amount of hectares of trees harvested in the previous year over the 14-year period of the agreements. The terms of the lease are to be negotiated with Hongjiang City Forestry Technology Integrated Development Services Company, the counterparty of the master agreements, upon the authorization of the original plantation rights holders and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

Agreement to Acquire Plantation Trees in Yunnan Province

Pursuant to a master agreement entered into on March 23, 2007 by Sino-Panel (Asia) Inc. (“Sino-Panel”), one of our wholly-owned subsidiaries, and Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd. (“Gengma Forestry”), established in Lincang City, Yunnan Province, Sino-Panel has the right to 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 billion to RMB10.9 billion over a 10-year period. Gengma Forestry acted as the authorized agent for the original plantation rights holders. The purchase price is not to exceed RMB260 per cubic meter. The number of hectares to be acquired each year will be determined by the PRC Subsidiaries by entering into specific purchase agreements with Gengma Forestry. The plantations under this agreement include mature trees with an estimated wood fiber yield of 105 to 210 cubic meters per hectare, or an aggregate 21 to 42 million cubic meters of wood fiber.

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

Under the provisions of such master agreement, we have acquired 10,438 hectares of standing timber for US$88.1 million as of March 31, 2008.

Agreement to Acquire Plantation Trees in Guangxi Province

On December 10, 2007, we entered into a master agreement to acquire approximately 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”), who acted as the authorized agent for the original plantation rights holders. Under the provisions of such master agreement, Sino-Panel has the pre-emptive rights to, through our PRC Subsidiaries, purchase approximately 150,000 hectares of Chinese fir and pine trees in Guangxi Province for approximately RMB5.7 billion to RMB6.8 billion, with a price not to exceed RMB380 per cubic meter over a five-year period. The plantations under this agreement include mature trees with an estimated wood fiber yield of 100 to 120 cubic meters per hectare, or an aggregate 15.0 million to 18.0 million cubic meters of wood fiber.

Under the provisions of such master agreement, 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 can be for up to 50 years from the harvest date as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are determined following the execution of definitive agreements between our PRC Subsidiaries and Bo Hu upon the authorization of the original plantation rights holders subject to compliance with the relevant PRC laws and regulations.

Guangxi Province is in a strategic location in the southern coastal region of the PRC, the favorable climate and rich soil of which are well suited for fast-growing, high-yield species. Harvested land will be replanted with eucalyptus with an estimated average yield of 150 cubic meters after a six-year cycle. In addition, we have a 12-year track record of growing eucalyptus and operating successfully in the region.

Guangxi Province is becoming one of the key provinces in the PRC in terms of its strategic location. Beihai, a port located in southern Guangxi, is one of the State Council's approved and established Export Processing Zones ("EPZ"). It is one of the few key ports located in the southern region of the PRC, close to nearby Association of Southeast Asian Nations (ASEAN) countries. Under the provisions of this master agreement, we have acquired approximately 23,000 hectares of plantation in Guangxi Province as of March 31, 2008.

We have acquired approximately 5.5 hectares of land in Beihai's EPZ and are in the process of applying for the land use right certificates, which could accommodate engineered-wood production and other value-added processing. The strategic location of this facility in the EPZ offers synergy for our domestic plantation fiber 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.

Plantation Management

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

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

We engage in planting the first and second cycle of our planted tree plantations. We may also engage in planting if we exercise our pre-emptive rights to obtain the plantation land use rights for our purchased tree plantations, as our strategy is to replant tree 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 tree plantations currently consist of trees planted from traditional seedlings. Eucalyptus trees planted since 2000 have been produced from clones. Beginning in 2007, we started to directly plant tissue cultured cuttings instead of rooted cuttings in our plantations.

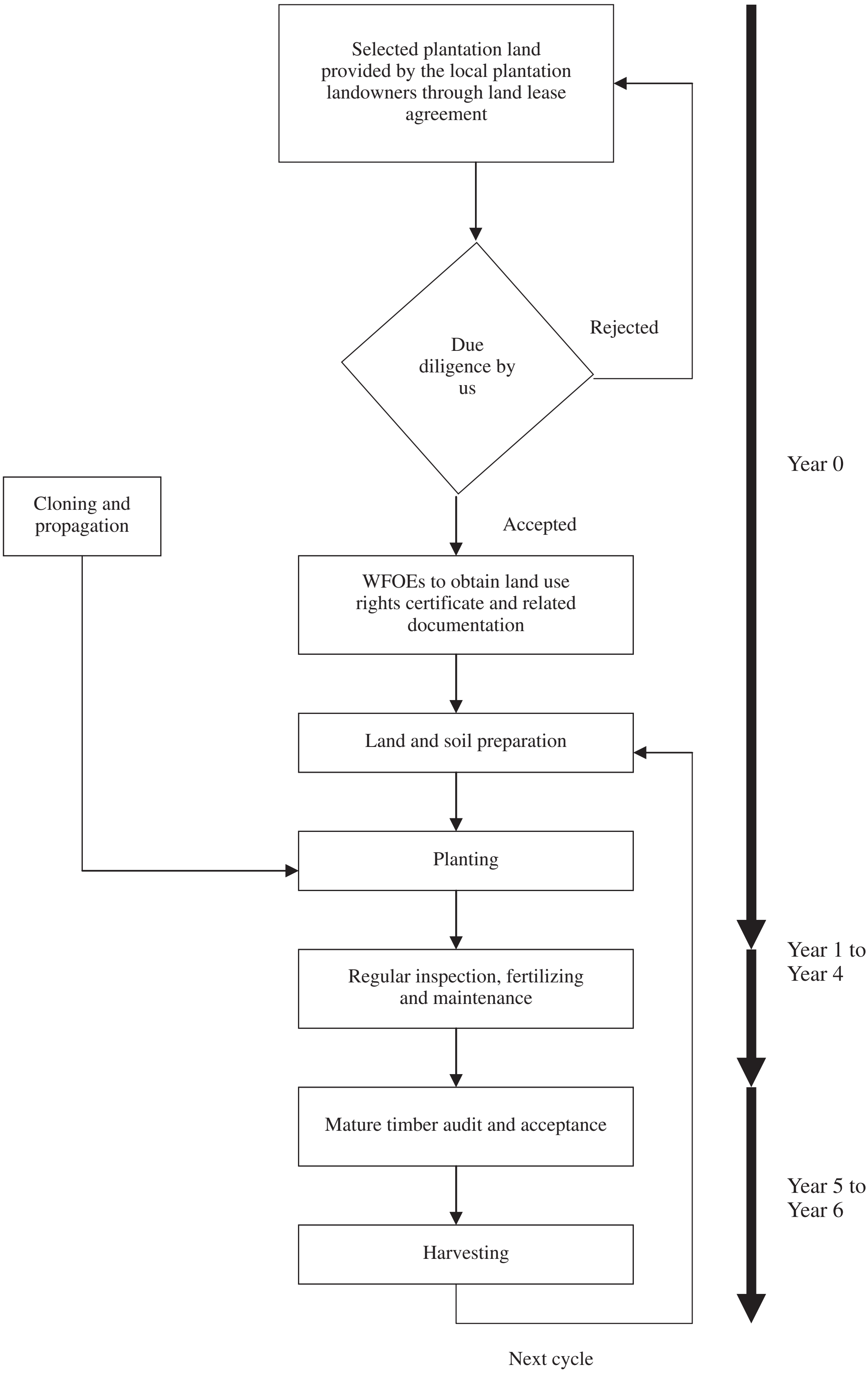
We produce rooted cuttings for our planted tree plantations by using tender branchlets taken from mother plants raised in our nursery, which were developed from the tiny bottle cuttings raised in our tissue culture laboratory. By means of this type of vegetative propagation, the ramets of a clone receive the entire genetic code of the original tree. As a result, using rooted cuttings can maximize favorable genetic attributes in tree plantations, as each tree has homogeneous 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 generally accepted that tissue cultured cuttings are physiologically more vigorous than rooted cuttings. To reduce potential loss associated with cloned tree plantations, due to the lack of genetic diversity, we currently deploy more than 10 different clones in our tree plantations.

We grow seedlings in the nursery for approximately three to four months before planting them in the tree plantations. After site preparation, including clearing of existing plantation land or farmland, we generally plant the young seedlings, spaced three to four meters apart, in rows. The degree of site preparation will depend upon the incline of the hill on which the young seedlings are planted. For inclines between 5% and 20%, which is the incline 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 young trees in a planting hole and apply top-dressing fertilizer and intensively tend trees for the first three years after 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 and terracing;
- planting at optimal times of the year with proper spacing;
- taking measures designed to ensure that trees are properly tended, applied with fertilizer and protected from damage caused by pests and disease;
- 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, and screening of cuttings or seedlings;
- monitoring the tree plantations in terms of growth, natural disasters (including damage and loss caused by pests, disease, cold, drought and snow) and environmental impacts, by performing analysis and adjusting the care of the tree plantations according to the results of such 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. The diagram below sets forth the plantation management process applied to our planted tree plantations of eucalyptus trees:



Subsequent Rotations

After harvesting, we engage in regeneration of our planted tree plantations, either through coppicing of the tree stump or through replanting of seedlings. Although eucalyptus trees are capable of coppicing from stumps many times, our policy generally is to regenerate trees from coppices only once or twice. After a coppice stand is established (thinned to a proper density), its tending and management are similar to plantations planted with seedlings or cuttings. See "— Plantation Management."

Harvest Yields

We harvested the first cycle trees on our tree plantations in 2002. In the future, the average annual harvest rate will reflect the current age distribution of the planted tree plantations and the purchased tree plantations, expected growth rates, the volume of additional hectares of planted tree plantations planted with trees and the volume of additional purchased tree plantations.

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. The yield from planted tree plantations depends on a variety of factors, including:

- the quality of planting materials, especially those with desired genetic characteristics;
- the soil and climate conditions;
- the topography of the land;
- the planting density and spacing between trees; and
- the quality of the management of the plantation, including in-site preparation, application of fertilizers and pesticides, and protection against damage.

Plantation Service Providers

We engage third parties for all of the field operations of our tree plantations. During the course of the year, we typically engage approximately 10 to 20 third-party service providers for our planted 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 systems and operation guidelines. For areas with trees planted by us, the service providers perform all preparatory work and planting work such as clearance of plantation land, preparation for plowing or terracing, leveling of land, 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 manage the trees, such as applying fertilizers and pesticides.

Our Manufacturing and Other Operations

Overview

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

In 2000, we began the process of developing our manufacturing plants to complement our tree plantation operations using small diameter logs to manufacture quality wood-based products that are traditionally made from large-diameter logs. To date, we have established manufacturing operations in various provinces in the PRC, including a particleboard and melamine chipboard plant in Gaoyao, Guangdong Province, an engineered wood flooring plant in Suzhou, Jiangsu Province, an oriented strand board plant in Heilongjiang Province, close to the Russian border, and finger-joint board processing facilities in Hunan Province. In addition, we started greenery and nursery operations in 2003 in Suzhou, Jiangsu Province, to source, supply and manage landscaping products for property developers and other organizations.

Particleboard Operation

The Gaoyao operation has a total land area of approximately 122,000 square meters and a total building area of approximately 26,000 square meters, located within the Economic Development Zone of the Pearl River Delta. The plant produces quality particleboard and a melamine-faced chipboard, targeting one of the largest furniture manufacturing markets in the PRC.

The Gaoyao operation is currently expanding its annual production capacity from 100,000 to approximately 175,000 cubic meters and melamine lamination from approximately 2.0 million square meters to 6.4 million square meters. The building will then house three particleboard production lines and two melamine-faced chipboard production lines. The expansion is expected to be completed for full commercial production by early 2009.

Engineered Wood Flooring

The flooring business was established in 2004. 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 approximately 156,000 square meters and a total building area of approximately 18,700 square meters. 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 approximately 4.0 million square meters. The second phase was completed in 2007, and the combined capacity is approximately 6.5 million square meters. Sino-Maple flooring products are distributed through more than 200 outlets nationwide, including B&Q's large do-it-yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products, which are fast becoming a popular substitute for solid and laminated flooring in the PRC due to its environmentally conscious use of forest plantation logs instead of large diameter natural forest logs.

In addition, this facility recently received accreditation from the FSC for its flooring products.

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 Province, close to the Russian border, close to a source of wood supplies. 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 12,000 cubic meters.

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 150,000 cubic meters. Our strategy in Hunan is to maximize the value of our wood fiber through value-added processing.

Our Greenery and Nursery Operations

According to the PRC State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the 10 most polluted in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape management and supply of tree nursery products, we decided to pursue opportunities in this forest product business segment. With our plantation resources and expertise, we established Sinowin Plantings (Suzhou) Co. Ltd. in 2003 to source, supply and manage landscaping products for property developers and other organizations.

Sales and Marketing

Substantially all of our sales are made in the PRC. In the three-month period ended March 31, 2008, sales to customers in the PRC were US$135.7 million and sales to customers located in other countries were US$0.4 million. In the years ended December 31, 2005, 2006 and 2007, and the three-month period ended March 31, 2008, our domestic sales of wood-based products, wood logs and standing timber accounted for virtually all of our revenue.

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

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

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

With respect to sales of standing timber, we generally grant buyers a credit period of up to nine months from the date of the contract, with sales generally denominated in Renminbi. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. Pursuant to the sales contract, the buyer is required to harvest the standing timber within 18 months from the date of the contract. 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- to medium-term contracts and are denominated in Renminbi. Payments are usually settled within 120 days.

Suppliers

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

In the years ended December 31, 2005, 2006, 2007, and the three-month period ended March 31, 2008, our five largest suppliers accounted for approximately 71.8%, 44.2%, 54.8% and 69.4% of our total costs of sales, respectively. The largest supplier accounted for approximately 28.6%, 12.6%, 32.2% and 21.6% of our total costs of sales, respectively, during such periods. See “Risk Factors — Risks Related to Our Business — Disruptions in our supply of raw timber could adversely affect our business, financial condition and results of operations.”

Transportation

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

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

Customers

Our customers and 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 the years ended December 31, 2005, 2006, 2007, and the three-month period ended March 31, 2008, our five largest customers (including AIs) accounted for approximately 54.8%, 57.5%, 58.7% and 76.9% of our revenue, respectively. In the same periods, our largest customer (including AIs) accounted for approximately 17.6%, 12.9%, 15.8% and 38.5% of our revenue, respectively. See "Risk Factors — Risks Related to Our Business — The loss of business from a major customer could reduce our sales and harm our business and prospects."

Competition

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

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

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

Environmental Matters

Our tree plantation operations are subject to PRC laws and regulations relating to the protection of the environment. We believe that our operations are in substantial compliance with applicable environmental laws and regulations in the PRC. There are currently no significant environmental proceedings involving 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 tree plantation operations and detailed operating procedures on environmental compliance. Our environmental management system focuses on the integration of tree 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 and water quality and biodiversity, and environmental performance assessments. These assessments are generally conducted annually.

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 (in 2001) and ISO 14001:2004 (in 2002) certifications for the quality and environmental management system of the tree plantation operations of our former CJV in Guangxi Province. We have also received the FSC of Forest Management certification for 5,300 hectares of tree plantations in Guangdong Province from SmartWood, a program of the Rainforest Alliance, an international non-profit environmental group.

The PRC launched its first China Green Carbon Foundation, spearheaded by the State Forestry Administration, on July 20, 2007 to develop carbon credit trading, forest biofuels and renewable energy through large-scale tree plantation in a sustainable manner that will also mitigate greenhouse gas emissions. We are one of the founding members and the only member from the forestry sector.

Research and Development

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

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

- genetic breeding research, 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, and 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 collaborate with, and receive assistance from, research and academic institutions in the PRC.

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 operations experience in forestry and plantation management.

In the years ended December 31, 2005, 2006 and 2007, and the three-month period ended March 31, 2008, we spent approximately US$332,000, US$371,000, US$412,000 and US$241,000, respectively, on research and development activities.

Mandra Forestry

In 2005, we formed an alliance with Mandra Forestry by investing US$15.0 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 our track record and expertise in plantation operation, we provide plantation management service for an annual management fee of US$1.0 million and have obtained access to an inventory of Chinese fir and pine trees while earning a margin of 3% on the sales of timber delivered by Mandra Forestry. We currently have, pursuant to and subject to certain conditions set forth in the terms of a shareholders agreement that we entered into with Mandra Forestry, an option to purchase all of the outstanding equity securities of Mandra Forestry from the other shareholders of Mandra Forestry and shares represented by warrants held by certain warrant holders. This option will remain exercisable until May 11, 2010, the fifth anniversary of the shareholders agreement. Upon the expiration of that option, Sino-Forest Investments Limited will have a final purchase option to purchase the outstanding equity securities of Mandra Forestry from May 11, 2010 to May 11, 2012, the seventh anniversary of the shareholders agreement.

Insurance

We maintain insurance policies against risks of loss of our tree plantations. These policies cover 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 coverage of our insurance policy is subject to 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 RMB10 million. Accidents and disasters insured for our tree plantations include fire, lightning, explosion, flooding and windstorm. We believe our insurance coverage is consistent with the practice of other PRC tree plantation operators. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our tree plantations are located in different provinces in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our tree plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

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

Safety Measures

We take a variety of measures to protect our workers and tree plantations from fire and other natural disasters.

We have internal guidelines to reduce the impact of natural disasters, such as fires, pest and disease outbreaks, flooding and typhoons. The guidelines include the prohibiting of lighting matches or producing any flame in the plantation areas, quarantining seedlings, encouraging employees to keep in close contact with the disease prevention department for the latest information on diseases, carrying out pest and disease control management in accordance with the PRC government's regulations and guidelines and avoiding planting trees in heavy rainfall or typhoon seasons. We have fire patrol units that conduct patrols on the plantation lands on a regular basis and more frequently during dry seasons.

We also believe that there are a variety of natural factors that reduce the risk of fire. For example, the southern region of the PRC has a high level of precipitation and our tree plantations are scattered in smaller groves and designed to spread out over large areas often separated by natural breaks such as fishing ponds, rivers, open areas, farmlands and villages. In addition, our primary tree species are eucalyptus, which is naturally resilient against disease, and poplar, which is resistant to damage from flooding.

Intellectual Property

We have registered the "Sino-Forest" trademark in certain classes in the PRC, the United Kingdom and Japan, and we have also registered two trademarks, "三月楓" (San Yue Feng) and "北美楓情" (Sino-Maple), for our wood products in the PRC.

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, 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 Environment	—	4	3	7
Manufacturing[(2)]	—	8	1,598	1,606
Total	**3**	**52**	**2,325**	**2,380**

Notes:

(1) Plantation Operation comprises staff working in plantations, forestry projects, quality control and purchases related to plantations, forestry engineers, technicians, and foresters.

(2) Manufacturing comprises staff such as engineers, technicians, factory workers, quality control, purchase and warehouse personnel, and 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 labor dispute, strike or employee dispute.

Employee Benefits

We provide employee benefits, including provident fund schemes and medical insurance schemes, to our employees. We also provide corporate travel care insurance for our senior management.

Our staff in the PRC are members of a central pension scheme operated by the relevant local municipal government. The subsidiaries in the PRC are required to contribute approximately 12% to 20% of their covered payroll to the central pension scheme to fund the retirement benefits. Adequate provision for the contribution has been made in the accounts in accordance with the rules of the central pension scheme. In addition to pension insurance, we maintain other social insurance for our staff in the PRC as implemented in the relevant regions where our WFOEs are located, including medical insurance, unemployment insurance and working injury insurance.

Pension and Other Schemes

We started investing in a mandatory provident fund retirement scheme for our staff in Hong Kong in December 2000. Since then, we have been contributing 5% of the salaries of the staff in Hong Kong to this fund. See also “Description of the Shares — Employee Stock Option Plan.”

Legal Proceedings and Inquiry

From time to time we are involved in litigation arising from the ordinary course of our business. We are not currently involved, and have not recently been involved, in any legal or arbitration proceedings that we believe would be likely to have a material effect on our financial condition or results of operations.

Information and data provided in this section, except as otherwise stated, are based on Appendix I of the Pöyry Report. See "— Industry and Market Data."

Overview of Forest Resources in the PRC

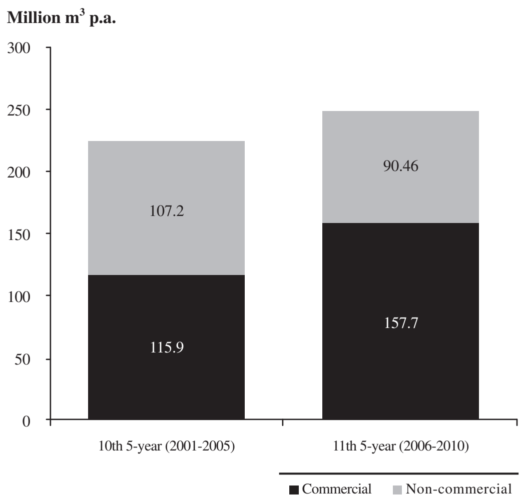
According to the sixth enumeration of the nation's forest resources conducted from 1999 to 2003, it is estimated that the PRC has 174.9 million hectares of forest with a forest coverage rate of 18.21%. Approximately 115.8 million hectares are considered to be natural forest and 53.2 million hectares are plantation forest, making the PRC the country with the largest plantation forest area in the world. The total standing stock volume of forest was estimated at 13.62 billion cubic meters, and the stock volume of the forest was estimated at 12.46 billion cubic meters. According to the sixth enumeration of the nation's forest resources, the PRC ranked 5th and 6th, globally, in forest area and stock volume, respectively in 2003.

Fiber Supply and Demand

Domestic Fiber Supply

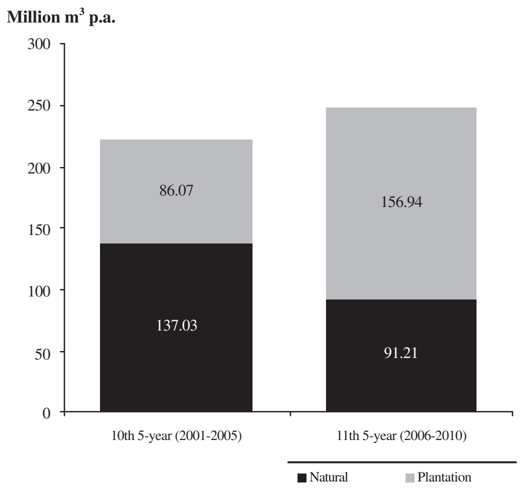
The PRC controls its annual forest cut by means of annual allowable cut ("AAC") quotas set by the State Forestry Administration. The AAC quota was 223 million cubic meters per annum for the 10th Five-Year Plan period (2001-2005) and is planned to increase to 248 million cubic meters per annum during the 11th Five-Year Plan period (2006-2010). Harvest from plantation forests is expected to increase by 82%, from 86 million cubic meters in 2006 per annum to 157 million cubic meters per annum in 2010.

PRC AAC Quota
Commercial vs. Non-Commercial



Source: State Forestry Administration

PRC AAC Quota
Natural Forest vs. Plantation Forest



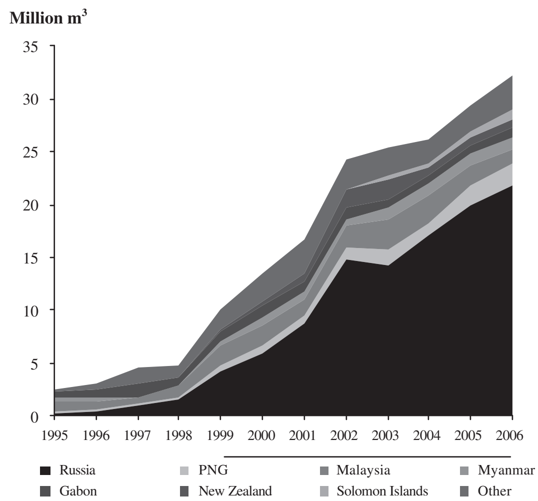
Source: State Forestry Administration

According to the Food and Agricultural Organization database, the PRC's industrial roundwood removals have been stable over the last five years, at approximately 95 million cubic meters on average per annum. In 1996, a high level of 109 million cubic meters was reached, before a decrease in the late 1990s, due to the PRC government's harvesting ban on natural forests.

Imported Fiber Supply

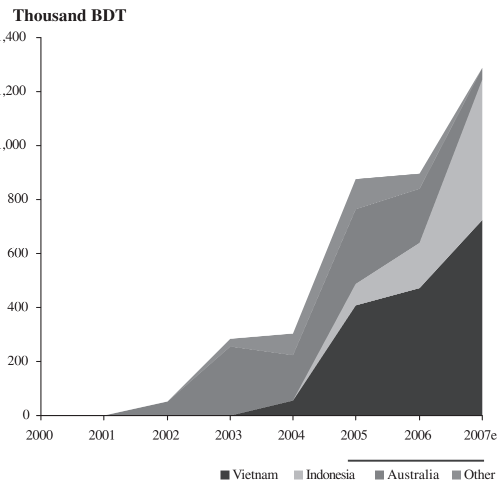
Log imports into the PRC have significantly increased during the last decade, at an average growth rate of 26% per annum. The PRC is currently the world's largest log importer. In 2006, the PRC imported 32 million cubic meters of logs, of which 20 million cubic meters were softwood logs and 12 million cubic meters were hardwood logs.

PRC Log Imports (by Source)



Source: Pöyry Forest Industry

PRC Hardwood Woodchip Import (by Source)



Source: Pöyry Forest Industry

Imports of logs from Russia represented 68% and 92% of the PRC's total log imports and total softwood log imports, respectively, in 2006. Papua New Guinea, Malaysia, Myanmar and Gabon were positioned second to fifth in terms of log imports into the PRC, respectively, in 2006, supplying mainly mixed tropical hardwood logs. New Zealand has been the second largest and the only other sizeable softwood log supplier to the PRC after Russia.

The PRC's log import volumes are expected to increase at a slower growth rate in the future. Significant tariff increases on logs exported from Russia have been proposed by the Russian government, which may affect the volume and price of log imports from Russia into the PRC.

Fiber Demand

Demand for fiber in the PRC has experienced significant growth since 2000, largely driven by the PRC's strong economic growth. This economic growth has led to rapid urbanization, robust demand for infrastructure, a significant increase in housing demand and an increase in the middle class population, which, in turn, has increased the demand for building and basic materials. According to Pöyry, the PRC's current domestic fiber demand, including demand for non-industrial applications such as rural housing, mining, agriculture and fuelwood, is estimated to be 350 to 400 million cubic meters per annum with industrial uses representing approximately one-third of the total demand.

According to Pöyry, it is estimated that the PRC's industrial wood consumption in 2005 was approximately 140 to 150 million cubic meters, on a roundwood-equivalent basis, having grown substantially over the last five years at an average rate of 10% per annum. The lumber and reconstituted panel industries were the major contributors to this growth.

The demand for industrial wood products is forecasted to continue to grow at a slower rate in the future, with the bulk of this increase being expected to be generated from the development of domestic pulp and reconstituted panel manufacturing industries. According to Pöyry, the demand from the pulp making industry is anticipated to expand significantly at a growth rate of 18% per annum from 2005 to 2010.

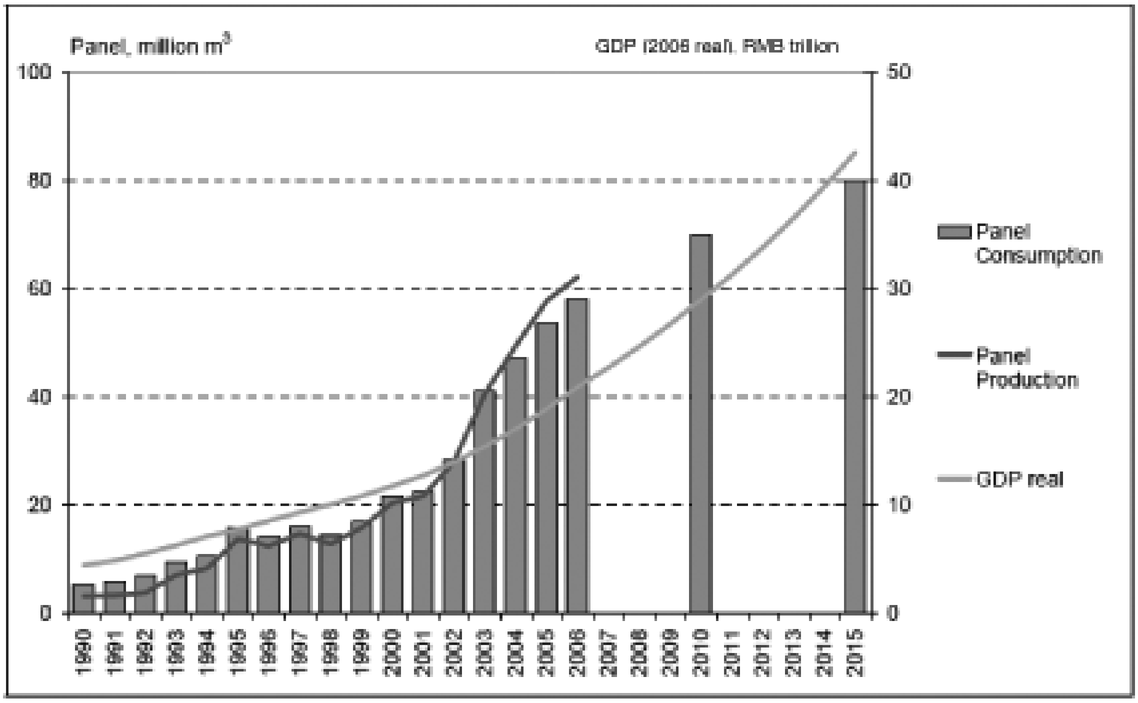
PRC Wood Consuming Industries

According to Pöyry, the structure of the wood products industry in the PRC can be categorized by types of production. Wood based panels, pulp and paper products and sawn lumber are three main categories of forest products in the PRC. The outlook for the PRC's wood based panels, pulp and paper and sawn lumber industries is set out below.

Wood Based Panels

The PRC is the world's largest producer and second largest consumer of wood-based panels. The PRC's wood-based panel sector has developed rapidly with the period of strongest growth occurring during the early 2000s. Pöyry predicts steady growth in the future.

Wood-based Panels Supply and Demand in the PRC



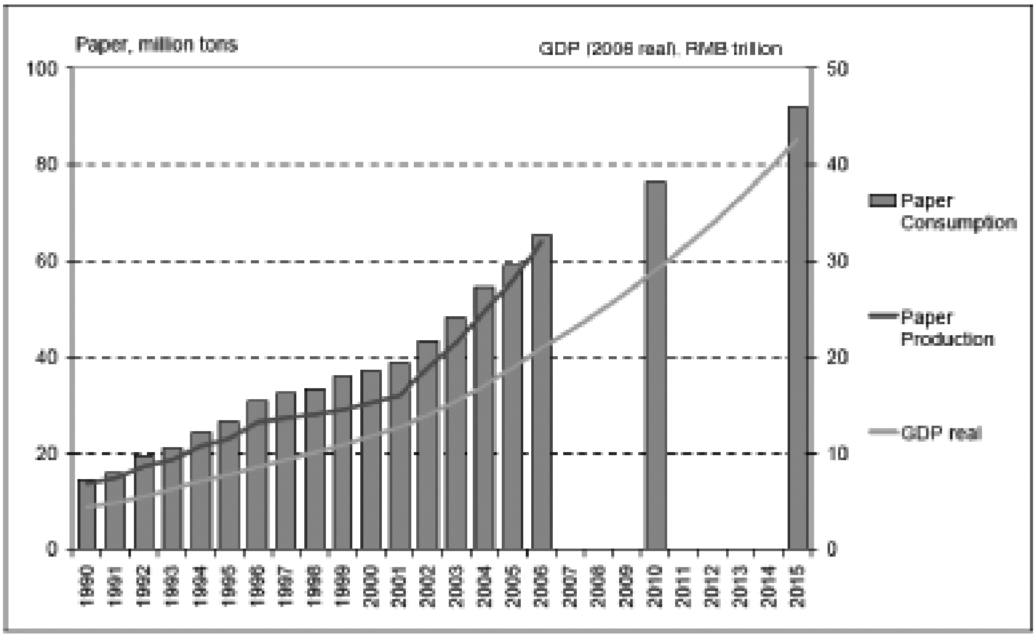
Source: Food and Agriculture Organization of the United Nations (Woodbased Panels data), Pöyry Forest Industry

Wood-based panel production in the PRC has increased substantially at an average growth rate of 17% per annum over the last decade. Production exceeded 62 million cubic meters in 2006 and is forecasted to reach 65 million by 2010, with such future increase expected to be generated primarily from growth in reconstituted panel products.

Pulp and Paper

Pöyry predicts that demand for paper in the PRC will increase from 66 million tons in 2006 to 107 million tons by 2020, and that paper production in the PRC will increase from 64 million tons in 2006 to 101 million tons by 2020.

Paper Products Supply and Demand in the PRC



Source: Food and Agriculture Organization of the United Nations (Paper & Paperboard data), Pöyry Forest Industry

The PRC pulp and paper industry has historically suffered from a lack of wood resources. The utilization of wood in the production of pulp has remained low, with non-wood pulp playing a notable role in the industry. During the past decade, there has been a significant increase in wood pulp demand. The share of wood pulp within the total consumption of papermaking fibers in the PRC grew from 16% in 1990 to over 20% in 2005.

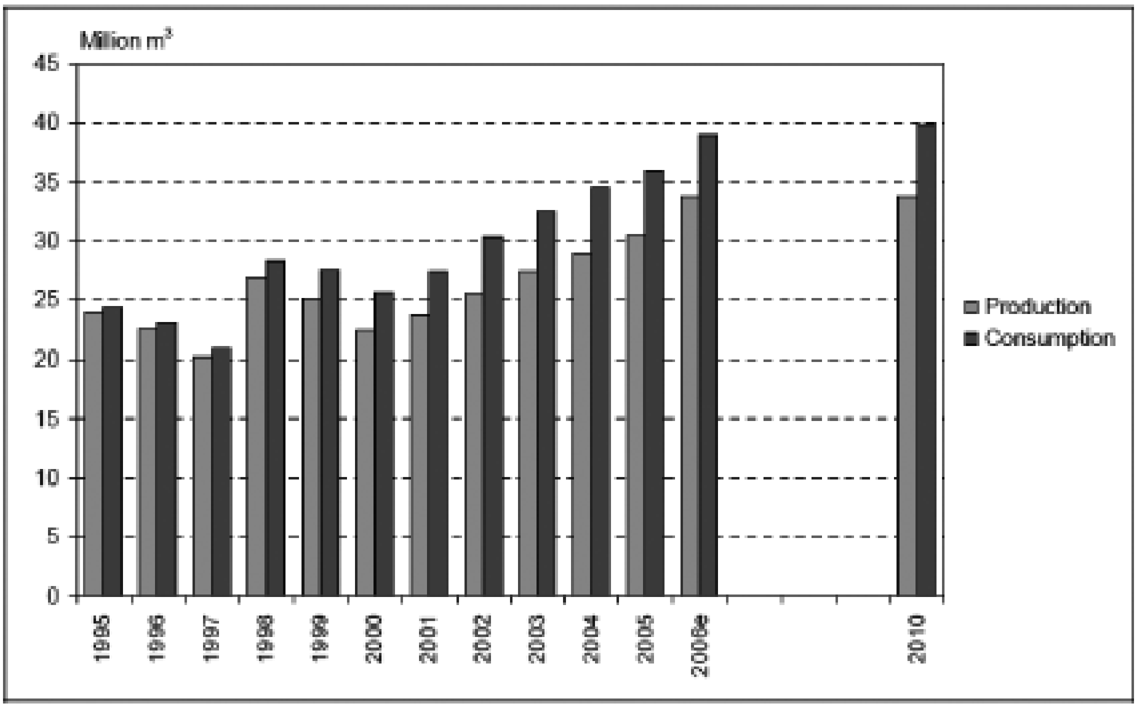
Sawmilling

The PRC's sawmilling industry has undergone a transition since 1998, as a result of efforts to protect the PRC's national forests and an increased awareness of environmental problems in the PRC. The Natural Forest Protection Program's logging ban resulted in significant shortages in domestically produced sawlogs and a greater reliance on imported sawlogs for the production of domestic sawn timber.

Small to medium-sized producers continue to dominate the sawn timber industry. There are numerous non-industrialized workshop operations across the PRC. More recently, as log imports have increased, many individuals operating simple saw and carriage sawnwood businesses have relocated near major log import ports or cities such as Suifenhe in Heilongjiang Province, Zhangjiagang in Jiangsu Province, and Jiaxing in Zhejiang Province.

Pöyry estimates that the PRC produced approximately 34 million cubic meters and consumed 39 million cubic meters of sawn timber in 2006. Production and consumption have increased at annual average rates of 4.1% and 5.4%, respectively, over the past decade. Demand for sawn timber is predicted to grow at a more modest rate, and domestic production is predicted to remain relatively stable for the rest of the decade. Accordingly, Pöyry predicts that the quantity of imported lumber will increase.

Lumber Production and Consumption in the PRC



Source: Food and Agriculture Organization of the United Nations (Sawlogs & Veneer Logs data), Pöyry Forest Industry

Plantation Industry

Development of the Plantation Industry

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

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

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

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

- to insist on the consistency of the foreign investment policy, *i.e.*, to favor allocation of foreign investments on areas identified in the Catalog of Foreign-invested Industry Guidance (外商投資產業指導目錄) and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region (中西部地區外商投資優勢產業目錄);
- to encourage and facilitate development and use of critical technologies, equipment and products that favor the upgrade of industrial structure of forestry;
- to gradually establish the Timber Industrial Zone composed of the Southeast Coastal Area, Southern Timberland and Huang-Huai-Hai Plain;
- to encourage the development of non-public-owned forestry, eliminate institutional obstacles to such development and introduce advanced international technologies and management experiences;
- to establish a sound product quality inspection and monitoring system and help forestry corporations obtain the ISO 9000 and ISO 14000 certifications;
- to strictly follow the released tax policy and provide insurance and financial services to companies and individuals in the forestry industry;
- to establish a platform for transactions of plantation land use rights;

- to improve forest harvesting management and facilitate harvesting of artificial commercial plantations, in particular at plantations supplying industrial raw materials, and to strengthen the operators' rights to cultivate the plantations; and
- to create a favorable environment for development of the forestry industry.

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

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:

- protection forests — forests used for ecological protection, including for conservation of water resources, retention of water and soil, wind cover and protection of farms, fields and roads;
- commercial forests — forests used for 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 (中華人民共和國森林法實施條例) implemented on January 29, 2000 (the "Implementation Regulations") describe the PRC registration and licensing system for ownership of plantation/forestry land, forestry/plantation land use rights, ownership of the forestry/plantation trees and the right to use the forestry/plantation 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 tree plantations
Plantation Land Use Rights	Right to use the tree plantation land for use as commercial tree plantations
Plantation Tree Ownership Rights	Right to own the trees on a commercial tree plantation
Plantation Tree Use Rights	Right to use the produce (i.e. fruit) of the trees

Under the PRC Forestry Law, it is not necessary or required 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 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 "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, trees 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, trees and forest land and the users' ownership of trees. Any change in the ownership or use rights of forests, trees and forest land must be registered. The PRC State Forestry Administration promulgated and implemented the Forest Tree and Forest Land Ownership and Use Right Registration Administrative Measures (林地和林木權屬登記管理辦法) on December 31, 2000 (the "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 the relevant plantation rights set forth 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 law, 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 tree 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 designated 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 and 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. On April 19, 2000, the PRC State Forestry Administration published the "Notice on the Implementation of Nationwide Uniform Plantation Right Certificates" (Lin Zi Fa (2000) No. 159) (the "Notice"). Under the Notice, a new uniform form of Plantation Rights Certificate is to be used commencing on the date of the Notice. The same type of new form Plantation Rights Certificate will be issued to 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.

Since 2000, the PRC government has been in the process of issuing new certificate forms on a national scale.

In February 2007, the PRC State Forestry Bureau promulgated a Notice to further strengthen and rectify the registration and issuance of the Plantation Rights Certificates in accordance with the relevant forestry laws and regulations.

However, the registration and issuance of the new form of Plantation Rights Certificates for the ownership of trees and plantation land use rights required by the relevant PRC laws and regulations and the rules of the PRC State Forestry Administration have not yet been fully implemented in a timely manner in certain areas 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. Logging permits will not be issued to an applicant under the following circumstances:

- if the applicant has not replanted the forest trees logged in the previous year;
- if there were any large-scale forest fires, significant unlawful logging or large-scale destruction caused by forest pests in the previous year and the applicant has not adopted appropriate preventive or improved measures to prevent such occurrence; or
- if the application is for logging in a conservation forest zone or in a special use forest zone which is not sustainable.

Under the PRC Forestry Law, the PRC strictly implements a quota system for logging forest trees. Set annually by the forestry departments at the provincial level, the annual logging 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 Administration, approved by the PRC State Council, and reviewed every five years.

The Implementation Regulations stipulate that for foreign invested plantations, the logging quota is allocated separately by the provincial forestry department within the framework of the annual logging quota approved by the PRC State Council.

Timber Transportation Permits

According to the PRC Forestry Law, any entity which needs to transport 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 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 Administration 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 tree 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. Pursuant to the Implementation Regulations, all entities should apply to the forestry bureau of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above is responsible for issuing the plantation rights certificates. Applicants for plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry bureau.

Plantation Rights Certificates for Our Purchased Tree Plantations

For our purchased tree plantations, we have applied for the relevant Plantation Rights Certificates with the relevant local forestry bureaus. 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. Instead, we obtained confirmation of our ownership of our Purchased Tree Plantations from the relevant forestry bureaus. Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased tree plantations.

Timber Logging Permits and Logging Quotas

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

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

Timber Transportation Permit

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

Manufacturing

Engaging in the Timber Business

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

Regulations that Apply Nationwide

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

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

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

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

Eleventh Five-Year Plan

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

TREE PLANTATION CONTRACTUAL ARRANGEMENTS

Wood Fiber Purchase Agreements

As of March 31, 2008, we managed approximately 328,000 hectares of trees and we have entered into master agreements that give us access to an additional approximately 750,000 hectares of trees (of which approximately 97,000 hectares were already acquired as at March 31, 2008), as explained below.

We entered into our first wood fiber purchase agreements (the "Purchase Agreements") in 1997. Under the Purchase Agreements, we agreed to purchase, and the seller agreed to sell the trees on the relevant tree plantation land. The sellers under the Purchase Agreements were authorized agents of the original plantation owners. Most of these agreements contains substantially the same provisions.

The Purchase Agreements provide us a right to own the trees on the relevant tree plantation land. However, they do not include any plantation land use rights to the plantation land. As a result, under the Purchase Agreements, we are required to return the plantation lands to the seller once the trees are harvested, unless we exercise our pre-emptive rights under the Purchase Agreements described below.

The Purchase Agreements provide authorization from certain original legal owners of the plantation lands for the sellers to enter into the agreements and that the original legal owners agreed to the terms and conditions of the relevant Purchase Agreements. Under each Purchase Agreement, the seller warrants that he has obtained all the requisite approvals, licenses and consents for the execution and implementation of such purchase agreement, and that he will liaise with the original plantation rights holders in assisting us to complete the requisite plantation registration procedures. The seller also warrants that it will assist us to obtain all other permits in relation to the logging of the trees and transporting the logs out of the forest.

Under the Purchase Agreements, we have a pre-emptive right to acquire the underlying plantation land use rights (or other suitable plantation land use rights to an area equivalent to that of the purchased tree plantations) through long-term leases to the tree plantations for a maximum period of up to 50 years, subject to negotiation of the definitive land use right agreement, obtaining the requisite governmental approvals and completing the requisite registration procedures.

Wood Fiber Master Agreements

In order to increase our supply of wood fiber, certain of our Subsidiaries have entered into master agreements with wood fiber suppliers. These master agreements are described in "Business — Our Wood Fiber Operations — Access to Future Purchases of Tree Plantations."

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

Additional Wood-Fiber Supply: Mandra-Related Agreements

Mandra Operating Management Agreement

We entered into a five-year renewable operating management agreement dated as of May 11, 2005 (the "Operating Management Agreement") with Mandra Forestry Finance Limited to provide various management, operating and support services in connection with Mandra Forestry Finance Limited's tree plantations in Anhui Province. Under this agreement, Sino-Forest Investments Limited is acting as an independent contractor and provides services including, without limitation, supervision and monitoring of third-party contractors, assistance with Mandra Forestry Finance Limited's recruitment of qualified personnel, development of Mandra Forestry Finance Limited's work schedule and budget, preparation of monthly progress reports and detailed assessments of plantation sites.

Mandra Forestry Finance Limited Master Sales Agreement

Under a five-year renewable master sales agreement dated May 11, 2005 (the "Master Sales Agreement"), we agreed to purchase all cut logs produced at Mandra Forestry Finance Limited's plantation in Anhui Province that meet certain commercial specifications.

Mandra Forestry Finance Limited Subordinated Loan Agreement

Pursuant to a subordinated loan agreement dated May 11, 2005, we made a subordinated loan to Mandra Forestry Finance Limited in an aggregate principal amount of US$15.0 million to provide subordinated financing for acquisitions of forestry assets in Anhui Province by its PRC operating subsidiaries.

Interest on the subordinated loan accrues at a rate of 8.0% per annum and is payable at maturity. Except as otherwise permitted in the Mandra Forestry Finance Limited Subordinated Loan Agreement, no principal and interest payments will be made prior to the repayment in full of all amounts due under the Mandra Notes (as defined below). The interest rate on the Mandra Subordinated Loan Agreement may increase to 10% under certain conditions.

The outstanding principal of and accrued but unpaid interest on the subordinated loan will be paid in one lump sum 30 days following the repayment in full of all amounts due under the Mandra Notes. Under certain circumstances, Mandra Forestry Finance Limited may, at any time after the third anniversary of the Mandra Subordinated Loan Agreement, optionally prepay all or any portion of the subordinated loan, together with all accrued interest, without premium or penalty.

The Mandra Subordinated Loan Agreement is expressly subordinated and subject in right of payment to the prior repayment in full of all amounts due under the Mandra Notes. Sino-Forest Investments Limited has agreed that it will not enforce any covenant, declare an event of default, accelerate or otherwise pursue any remedies in respect of the subordinated loan until all amounts due under the Mandra Notes have been paid in full.

Mandra Shareholders Agreement

Sino-Forest Investments Limited Purchase Option. We entered into a shareholders agreement with Mandra Forestry dated May 11, 2005 (the "Mandra Shareholders Agreement"). Under the Mandra Shareholders Agreement, we have been granted an option to purchase all of the outstanding equity securities of Mandra Forestry from the other shareholders of Mandra Forestry and shares represented by warrants held by certain warrant holders at any time during the period commencing on the third anniversary of the Mandra Shareholders Agreement or the date on which Mandra Forestry acquires 300,000 hectares of commercial forest in Anhui Province, whichever is earlier, and ending one day prior to the fifth anniversary of the Mandra Shareholders Agreement; provided that the exercise of such option may only be completed if (1) either (a) the rating agencies that issued ratings on the US$195,000,000 12% guaranteed notes due 2013 by Mandra Forestry and Mandra Forestry Finance Limited (the "Mandra Notes") provide confirmation in advance that the exercise of the option will not result in a rating decline or (b) no rating decline occurs within six months following public notice or notice to the rating agencies of our intention to exercise the option and (2) we guarantee the obligations of Mandra Forestry under the Mandra Notes and the indenture thereto.

The consideration payable by us for the equity securities of Mandra Forestry will be their fair market value in connection with the repurchase and will be determined by an independent qualified investment bank or firm of certified public accountants appointed by the board of directors of Mandra Forestry. Subject to limited exceptions, termination of the Operating Management Agreement will result in the loss of our purchase option.

Between the date of the fifth anniversary of the date of the Mandra Shareholders Agreement and the seventh anniversary of the date of the Mandra Shareholders Agreement, we will have a final purchase option to purchase all of the outstanding equity securities of Mandra Forestry Finance Limited from each of the shareholders of Mandra Forestry Finance Limited for a period of 120 days following notice from Mandra Forestry that it intends to effect a public offering of shares or listing of Mandra Forestry; provided that if Sino-Forest Investments Limited declines to exercise the option and Mandra Forestry subsequently fails to effect a public offering of shares or listing within the following nine months, Sino-Forest Investments Limited will be granted the same purchase option prior to any future public offering of shares or listing proposed to be effected prior to the seventh anniversary of the date of the Mandra Shareholders Agreement.

Sino-Forest Investments Limited Right of First Offer. Between the fifth and seventh anniversary of the Mandra Shareholders Agreement, we shall have a right of first offer with respect to any proposed transfer of ordinary shares (other than a transfer to an affiliate) by any other principal shareholder of Mandra Forestry, subject to certain conditions.

Mandra Share Subscription Agreement

We entered into a share subscription agreement with Mandra Forestry dated as of May 11, 2005. Pursuant to this agreement, Sino-Forest Investments Limited purchased and subscribed for 15% of the outstanding shares of Mandra Forestry Finance Limited.

Additional Wood Logs Supply: Equity Interest in Greenheart

In July 2007, we signed a master sale and purchase agreement with Greenheart, a natural forest concession owner and operator in Suriname, South America to secure 34,285 cubic meters of logs from Suriname for US$175 per cubic meter up to January 31, 2009. In addition, we invested US$6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp, a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to us consisting of 7,860,000 Omnicorp common shares, convertible bonds at a principal amount of US$4.0 million issued by Omnicorp which mature on November 9, 2009, and cash in the amount of US$302,000, resulting in us recognizing a gain of US$3.4 million as other income. In October 2007, we acquired convertible bonds issued by Omnicorp for US$1.8 million from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp common shares.

DESCRIPTION OF OTHER INDEBTEDNESS

Our material long-term indebtedness consists of the 2004 Senior Notes and the Syndicated Term Loan.

2004 Senior Notes

We entered into a trust indenture dated as of August 17, 2004 between us, Law Debenture Trust Company of New York, as trustee, and certain of our subsidiaries.

Outstanding 2004 Senior Notes

As of June 30, 2008, we had US$300.0 million of 9.125% guaranteed senior notes due 2011 outstanding. The 2004 Senior Notes were issued pursuant to the 2004 Indenture dated as of August 17, 2004. The 2004 Senior Notes are (i) our general obligations, (ii) guaranteed by certain of our subsidiaries on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2004 Senior Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) guaranteed by the pledge of the shares of certain of our subsidiaries.

Maturity

The maturity date of the 2004 Senior Notes is August 17, 2011.

Interest Rate

The 2004 Senior Notes bear interest at a rate of 9.125% per annum on their principal amount outstanding, payable by two semi-annual installments on February 17 and August 17 of each year.

Guarantee

The 2004 Senior Notes are guaranteed on a senior basis, subject to certain limitations, by certain of our subsidiaries named in the 2004 Indenture, as amended and supplemented from time to time, which are also the Subsidiary Guarantors under the Notes (as well as the Initial Non-Guarantor Subsidiaries) and the subsidiary guarantors under the Syndicated Term Loan.

Security

The 2004 Senior Notes are secured by a security interest in certain of our subsidiaries' shares, ranking *pari passu* with the security interest given by the same subsidiaries under the Syndicated Term Loan. Our payment obligations under the 2004 Senior Notes rank *pari passu* with the claims of all our unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

Covenants

The 2004 Indenture contains financial covenants. Pursuant to one of these financial covenants, we and certain of our subsidiaries are required, subject to certain exceptions, not to incur new indebtedness without maintaining a Fixed Charge Coverage Ratio of not less than 3.0:1 at any date on which indebtedness is incurred or a restricted payment is made (each, a "Transaction Date"). Under the 2004 Indenture, "Fixed Charge Coverage Ratio" means the ratio of (i) the aggregate amount of "Consolidated EBITDA" for the then most recent four fiscal quarters prior to such Transaction Date for which our consolidated financial statements are available (the "Four Quarter Period") to (ii) the aggregate consolidated gross interest expense of us and certain of our subsidiaries, for certain cash and non-cash dividends of us and certain of our subsidiaries, accrued or accumulated during such Four Quarter Period.

The 2004 Indenture also contains certain other covenants which include, but are not limited to:

(i) limitations on incurrence of indebtedness;

(ii) limitations on restricted payments;

(iii) limitations on payments of dividends by us and certain of our subsidiaries;

(iv) limitations on issuance of guarantees by certain of our subsidiaries;

(v) limitations on merger, consolidation and asset sales;

(vi) limitations on certain transactions with affiliates;

(vii) limitations on liens, securities or pledges;

(viii) limitations on substantial changes to the general nature of our business; and

(ix) limitations on sale-leaseback transactions.

In addition, pursuant to the 2004 Indenture, in the case of the occurrence of certain changes of control, we may commence an offer to purchase all of the 2004 Senior Notes then outstanding and failure by us to do so within 30 days of the occurrence of such changes of control is an event of default under the 2004 Indenture.

Events of Default

The 2004 Indenture provides for events of default customary for indentures of this type, including nonpayment of principal, interest or other amounts; violations of covenants; material adverse effect; certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; and/or failure to commence an offer to purchase the outstanding 2004 Senior Notes within 30 days of the occurrence of certain changes of control. If such events of default were to occur, our payment obligations under the 2004 Senior Notes may immediately become payable to the noteholders.

The 2004 Indenture also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries.

Syndicated Term Loan

We entered into a syndicated term loan facility agreement dated February 24, 2006 between us and a syndication including Barclays Bank PLC, Bayerische Hypo- und Vereinsbank AG, Hong Kong Branch, CITIC Ka Wah Bank Limited, Export Development Canada and Hang Seng Bank Limited.

Availability

US$150.0 million was made available for drawing under the Syndicated Term Loan facility.

Interest Rate

Borrowings under the Syndicated Term Loan bear interest at LIBOR plus an applicable margin. Such margin equals 1.30% per annum, but may vary in the range of 0.80% to 1.50% per annum based on our Consolidated Total Debt to Consolidated EBITDA ratio of the most recently completed of (i) the period of 12 months ending on the last day of our financial year or (ii) the period of 12 months ending on the last day of each period of three months ending on March 31, June 30 and September 30 in each year (the "Relevant Period"). As defined in the Syndicated Term Loan, (i) "Consolidated Total Debt" means the aggregate outstanding principal, capital or notional amount, and any fixed or minimum premium payable on prepayment or redemption, of our indebtedness and any transaction of ours having the commercial effect of a borrowing, on a consolidated basis and (ii) "Consolidated EBITDA" is a measure of EBITDA that starts with our consolidated net income and the consolidated net income of certain of our subsidiaries and adjusts for interest expenses, income taxes, depreciation expense, amortization expense and certain non-cash items.

Repayment

25% of the principal amount of the loans to be repaid on the day falling four years and one day from the date on which the loan was drawn under this facility, and the balance outstanding, is to be repaid on the day falling five years and one day from the date on which the loan was drawn under this facility.

Prepayments

Loans taken under the Syndicated Term Loan facility may be prepaid at any time in whole or in part (subject to certain minimum amounts if prepaid in part) without premium or penalty. Such loans may also be prepaid by us upon the occurrence of certain changes of control and failure by us to prepay all outstanding loans within 30 days of the occurrence of such changes of control is an event of default under the Syndicated Term Loan facility.

Guarantee

The Syndicated Term Loan facility is guaranteed by certain of our subsidiaries, which include the Subsidiary Guarantors under the Notes (and the Initial Non-Guarantor Subsidiaries).

Security

The Syndicated Term Loan facility is secured by a security interest in certain of our subsidiaries' shares ranking *pari passu* with the 2004 Senior Notes. Our payment obligations under the Syndicated Term Loan facility rank *pari passu* with the claims of all our unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

Covenants

The Syndicated Term Loan facility contains financial covenants that require us and certain of our subsidiaries named therein to maintain:

(i) a Consolidated Total Debt to Consolidated EBITDA ratio for any Relevant Period of not more than

- 4.25:1 for any Relevant Period ending after December 31, 2007 but on or before December 31, 2008;
- 3.75.1 for any Relevant Period ending after December 31, 2008 but on or before December 31, 2009; and
- 3.50.1 for any Relevant Period ending after December 31, 2009;

(ii) our consolidated stockholders' equity and that of certain of our subsidiaries, adjusted for certain class or classes of securities being part of our capital stock (the "Consolidated Net Worth"), shall not at any time be less than US$350.0 million;

(iii) the ratio of Consolidated Total Debt to Consolidated Net Worth at the end of each Relevant Period shall not be more than 1.5:1; and

(iv) the ratio of (x) the remainder of Consolidated EBITDA less our consolidated interest income and that of certain of our subsidiaries to (y) consolidated interest expense less our consolidated interest income and that of certain of our subsidiaries for each of the Relevant Periods, shall not be less than 3.0:1.

In addition, the Syndicated Term Loan facility contains certain other covenants, including, but not limited to:

(i) limitations on incurrence of indebtedness, subject to exceptions;

(ii) limitations on restricted payments;

(iii) limitations on payments of dividends by us and certain of our subsidiaries;

(iv) limitations on merger, consolidation and asset sales;

(v) limitations on investments;

(vi) limitations on liens, securities or pledges; and

(vii) limitations on substantial changes to the general nature of our business.

Events of Default

The Syndicated Term Loan facility provides for events of default customary for facilities of this type, including nonpayment of principal, interest or other amounts; misrepresentations; violations of covenants, certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; failure to prepay outstanding loans upon the occurrence of certain changes of control. If such events of default were to occur, our payment obligations under the Syndicated Term Loan facility may immediately become payable to the lenders.

The Syndicated Term Loan facility also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries, including under the 2004 Senior Notes.

MANAGEMENT

Directors and Executive Officers

The management of our business and affairs is supervised by our board of directors. Our board of directors has seven members, including five independent directors. They were elected at the meeting of shareholders held on May 26, 2008. Our directors are elected to serve from the beginning of their respective terms until the close of the next annual meeting of shareholders or until such director's successor is duly elected or appointed.

The following table sets forth information regarding our current directors and executive officers. Unless otherwise indicated, their business address is c/o Sino-Forest Corporation, 3815-29, 38th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong Special Administrative Region, China.

Name and Residence	Position	Age
Board of Directors		
Allen T.Y. Chan		
Hong Kong	Chairman and Director	56
Kai Kit Poon		
Hong Kong	Director	68
James M.E. Hyde(1)(2)(3)(4)		
Ontario, Canada	Director	53
Edmund Mak(1)(3)(4)		
British Columbia, Canada	Director	60
Judson Martin(1)(2)(3)(4)		
Ontario, Canada	Director	52
Simon Murray(2)(4)		
Hong Kong	Director	68
Peter D.H. Wang(4)		
PRC	Director	56
Executive Officers		
Allen T.Y. Chan		
Hong Kong	Chief Executive Officer	56
David J. Horsley		
Ontario, Canada	Senior Vice President and Chief Financial Officer	48
George Ho		
Hong Kong	Vice President, Finance, China; Vice President, Finance & CFO, Sino Panel (Asia) Inc.	47
Chen Hua		
PRC	Senior Vice President, China Operations and Finance	46
Alfred Hung		
Hong Kong	Vice President, Corporate Planning, Banking and Sales	41

Name and Residence	Position	Age
Albert Ip		
Hong Kong	Senior Vice President, Development Operations, North East and South West China	48
Richard M. Kimel		
Ontario, Canada	Corporate Secretary	41
Thomas M. Maradin		
Ontario, Canada	Vice President, Risk Management	47
Kai Kit Poon		
Hong Kong	President	68
Wei Mao Zhao		
PRC	Senior Vice President, China Plantation	50

Notes:

(1) Member of the Audit Committee.

(2) Member of the Compensation and Nominating Committee.

(3) Member of the Corporate Governance Committee.

(4) Independent Director.

A description of the business experience and present position of each director and executive officer is provided below (in alphabetical order).

Allen T.Y. Chan has been the Chairman, Chief Executive Officer and a director of our Company since 1994. Mr. Chan is responsible for our overall strategic planning and management. Mr. Chan is a recognized leader in the field of sustainable development. He spearheaded the Sustainable Development Leadership Program jointly organized by the School of Forestry and Environmental Studies at Yale University and the Nanjing Forestry University in the PRC. Mr. Chan, under the name of "管仲連," is well known as a writer on culture, history and business issues and has published books in Hong Kong and the PRC. He regularly speaks at Hong Kong and Chinese universities. He graduated from the Sociology Department at the Hong Kong Baptist College (currently the Hong Kong Baptist University) in 1979.

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

David J. Horsley is currently the Senior Vice President and Chief Financial Officer of our Company. Prior to joining our Company in 2005, Mr. Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent an 11-year career with Canadian General Capital Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

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

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

James M.E. Hyde has been a director of our Company since 2004. Mr. Hyde is also Executive Vice President and Chief Financial Officer of Resolve Business Outsourcing Income Fund. Prior to joining our Board of Directors, Mr. 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 12 years as a Partner.

Albert Ip is currently the Senior Vice President, Project, Hong Kong, of our Company. Prior to joining our Company in 1997, Mr. Ip was involved in the marketing, production management, project management and corporate business development and operations in the garment, electronics and wood-related industries for several corporations.

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

Edmund Mak has been a director of our Company since 1994. Mr. Mak has 30 years of business and management experience with several multinational corporations in North America and Hong Kong in a variety of industries: real estate, computer and high technology equipment, transportation, construction, oil and gas, textile and trade in the PRC. He is currently engaged in real estate marketing with Re/Max Select Properties in Vancouver. He is a graduate of the University of Toronto with an M.B.A. degree.

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

Judson Martin has been a director of our Company since 2006. Prior to joining our board of directors, Mr. Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis") from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the Board of Directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 until June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is Chairman of Skypower Wind Energy Fund LP and serves as Chair of its audit committee. Mr. Martin is also a trustee of Somerset Entertainment Income Fund and serves on its audit committee, and also as Chair of its compensation nominating and corporate governance committee.

Simon Murray, CBE has been a director of our Company since 1999. Mr. Murray is a co-founder and shareholder of Distacom International Limited. He was the executive chairman in Asia Pacific of the Deutsche Bank group until early 1998, when he established his own business. He is the chairman of General Enterprise Management Services (GEMS), a private equity fund management company sponsored by Simon Murray and Associates. He is also a director of a number of public companies including Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited, Orient Overseas (International) Limited and Sunday Communications Limited. Mr. Murray is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association. In 1994, Mr. Murray was awarded the CBE by Her Majesty Queen Elizabeth II for his contributions to the Hong Kong community.

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

Peter D.H. Wang has been a director of our Company since 2007. Mr. Wang also serves as the General Manager of Hong Kong Resource Power Development Limited, a company importing machinery equipment into the PRC, 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 the PRC's top five import and export companies. Mr. Wang has over 30 years' experience in Sino-foreign projects and business affairs, predominantly related to the petrochemical and mining industries, as well as wood-based panel industries. He was involved in a number of pioneering projects when the PRC first opened up its foreign markets in the late 1970s. He was a member of the Formulation Committee of Chinese-Foreign Contract, Guangdong Province and was also a member of the delegation team travelling with the PRC Premier Wen Jiabao to India in 2005 to execute contracts and projects related to highway and power stations, and to expand Sino-Indian bilateral trade and economic cooperative ties.

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

Directors' Interests

The directors' total direct and indirect holdings of our Common Shares as of July 11, 2008 are as follows:

Name	Number of Common Shares Owned	Percentage of Common Shares Owned
		(%)
Allen T.Y. Chan	5,992,753	3.28
Kai Kit Poon	2,753,105	1.51
Edmund Mak	50,000	0.03
Simon Murray	65,000	0.04
James M.E. Hyde	10,000	0.01
Judson Martin	10,000	0.01

Board Committees

Our Board of Directors currently has three committees: the Audit Committee, the Corporate Governance Committee, and the Compensation and Nominating Committee. The committees, their mandates and memberships are discussed below. We also maintain a Disclosure Committee made up of senior management.

Audit Committee

The Audit Committee's primary purpose is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting and accounting compliance, the audit process, and processes for identifying, evaluating and monitoring the management of our principal risks impacting financial reporting. The committee also assists the Board of Directors with the oversight of financial strategies and overall risk management.

The Audit Committee is composed of Mr. James M.E. Hyde (Chairman), Mr. Edmund Mak and Mr. Judson Martin, each of whom is one of our directors. Each of the members of the Audit Committee is "independent" and "financially literate" as such terms are defined in Multilateral Instrument 52-110 — Audit Committees.

A copy of the charter of the Audit Committee is attached as an appendix to the Annual Information Form of the Corporation for the year ended December 31, 2007, a copy of which is available electronically at www.sedar.com (the official site providing access to most public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators in the SEDAR filing system). The section of the Annual Information Form entitled "Audit Committee" contains disclosure required by Multilateral Instrument 52-110 — Audit Committees.

Corporate Governance Committee

The role of the Corporate Governance Committee is to develop and recommend standards of performance for the Board of Directors, its committees and individual directors. The Corporate Governance Committee is composed of Mr. Judson Martin (Chairman), Mr. Edmund Mak and Mr. James M.E. Hyde.

Compensation and Nominating Committee

The Compensation and Nominating Committee meets on compensation matters as and when required with respect to executive compensation. The primary goal of the Compensation and Nominating Committee as it relates to compensation matters is to ensure that the compensation provided to our executive officers is determined with regard to our business strategies and objectives, such that the financial interest of the executive officers is aligned with the financial interest of shareholders, and to ensure that their compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives. Our Board of Directors (exclusive of our officers who are also members of the Board of Directors) reviews such recommendations and is responsible for ultimately determining executive compensation.

The Compensation and Nominating Committee is also responsible for coordinating and managing the process of recruiting, interviewing, and recommending candidates to the Board of Directors. This committee has a formal written charter which outlines the committee's responsibilities, requisite qualifications for new directors, the appointment and removal of directors and the reporting obligations to the Board of Directors. In addition, the Compensation and Nominating Committee is given the authority to engage and compensate any outside advisor that it determines to be necessary to carry out its duties.

The Compensation and Nominating Committee is composed of Mr. Judson Martin (Chairman), Mr. James M.E. Hyde and Mr. Simon Murray, all of whom are considered "independent."

Disclosure Committee

A Disclosure Committee has been established to assist our executive officers in fulfilling their responsibility for oversight of the completeness, accuracy and timeliness of the disclosures made by us.

The current members of the committee are the Vice President, Risk Management; the Vice President, Corporate Planning, Banking and Sales; the Senior Manager — Investor Communication & Relations; the Vice President, Finance, China and Vice President, Finance and CFO, Sino-Panel (Asia) Inc.; the Assistant Vice President — Legal Affairs PRC; the Senior Manager — Legal Affairs PRC; and the Manager — Legal Affairs Hong Kong.

The Disclosure Committee is responsible for (i) timely disclosure in accordance with applicable regulatory requirements, (ii) determining whether information is material, (iii) designing and establishing controls and other procedures to ensure information required is recorded, processed, summarized and reported to management including the senior officers, (iv) monitoring compliance with the disclosure policy, (v) reviewing in advance all financial and other information to be posted on our website, (vi) educating directors, officers and certain employees about disclosure issues and disclosure policy, (vii) evaluating the effectiveness of the controls and (viii) reviewing and supervising the preparation of our public representations.

Compensation

In the year ended December 31, 2007, the aggregate compensation that we paid to our five highest paid officers (i.e., our Chairman and Chief Executive Officer, our President, our Senior Vice-President and Chief Financial Officer, our Vice President, Risk Management and our Senior Vice President, Development and Operations, North East and South West China) and directors in such capacity was US$6,465,689. Such officers were also granted stock options valued at US$450,000 as of December 31, 2007, based on a weighted average fair value of each option of US$6.54 on the date of option grant (June 4, 2007) using the Black Scholes option-pricing model. In addition, we granted to non-executive directors options to purchase up to an aggregate of 165,417 Common Shares.

In addition, the total retainer and meeting fees paid during 2007 to our directors for attending Board and Committee meetings are as follows:

Name	Salary
	(US$)
Peter Wang	7,098
Edmund Mak	43,000
Simon Murray	24,500
Judson Martin	87,503
James M.E. Hyde	55,875

Corporate Governance Initiatives

Maintaining a high standard of corporate governance is a top priority for our Board of Directors and our management, as both believe that effective corporate governance will help create and maintain shareholder value in the long term. Our Board of Directors has carefully considered our corporate governance practices against best practices and against the applicable corporate governance guidelines.

Employment Agreements

We entered into an employment agreement with David J. Horsley as of October 10, 2005. The agreement provides that Mr. Horsley is to be employed by us for an indefinite period unless terminated by us or Mr. Horsley earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of US$350,000 (which amount is subject to annual review by the Board of Directors) and a monthly car allowance. Mr. Horsley is entitled to participate in our bonus plan for executives as determined on an annual basis. In the event of a termination of employment without cause, Mr. Horsley is entitled to a lump sum equal to his then current annual base salary plus an amount equal to the bonus, if any, paid to Mr. Horsley by us with respect to the prior fiscal year. In the event of a termination without cause within 180 days of a "Change in Control" (as such term is defined in the agreement), Mr. Horsley is entitled to payment of a lump sum equal to two times the severance entitlement described above. He may terminate his employment on three months' prior notice.

We entered into an employment agreement with Thomas M. Maradin dated September 1, 2005, as amended. The agreement provides that Mr. Maradin is to be employed by us for an indefinite period unless terminated by us or Mr. Maradin earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of US$225,000. Mr. Maradin is also entitled to participate in our employee bonus plan as determined on an annual basis. In the event that Mr. Maradin's employment is terminated without just cause or without reasonable or any notice, he shall be paid an amount equal to the sum of his salary and his bonus (if any) paid in the calendar year immediately preceding the year of such termination.

Albert Ip entered into an employment agreement with Sino-Wood Partners, Limited, one of our subsidiaries, dated July 15, 1997. The agreement provides that one month's prior notice is required by either party in order to terminate Mr. Ip's employment. Mr. Ip's employment was transferred to our other subsidiaries, Sino-Panel (Asia) Inc., on December 1, 1999. His employment terms and conditions remained unchanged.

No other executive officer or director is a party to a contract providing for benefits upon termination of employment.

Stock Options

Incentive Stock Option Plan

We have adopted, and currently maintain, an incentive stock option plan (the "Plan") in order to provide effective incentives to our directors, officers, employees and consultants and to enable us to attract and retain experienced and qualified individuals in those positions by permitting such individuals to directly participate in an increase in per share value created for our shareholders. Options under the Plan are typically granted in such numbers as reflect the level of responsibility of the particular optionee and his or her contribution to our business and activities.

The maximum number of Common Shares issuable pursuant to exercises of options granted under the Plan is 10,000,000. As of July 11, 2008, 3,943,453 Common Shares, being approximately 2% of the currently issued and outstanding number of Common Shares, were issuable pursuant to unexercised options granted to such date under the Plan and options to purchase a further 1,703,325 Common Shares, being 1% of the currently issued Common Shares, remained available for grant under the Plan as of such date.

PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the direct and indirect, legal and beneficial ownership and control of our Common Shares, taking into account the aggregate number of Common Shares underlying our outstanding options, as of July 11, 2008, by: (i) each of our directors and executive officers and (ii) each person known by us to own beneficially 10% or more of our Common Shares. As of July 10, 2008, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control over, 9,380,458 Common Shares, representing approximately 5.13% of the issued and outstanding Common Shares.

Shareholder	Number of Common Shares Owned	Percentage of Common Shares Owned
		(%)
Directors and Executive Officers:		
Allen T.Y. Chan	5,992,753	3.28
Kai Kit Poon	2,753,105	1.51
Edmund Mak	50,000	0.03
Simon Murray	65,000	0.04
James M.E. Hyde	10,000	0.01
Judson Martin	10,000	0.01
David J. Horsley	7,500	0.01
Chen Hua	137,100	0.08
Alfred Hung	175,700	0.10
Albert Ip	75,000	0.04
Wei Mao Zhao	105,000	0.06
Principal Shareholders(1):		
Paulson & Co. Inc.	18,600,000	10.19
Davis Selected Advisers, L.P.	18,308,307	10.03

Note:

(1) The following shareholdings are based upon information available on the public record.

RELATED PARTY TRANSACTIONS

We enter into certain transactions and agreements with our directors and officers.

Consultancy Fees

The fees related to corporate services provided by certain of our executive officers to us were determined pursuant to agreements entered into between us and companies controlled by such persons. These consultancy fees increased for the three-month period ended March 31, 2008 amounted to US$152,000. In 2005, 2006 and 2007, we incurred US$2,737,000, US$4,136,000 and US$4,587,000, respectively, in consultancy fees to companies controlled by these persons. In the three-month period ended March 31, 2008, we paid consultancy fees of US$152,000. These arrangements are reviewed annually by the Compensation and Nominating Committee.

In addition, we had other payables and accruals of US$3,150,000, US$3,950,000 and US$3,950,000 owed to the companies controlled by these persons in 2006, 2007 and the three-month period ended March 31, 2008.

DESCRIPTION OF THE NOTES

We will issue the Notes under the Indenture, to be dated as of July 23, 2008, between Sino-Forest Corporation, as Issuer, certain of our subsidiaries, as Subsidiary Guarantors, and The Bank of New York Mellon, a New York banking corporation, as Trustee. As used in this description of the Notes, the words "our Company," "we," "us" or "our" refer only to Sino-Forest Corporation and do not include any of our current or future subsidiaries. We have summarized the material provisions of the Notes below. The following description is not complete and is subject to, and qualified by reference to, all of the provisions of the Indenture and the Notes, which we urge you to read because they define your rights as a holder. Copies of the Indenture, including a form of the Notes, will be made available upon request to us and they are also available for inspection at the office of the Trustee.

General

The Notes will be:

- our general senior unsubordinated obligations;
- senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes;
- effectively subordinated to our secured obligations, to the extent of the assets serving as security therefor;
- at least *pari passu* in right of payment with all of our other unsecured, unsubordinated indebtedness (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under "— The Subsidiary Guarantees" and in "Risk Factors — Risks Related to the Subsidiary Guarantees"; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined under "— The Subsidiary Guarantees" below).

We have pledged the capital stock of the Subsidiary Guarantors directly held by us to secure the 2004 Senior Notes and the Syndicated Term Loan. See "Description of Other Indebtedness" and "Risk Factors — Risks Related to the Notes and Our Common Shares — The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors while certain of our other significant obligations are so secured."

The Notes are limited to US$300.0 million aggregate principal amount (US$345.0 million aggregate principal amount if the Initial Purchasers exercise their overallotment option in full). The Notes will mature on August 1, 2013. The Notes will be issued in denominations of US$1,000 or in integral multiples of US$1,000. The Notes will be payable at the principal corporate trust office of the Paying Agent, which initially will be an office or agency of the Trustee, or an office or agency maintained by us for such purpose, in the Borough of Manhattan, The City of New York.

The Notes will bear cash interest at the rate of 5.00% per year on the principal amount from the issue date, or from the most recent date to which interest has been paid or provided for. Interest will be payable semi-annually in arrears on February 1 and August 1 of each year, beginning on February 1, 2009, to holders of record at the close of business on January 15 or July 15 immediately preceding such interest payment date. Each payment of cash interest on the Notes will include interest accrued for the period commencing on and including the immediately preceding interest payment date, provided that the first interest payment on February 1, 2009 will include interest from July 23, 2008, through the day before the applicable interest payment date (or purchase or redemption date, as the case may be). We will make all payments on the Notes exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debt. Any payment required to be made on any day that is not a business day will be made on the next succeeding business day, and no interest on such payment will accrue or be payable for the period from and after the date on which such payment is due to such next succeeding business day. Interest will be calculated using a 360-day year composed of twelve 30-day months. The term "business day" means, with respect to any Note, any day other than a Saturday, a Sunday or a day on which banking institutions in The City of New York are authorized or required by law, regulation or executive order to close.

Interest will cease to accrue on a Note upon its maturity, conversion, purchase by us at the option of a holder upon the occurrence of a fundamental change, or redemption. We may not reissue a Note that has matured or been converted, has been purchased by us at your option, redeemed or otherwise cancelled, except for registration of transfer, exchange or replacement of such Note.

Notes may be presented for conversion at the office of the Conversion Agent and for exchange or registration of transfer at the office of the Registrar. The Conversion Agent and the Registrar shall initially be the Trustee. No service charge will be made for any registration of transfer or exchange of Notes. However, we may require the holder to pay any tax, assessment or other governmental charge payable as a result of such transfer or exchange.

Except as described under "— Certain Covenants — Limitation on Issuances of Guarantees by Subsidiaries" below, the Indenture does not limit the amount of additional indebtedness which we can create, incur, assume or guarantee, or whether or not any such indebtedness may be secured by liens on any of our assets, nor does the Indenture limit the amount of indebtedness or other liabilities that our subsidiaries, including the Subsidiary Guarantors, can create, incur, assume or guarantee or whether any such indebtedness may be secured by liens on any of the subsidiaries' assets. The Indenture also does not contain any financial covenants or any restrictions on the payment of dividends, or the issuance or repurchase of securities by us or our subsidiaries. The Indenture does not contain covenants or other provisions to protect holders of the Notes in the event of a highly leveraged transaction or a change of control, except to the extent described under "— Offer to Purchase at Option of the Holder Upon a Fundamental Change", "— Make Whole Premium Upon a Fundamental Change" and "— Consolidation, Mergers or Sales of Assets" below.

Subject to the satisfaction of certain conditions and during the periods described below, the Notes may be converted into our Common Shares at an initial conversion rate of 49.2974 Common Shares per US$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately Cdn.$20.32 per Common Share based on the "fixed exchange rate" (as defined below)). The conversion rate is subject to adjustment if certain events described below occur. Upon conversion, in lieu of delivering our Common Shares, we may satisfy our conversion obligation with cash or a combination of cash and our Common Shares as described below under "— Settlement Upon Conversion", and you will not receive any separate cash payment for interest accrued and unpaid to the "conversion date" (as defined below), except under the limited circumstances described below.

We use the term "Note" in this offering memorandum to refer to each US$1,000 principal amount of Notes.

We may, without the consent of the holders of the Notes, issue additional Notes in an unlimited aggregate principal amount, under the Indenture with the same terms and with the same CUSIP numbers as the Notes offered hereby; provided that (i) such additional Notes are fungible with the Notes offered hereby for U.S. federal income tax purposes and (ii) the maturity date of such additional Notes will be adjusted so that the term on any new issue of Notes is at least 5 years and 1 day from the date of issue. We may also from time to time repurchase the Notes in open market purchases or negotiated transactions without prior notice to holders.

The registered holder of a Note will be treated as the owner of it for all purposes.

We are obligated to pay compensation to the Trustee as agreed in writing and to indemnify the Trustee against certain losses, liabilities or expenses incurred by it in connection with its duties relating to the Notes. The Trustee's claims for such payments will be senior to those of the holders of the Notes in respect of all funds collected or held by the Trustee.

The Subsidiary Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor will be:

- a general senior unsubordinated obligation of such Subsidiary Guarantor;
- effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;
- senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- at least *pari passu* with all other unsecured, unsubordinated indebtedness of such Subsidiary Guarantor (subject to priority rights of such unsubordinated indebtedness pursuant to applicable law).

All of the capital stock of the Subsidiary Guarantors has been pledged to secure the 2004 Senior Notes and the Syndicated Term Loan. See "Description of Other Indebtedness" and "Risk Factors — Risks Related to the Notes and Our Common Shares — The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors while certain of our other significant obligations are so secured."

Under the Indenture, and any supplemental indenture thereto, as applicable, each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, interest on, and all other amounts payable under, the Notes and the Indenture. The Subsidiary Guarantors have (1) agreed that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waived their right to require the Trustee to pursue or exhaust its legal or equitable remedies against us prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note is rescinded or must otherwise be restored, the rights of the holders of the Notes and the Trustee under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees will be made in such coins or currency of the United States as at the time of payment will be legal tender for the payment of public and private debt.

The Subsidiary Guarantors will initially be Sino-Panel Holdings Limited (BVI), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), SFR (China) Inc. (BVI), Sino-Wood Partners, Limited (H.K.), Sino-Forest Resources Inc. (BVI), Suri-Wood Inc. (BVI), Sino-Plantation Limited (H.K.), Sino-Wood (Guangxi) Limited (H.K.), Sino-Wood (Jiangxi) Limited (H.K.), Sino-Wood (Guangdong) Limited (H.K.), Sino-Global Holdings Inc. (BVI), Sinowin Investments Limited (BVI), Sino-Panel (North East China) Limited (BVI), Sino-Panel [Hunan] Limited (BVI), Sino-Panel [Xiangxi] Limited (BVI), Sino-Forest Bio-Science Limited (BVI) (formerly known as Sino-Two Limited), Sino-Panel (Guangzhou) Limited (BVI), Sino-Panel [Suzhou] Limited (BVI), Sino-Panel (Yunnan) Limited (BVI), Sino-Panel (Guangxi) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Qinzhou) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Sino-Panel (Yongzhou) Limited (BVI), and Sino-Panel (Fujian) Limited (BVI). These Subsidiary Guarantors have also guaranteed the 2004 Senior Notes and the Syndicated Term Loan. See "Description of Other Indebtedness" and "Risk Factors — Risks Related to the Subsidiary Guarantees — The Subsidiary Guarantors also guarantee our other significant obligations and they may not have the funds necessary to satisfy our financial obligations under the Notes."

We will cause each of our future subsidiaries (other than subsidiaries organized under the laws of the PRC), immediately upon becoming a subsidiary, to execute and deliver to the Trustee a supplemental indenture pursuant to which such subsidiary will guarantee the payment of the Notes.

Not all of our subsidiaries will guarantee the Notes. Sino-Capital Global Inc. (BVI), Dynamic Profit Holdings Limited (BVI), Sino-Forest Investments Limited (BVI), Grandeur Winway Limited (BVI), Sinowood Limited (Cayman Islands), Sino-Wood (Fujian) Limited (H.K.), Sino-Panel (North Sea) Limited (BVI) and Sino-Panel (Huaihua) Limited (the "Initial Non-Guarantor Subsidiaries"), which are our subsidiaries that have guaranteed the 2004 Senior Notes and the Syndicated Term Loan, will not be Subsidiary Guarantors at the date of issue of the Notes. In addition, none of our over 35 significant current operating or other PRC subsidiaries will provide a Subsidiary Guarantee. See "Corporate Structure." Each of our subsidiaries that do not guarantee the Notes, including the Initial Non-Guarantor Subsidiaries, are referred to as a "Non-Guarantor Subsidiary." In addition, no future subsidiaries that may be organized under the laws of the PRC will provide a Subsidiary Guarantee. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to us or a subsidiary of ours, as the case may be. See "Risk Factors — Risks Related to the Notes and Our Common Shares — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries."

If any Initial Non-Guarantor Subsidiary would not be required to register as an investment company under the Investment Company Act of 1940, as amended, as determined in good faith by us within 30 days after the date on which the most recently available non-consolidated financial statements of such Initial Non-Guarantor Subsidiary and consolidated financial statements of the Company have been provided to the Trustee (or if not timely provided, would have been required to be provided) pursuant to the Indenture, we will promptly cause such Initial Non-Guarantor Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Initial Non-Guarantor Subsidiary will guarantee the payment of the Notes.

In addition, if the Non-consolidated Cash of all Initial Non-Guarantor Subsidiaries that are not, at the relevant time, Subsidiary Guarantors accounts for more than 10% of the Consolidated Cash of the Company, based on the most recently available non-consolidated financial statements of such Initial Non-Guarantor Subsidiaries and consolidated financial statements of the Company which have been provided to the Trustee (or if not timely provided, required to be provided) pursuant to the Indenture, the Company will, within 30 days after the date on which such financial statements are available and have been so provided (or if not timely provided, required to be provided), cause one or more of such Initial Non-Guarantor Subsidiaries that are not, at the relevant time, Subsidiary Guarantors to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Initial Non-Guarantor Subsidiary or Initial Non-Guarantor Subsidiaries will guarantee the payment of the Notes, to ensure that after giving effect to such new Subsidiary Guarantees, the foregoing condition with respect to the Consolidated Cash of the Company will cease to exist.

For the purposes of the foregoing paragraph:

"Non-consolidated Cash" of an Initial Non-Guarantor Subsidiary means cash and cash equivalents held by such person on a non-consolidated basis, and not including, for the avoidance of doubt, cash and cash equivalents held by subsidiaries of such person.

"Consolidated Cash" of the Company means cash and cash equivalents of the Company on a consolidated basis.

Under the Indenture, and any supplemental indenture thereto, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be guaranteed by such Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Related to the Subsidiary Guarantees—The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon the repayment in full of the Notes;
- upon the sale of such Subsidiary Guarantor in accordance with the terms of the Indenture (including the covenant under "— Consolidation, Mergers and Sales of Assets); or
- if at any time when no default has occurred and is continuing with respect to the Notes, such Subsidiary Guarantor no longer guarantees any other indebtedness of ours or any other Subsidiary Guarantor, provided further that, at the time of such release, the Subsidiary Guarantor is not a guarantor of any Relevant Indebtedness (as defined under "— Certain Covenants — Limitation on Issuance of Guarantees by Subsidiaries").

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the holder of any Note until we have delivered to the Trustee an officer's certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the Indenture.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Issuances of Guarantees by Subsidiaries

So long as any of the Notes remain outstanding, we will not permit any subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to guarantee any Relevant Indebtedness (as defined below) (such guaranteed Relevant Indebtedness being referred to as "Guaranteed Indebtedness") unless (a) such subsidiary, at the same time or prior thereto executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such subsidiary and (b) such subsidiary waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any right of reimbursement, indemnity or subrogation or any other rights against us or any of our other subsidiaries as a result of any payment by such subsidiary under its Subsidiary Guarantee until the Notes have been paid in full.

If the Guaranteed Indebtedness (i) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (ii) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or any Subsidiary Guarantee.

"Relevant Indebtedness" means any present or future indebtedness in the form of, or represented by, notes, bond, debenture stock, loan stock, certificates or other securities which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than Renminbi or (ii) are denominated or payable in Renminbi and more than 50% of the aggregate principal amount thereof is initially distributed outside the PRC by our Company or any of its subsidiaries or with the authorization of any of them and (b) are or are capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities markets.

Provision of Reports

We will file with the Trustee and provide the holders of the Notes with the documents required to be sent its shareholders pursuant to applicable securities laws in the Provinces of Canada in which we are a reporting issuer and within the time prescribed by such applicable securities laws. In the event we are no longer subject to such applicable securities laws, we will continue to provide to the Trustee and the holders of the Notes (i) within 90 days after the end of each fiscal year, copies of our annual audited report and annual consolidated financial statements, (ii) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, interim unaudited consolidated financial statements which shall, at a minimum, contain such information required to be provided in quarterly reports under the applicable securities laws of the Province of Ontario and (iii) copies of proxy materials sent to holders of Common Shares even though a holder of Notes will not be permitted to attend or vote at any meeting of shareholders unless they are otherwise a holder of Common Shares. In addition, we will provide the Trustee and the holders of the Notes (i) within 90 days after the end of each fiscal year, copies of annual non-consolidated financial statements of an Initial Non-Guarantor Subsidiary and (ii) within 45 days after the end of each of the first three quarters of each fiscal year interim non-consolidated financial statements of such Initial Non-Guarantor Subsidiary.

Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting standards as such standards may be applicable to us or an Initial Non-Guarantor Subsidiary as the case may be.

The foregoing reporting obligations shall terminate with respect to any Initial Non-Guarantor Subsidiary that becomes a Subsidiary Guarantor pursuant to the terms of the Indenture.

Conversion Rights

General

The holders of Notes may, at any time until the close of business on the business day immediately preceding the stated maturity of the Notes, convert all or portion of their Notes into our Common Shares. Upon conversion, in lieu of delivering our Common Shares, at our option, we may satisfy our conversion obligation with cash or a combination of cash and our Common Shares, as described below under "— Settlement Upon Conversion."

The number of Common Shares per US$1,000 principal amount of Notes deliverable upon conversion shall be determined by dividing the US$1,000 principal amount (translated into Canadian dollars at the fixed exchange rate of US$1.00 = Cdn.$1.0016 (the "fixed exchange rate")) by the applicable conversion price on the conversion date. The initial conversion rate is 49.2974 Common Shares per US$1,000 principal amount of Notes, which represents an initial conversion price of Cdn.$20.32 per Common Share based on the fixed exchange rate. The conversion rate per US$1,000 principal amount of Notes in effect at any given time is referred to in this Offering Memorandum as the "applicable conversion rate" and will be subject to adjustment as described below. The "applicable conversion price" per Common Share as of any given time is equal to US$1,000 (translated into Canadian dollars at the fixed exchange rate) divided by the then applicable conversion rate, rounded to the nearest cent. A Note for which a holder has delivered a notice accepting our offer to purchase the Note at the holder's option upon a fundamental change (as described below) may be surrendered for conversion only if such notice is withdrawn in accordance with the Indenture. A holder may convert fewer than all of such holder's Notes so long as the Notes converted are an integral multiple of US$1,000 principal amount. The ability to surrender Notes for conversion will expire at the close of business on the business day immediately preceding the maturity date. As used in this Description of the Notes, all references to our Common Shares are to our Common Shares, which have no par value. See "Description of the Shares."

Conversion Procedures

To convert a Note, a holder must:

- complete and manually sign a conversion notice, a form of which is on the back of the Note, and deliver the conversion notice to the Conversion Agent;
- surrender the Note to the Conversion Agent;
- if required by the Conversion Agent, furnish appropriate endorsements and transfer documents;
- if required, pay funds equal to interest payable on the next interest payment date to which a holder is not entitled; and
- if required, pay all transfer or similar taxes.

To convert interests in a Global Note, a holder must comply with the applicable procedures of DTC. The "conversion date" with respect to a Note means the date on which the holder of the Note has complied with all requirements under the Indenture to convert such Note.

On conversion of a Note, a holder will not receive, except as described below, any cash payment representing any accrued interest. Instead, accrued interest will be deemed paid by our Common Shares (or any cash in lieu thereof) received by the holder on conversion. Delivery to the holder of the full number of Common Shares into which the Note is convertible (or any cash in lieu thereof), together with any cash payment of such holder's fractional shares, will thus be deemed:

- to satisfy our obligation to pay the principal amount of a Note; and
- to satisfy our obligation to pay accrued and unpaid interest.

As a result, accrued interest is deemed paid in full rather than cancelled, extinguished or forfeited. Holders of Notes surrendered for conversion during the period from the close of business on any regular record date next preceding any interest payment date to the opening of business of such interest payment date will receive the semiannual interest payable on such Notes on the corresponding interest payment date notwithstanding the conversion, and such Notes upon surrender must be accompanied by funds equal to the amount of such payment, provided that no such payment need be made:

- in connection with any conversion following the regular record date immediately preceding the final interest payment date;
- if we have specified a fundamental change purchase date or a redemption date that is after a record date and on or prior to the business day following the corresponding interest payment date; or
- to the extent of any overdue interest, if any overdue interest exists at the time of conversion with respect to such Note.

We will not be required to convert any Notes that are surrendered for conversion without payment of interest as required by the preceding paragraph.

The conversion rate will not be adjusted for accrued interest. For a discussion of the tax treatment of a holder receiving our Common Shares, upon surrendering Notes for conversion, see "Taxation — Certain U.S. Federal Income Tax Considerations."

Settlement Upon Conversion

In lieu of delivery of Common Shares in satisfaction of our obligation upon conversion of the Notes, we may elect to deliver cash or a combination of cash and Common Shares. If we elect to do so, we will inform the holders of the method we choose to satisfy our obligation upon conversion of the Notes no later than the second trading day immediately following the related conversion date.

If we choose to satisfy any portion of our conversion obligation in cash, we will specify the amount to be satisfied in cash as a fixed dollar amount. We will treat all holders converting on the same trading day in the same manner. We will not, however, have any obligation to settle our conversion obligations arising on different trading days in the same manner.

If we elect to satisfy any portion of our conversion obligation in cash (other than cash in lieu of fractional Common Shares or upon our election to always settle up to the principal amount in cash), the holders may retract their conversion notice at any time during the two trading day period beginning on the trading day after we have notified the holders of our method of settlement. We refer to this period as the "conversion retraction period," and we refer to the last trading day in the conversion retraction period as the "retraction date."

If a settlement is made entirely in Common Shares, such settlement will occur as soon as practicable after the third trading day following the conversion date.

If a settlement is made entirely or partially in cash, such settlement (including cash and, if applicable, Common Shares) will occur on the third trading day following the final trading day of the cash settlement averaging period (as defined below).

The date that a settlement is made as described above is referred to as the "settlement date."

The settlement amount will be computed as follows:

(1) If we elect to satisfy the entire conversion obligation in Common Shares, we will deliver to the holder, in respect of each US$1,000 principal amount of Notes surrendered for conversion, a number of our Common Shares equal to the applicable conversion rate (provided that we will deliver cash in lieu of fractional Common Shares).

(2) If we elect to satisfy the entire conversion obligation in cash, we will deliver to the holder, in respect of each US$1,000 principal amount of Notes surrendered for conversion, cash in an amount equal to the conversion value (as defined below).

(3) If we elect to satisfy the conversion obligation in a combination of cash and Common Shares, we will deliver to the holder, in respect of each US$1,000 principal amount of Notes surrendered for conversion:

- an amount in cash equal to the lesser of (i) the conversion value and (ii) US$1,000; and
- if the conversion value is greater than US$1,000, a number of Common Shares per US$1,000 principal amount of Notes to be converted equal to the sum of the daily common share amounts (as defined below) for each of the trading days in the cash settlement averaging period (provided that we will deliver cash in lieu of fractional Common Shares).

The "cash settlement averaging period" means, in respect of a conversion date, the twenty consecutive trading day period beginning on the trading day following the retraction date.

The "conversion value" per US$1,000 principal amount of Notes will be an amount equal to the sum of the daily conversion value amounts (as defined below) for each of the trading days in the cash settlement averaging period.

The "daily conversion value amount" means, for each trading day of the cash settlement averaging period and for each US$1,000 principal amount of Notes, the amount equal to the closing sale price of our Common Shares on such trading day (translated, if necessary, into U.S. dollars at the prevailing exchange rate on such trading date) multiplied by the applicable conversion rate on such trading day divided by 20.

The "daily common share amount" means, for each trading day of the cash settlement averaging period and for each US$1,000 principal amount of Notes, a number of Common Shares (but in no event less than zero) determined by us by the following formula:

$$\frac{\text{(closing sale price on such trading day* x applicable conversion rate) - US\$1,000}}{\text{closing sale price on such trading day* x 20}}$$

* Translated, if necessary, into U.S. dollars at the prevailing exchange rate on such trading day

If an event requiring an anti-dilution adjustment occurs subsequent to any trading day and prior to delivery of the daily common share amount in respect of such Notes upon settlement, such daily common share amount will be appropriately adjusted.

The term "trading day" means a day during which trading in securities generally occurs on the Toronto Stock Exchange or if our Common Shares are not listed on the Toronto Stock Exchange, such principal other securities exchange on which our Common Shares are listed or quoted for trading, provided a trading day shall only include those days that have a standard closing time for regular trading on the relevant exchange or trading system. If our Common Shares are not listed on the Toronto Stock Exchange or any other stock exchange, "trading day" will mean any business day.

The "closing sale price" of our Common Shares on any date means the closing sale price of our Common Shares (or if no closing sale price is reported, the average of the closing bid and ask prices or, if there is more than one in either case, the average of the average closing bid and the average closing ask prices) on such date as reported on the Toronto Stock Exchange or, if our Common Shares are not listed on the Toronto Stock Exchange, as reported by the principal other securities exchange on which our Common Shares are then listed or quoted for trading. In the absence of the foregoing, such closing sale price will be an amount determined in good faith by our board of directors to be the fair value of such Common Shares, and such determination shall be conclusive.

The "prevailing exchange rate" means, for translation of any Canadian dollar-denominated amount into U.S. dollars with respect to any particular day, the Bank of Canada noon exchange rate as reported for conversion of Canadian dollars into U.S. dollars in effect on that day and, with respect to the U.S. dollar translation of any other currency-denominated amount, the base or similar rate in effect on the date of determination for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York, or if such a source is unavailable, by an internationally recognized bank based in New York to be selected in good faith by our board of directors.

The conversion notice will provide the opportunity for the holder who converts a Note to indicate how such holder wishes the Common Shares issuable upon the conversion of the Note to be registered. In the event that we elect to satisfy all or part of our conversion obligation in Common Shares, a physical share certificate will be issued and registered to the name of the holder (or registered as designed by such holder). The holder may retain such physical share certificate if it chooses to do so. However, in order to settle trades on the Toronto Stock Exchange, the shares represented by the physical share certificate will need to be made eligible for settlement through the book-entry facilities of CDS Depositary and Clearing Services Inc. ("CDS"). The holder of a physical share certificate will need to liaise and consult with its broker or other CDS participant to determine how the certificate will need to be registered for the broker or other CDS participant to deposit the certificate into the book-entry facilities of CDS. Based on the information provided by the holder of a Note or Notes in the conversion notice, we will arrange for the issuance of the physical share certificate to such holder (or to a nominee as the holder directs, including a CDS participant) who will then make the necessary arrangements for the deposit of the certificate with CDS so that the Common Shares will be eligible for book-entry settlement.

No fractional Common Shares or securities representing fractional Common Shares will be issued upon conversion. Any fractional interest in one Common Share resulting from conversion will be paid in cash, on the settlement date, but based on the closing sale price at the close of business on the trading day (translated, if necessary, into U.S. dollars at the prevailing exchange rate on such trading date) immediately preceding the conversion date. The number of full Common Shares that will be issuable upon conversion will be computed on the basis of the aggregate principal amount of the Notes surrendered for conversion.

If a holder converts its Notes, it will pay any documentary, stamp or similar issue or transfer tax or fee due upon the issuance and delivery of Common Shares upon the conversion.

We will agree to take all such actions and obtain all such approvals and registrations with respect to the conversion of the Notes into Common Shares.

Conversion Rate Adjustments

The conversion rate for the Notes shall be adjusted from time to time as follows:

(i) If we issue Common Shares as a dividend or distribution on our Common Shares to all or substantially all holders of our Common Shares, or if we effect a share split or share combination, the conversion rate will be adjusted based on the following formula:

$CR_1 = CR_0 \times OS_1/OS_0$

where

CR_0 = the conversion rate in effect immediately prior to the adjustment relating to such event

CR_1 = the new conversion rate in effect taking such event into account

OS_0 = the number of our Common Shares outstanding immediately prior to such event

OS_1 = the number of our Common Shares outstanding immediately after such event.

Any adjustment made pursuant to this paragraph (i) shall become effective on the date that is immediately after (x) the date fixed for the determination of shareholders entitled to receive such dividend or distribution or (y) the date on which such split or combination becomes effective, as applicable. If any dividend or distribution described in this paragraph (i) is declared but not so paid or made, the new conversion rate shall be readjusted to the conversion rate that would then be in effect if such dividend or distribution had not been declared.

(ii) If we issue to all or substantially all holders of our Common Shares any rights, warrants, options or other securities entitling them for a period of not more than 45 days after the date of issuance thereof to subscribe for or purchase our Common Shares, or if we issue to all or substantially all holders of our Common Shares securities convertible into our Common Shares for a period of not more than 45 days after the date of issuance thereof, in either case at an exercise price per Common Share or a conversion price per Common Share less than the closing sale price of our Common Share on the business day immediately preceding the time of announcement of such issuance, the conversion rate will be adjusted based on the following formula:

$CR_1 = CR_0 \times (OS_0 + X)/(OS_0 + Y)$

where

CR_0 = the conversion rate in effect immediately prior to the adjustment relating to such event

CR_1 = the new conversion rate taking such event into account

OS_0 = the number of our Common Shares outstanding immediately prior to such event

X = the total number of our Common Shares issuable pursuant to such rights, warrants, options, other securities or convertible securities

Y = the number of Common Shares equal to the quotient of (A) the aggregate price payable to exercise such rights, warrants, options, other securities or convertible securities and (B) the average of daily volume weighted average trading prices of our Common Shares for the 10 consecutive trading days prior to the business day immediately preceding the date of announcement for the issuance of such rights, warrants, options, other securities or convertible securities.

For purposes of this paragraph (ii), in determining whether any rights, warrants, options, other securities or convertible securities entitle the holders to subscribe for or purchase, or exercise a conversion right for, our Common Shares at less than the applicable closing sale price of our Common Share, and in determining the aggregate exercise or conversion price payable for such Common Share, there shall be taken into account any consideration we receive for such rights, warrants, options, other securities or convertible securities and any amount payable on exercise or conversion thereof, with the value of such consideration, if other than cash, to be determined in good faith by our board of directors. Any adjustment made pursuant to this clause (ii) shall become effective on the date that is immediately after the date fixed for the determination of shareholders entitled to receive such rights, warrants, options, other securities or convertible securities. If any right, warrant, option, other security or convertible security described in this paragraph (ii) is not exercised or converted prior to the expiration of the exercisability or convertibility thereof, the new conversion rate shall be readjusted to the conversion rate that would then be in effect if such right, warrant, option, other security or convertible security had not been issued.

(iii) If we distribute capital stock, evidences of indebtedness or other assets or property of ours to all or substantially all holders of our Common Shares, excluding:

(A) dividends, distributions, rights, warrants, options, other securities or convertible securities referred to in paragraph (i) or (ii) above,

(B) dividends or distributions paid exclusively in cash referred to in paragraph (iv) below, and

(C) Spin-Offs described below in this paragraph (iii),

then the conversion rate will be adjusted based on the following formula:

$CR_1 = CR_0 \text{ x } SP_0/(SP_0 - FMV)$

where

CR_0 = the conversion rate in effect immediately prior to the adjustment relating to such event

CR_1 = the new conversion rate taking such event into account

SP_0 = the average of daily volume weighted average trading prices of our Common Shares over the 10 consecutive trading days ending on the trading day immediately preceding the ex-dividend date for such distribution

FMV = the fair market value (as determined in good faith by our board of directors) of the capital stock, evidences of indebtedness, assets or property distributed with respect to each of our outstanding Common Shares on the ex-dividend date for such distribution.

An adjustment to the conversion rate made pursuant to this paragraph shall be made successively whenever any such distribution is made and shall become effective on the ex-dividend date for such distribution. The "ex-dividend date" is the first date upon which a sale of the Common Share does not automatically transfer the right to receive the relevant distribution from the seller of the Common Share to its buyer.

If we distribute to all or substantially all holders of our Common Shares capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit of ours (a "Spin-Off"), the conversion rate in effect immediately before the close of business on the date fixed for determination of holders of our Common Shares entitled to receive such distribution will be adjusted based on the following formula:

$CR_1 = CR_0 \text{ x } (FMV_0 + MP_0)/MP_0$

where

CR_0 = the conversion rate in effect immediately prior to the adjustment relating to such event

CR_1 = the new conversion rate taking such event into account

FMV_0 = the average of daily volume weighted average trading prices of the capital stock or similar equity interest distributed to holders of our Common Shares applicable to one share of our Common Shares over the first 10 consecutive trading days after the effective date of the Spin-Off

MP_0 = the volume weighted average trading price of our Common Shares over the first 10 consecutive trading days after the effective date of the Spin-Off.

An adjustment to the conversion rate made pursuant to this paragraph will occur on the 10th trading day from and including the effective date of the Spin-Off; provided that in respect of any conversion within the 10 consecutive trading days immediately following the effective date of any Spin Off, references with respect to 10 consecutive trading days shall be deemed replaced with such lesser number of consecutive trading days as have elapsed.

If any such dividend or distribution described in this paragraph (iii) is declared but not paid or made, the new conversion rate shall be readjusted to be the conversion rate that would then be in effect if such dividend or distribution had not been declared.

(iv) If we pay or make any dividend or distribution consisting exclusively of cash to all or substantially all holders of our Common Shares, the conversion rate will be adjusted based on the following formula:

$CR_1 = CR_0 \times SP_0/(SP_0 - C)$

where

CR_0 = the conversion rate in effect immediately prior to the adjustment relating to such event

CR_1 = the new conversion rate taking such event into account

SP_0 = the average of daily volume weighted average trading prices of our Common Shares over the 10 consecutive trading days ending on the trading day immediately preceding the ex-dividend date for such distribution

C = the amount in cash per share that we distribute to holders of our Common Shares.

An adjustment to the conversion rate made pursuant to this paragraph (iv) shall become effective on the ex-dividend date for such dividend or distribution. If any dividend or distribution described in this paragraph (iv) is declared but not so paid or made, the new conversion rate shall be readjusted to the conversion rate that would then be in effect if such dividend or distribution had not been declared.

(v) If we or any of our subsidiaries make a payment in respect of a tender offer or exchange offer for our Common Shares to the extent that the cash and value of any other consideration included in the payment per Common Share exceeds the closing sale price per Common Share on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer (the "Expiration Time"), the conversion rate will be adjusted based on the following formula:

$CR_1 = CR_0 \times (AC + (SP_1 \times OS_1))/(SP_1 \times OS_0)$

where

CR_0 = the conversion rate in effect immediately prior to the adjustment relating to such event

CR_1 = the new conversion rate taking such event into account

AC = the aggregate value of all cash and any other consideration (as determined in good faith by our board of directors) paid or payable for our Common Shares purchased in such tender or exchange offer

OS_0 = the number of our Common Shares outstanding immediately prior to the date such tender or exchange offer expires

OS_1 = the number of our Common Shares outstanding immediately after such tender or exchange offer expires (after giving effect to the purchase or exchange of shares pursuant to such tender or exchange offer)

SP_1 = the average of daily volume weighted average trading prices of our Common Share for the 10 consecutive trading days commencing on the trading day next succeeding the date such tender or exchange offer expires.

If the application of the foregoing formula would result in a decrease in the conversion rate, no adjustment to the conversion rate will be made. Any adjustment to the conversion rate made pursuant to this paragraph (v) shall become effective on the date immediately following the determination of the average of daily volume weighted average trading prices of our Common Shares for purposes of SP_1 above. If we are or one of our subsidiaries is obligated to purchase our Common Shares pursuant to any such tender or exchange offer but we are or the relevant subsidiary is permanently prevented by applicable law from effecting any such purchase or all such purchases are rescinded, the new conversion rate shall be readjusted to be the conversion rate that would then be in effect if such tender or exchange offer had not been made.

The "daily volume weighted average trading price" means, with respect to any security on a stock exchange or quotation service for a specified day, the quotient obtained by dividing (1) the aggregate sale price of all such securities sold on such stock exchange or quotation service during that day by (2) the total number of such securities sold on such stock exchange or quotation service during such day, as determined in good faith by our board of directors or an independent internationally recognized investment bank selected by our board of directors.

If we adopt a rights plan while any Notes remain outstanding, holders of Notes will receive, upon conversion of Notes in respect of which we deliver Common Shares, in addition to such Common Shares, rights under the rights plan unless, prior to such conversion, the rights have expired, terminated or been redeemed or unless the rights have separated from our Common Shares, in which case the applicable conversion rate will be adjusted at the time of separation as if we had distributed to all holders of our Common Shares capital stock, evidences of indebtedness or other assets or property pursuant to paragraph (iii) above, subject to readjustment upon the subsequent expiration, termination or redemption of the rights.

The Indenture permits us, from time to time, to increase the conversion rate by any amount for any period of at least 20 days if we have determined that such increase would be in our best interests, to the extent permitted by law and by the rules of any stock exchange on which our Common Shares may be listed, including the Toronto Stock Exchange. If we make such determination and obtain all necessary regulatory approvals, it will be conclusive and we will mail to holders of the Notes a notice of the increased conversion rate and the period during which it will be in effect at least 15 days prior to the date the increased conversion rate takes effect in accordance with applicable law. We may also make increases in the conversion rate, in addition to those increases set forth above, as our board of directors, in good faith, deems advisable to avoid or diminish any income tax to holders of our Common Shares resulting from any dividend or distribution of Common Shares (or rights to acquire Common Shares) or from any event treated as such for income tax purposes.

We will not be required to adjust the conversion rate unless the adjustment would result in a change of at least 1% of the conversion rate. However, we will carry forward any adjustments that are less than 1% of the conversion rate and take them into account when determining subsequent adjustments. We will also adjust for any carry forward amount upon conversion regardless of the 1% threshold. We will not make any adjustments if Holders of Notes are permitted to participate in the transactions described above in paragraphs (i) through (v) that would otherwise require adjustment of the conversion rate.

Notwithstanding the foregoing, in no event shall the conversion rate as adjusted in accordance with the foregoing exceed 64.60 Common Shares per US$1,000 principal amount of Notes, other than on account of adjustments to the conversion rate in the manner set forth in paragraphs (i) through (v) above.

The applicable conversion rate will not be adjusted upon certain events, including:

- the issuance of any Common Shares pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in our Common Shares under any plan;
- the issuance of any Common Shares or options or rights to purchase those shares pursuant to any present or future employee, officer, director or consultant benefit plan, stock option plan, stock purchase plan, employee agreement or arrangement or program of ours;
- the issuance of any Common Shares pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security outstanding as of the date the Notes were first issued; or
- for accrued and unpaid interest.

For United States federal income tax purposes, adjustments to the conversion rate (or failure to make sure adjustments) that have the effect of increasing the holders' proportionate interests in our assets or earnings may in some circumstances result in a taxable deemed distribution to the Holders. See "Taxation - Certain U.S. Federal Income Tax Considerations."

Business Combinations

In the case of the following events (each, a "business combination"):

- any recapitalization, reclassification or change of our Common Shares, other than changes resulting from a subdivision or combination;
- a consolidation, merger, amalgamation or combination involving us;
- a sale, conveyance or lease to another corporation of all or substantially all of our property and assets, other than to one or more of our subsidiaries;
- a statutory share exchange; or
- a plan of arrangement under our governing corporate law which gives effect to any of these business combinations,

in each case as a result of which holders of our Common Shares are entitled to receive stock, other securities, other property or assets (including cash or any combination thereof) with respect to or in exchange for our Common Shares, the holders of the Notes then outstanding will be entitled thereafter to convert those Notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) which they would have owned or been entitled to receive upon such business combination had such Notes been converted into our Common Shares immediately prior to such business combination, except that such holders will not receive a make whole premium if such holder does not convert its Notes "in connection with" the relevant fundamental change. In the event holders of our Common Shares have the opportunity to elect the form of consideration to be received in such business combination, the Notes will be convertible into the weighted average of the kind and amount of consideration received by the holders of our Common Shares that affirmatively make such an election. We may not become a party to any such transaction unless its terms are consistent with the preceding. None of the foregoing provisions shall affect the right of a holder of Notes to convert its Notes into our Common Shares prior to the effective date of the business combination.

The Indenture also provides that the only consideration into which Notes will be convertible following a business combination or change to the applicable conversion rate is limited to either our Common Shares or other "prescribed securities" for the purposes of sub-paragraph 212(1)(b)(vii) of the Canadian Income Tax Act as it read in 2007.

Offer to Purchase at Option of the Holder Upon a Fundamental Change

If a fundamental change (as defined below) occurs, we will be required to make an offer to each holder, subject to the terms and conditions of the Indenture, to purchase for cash all or a portion of its Notes in integral multiples of US$1,000 principal amount, at such holder's option on the date fixed by us (which we refer to as the fundamental change purchase date) that is not less than 30 nor more than 45 days after the date we give notice of the fundamental change, at a fundamental change purchase price equal to 100% of the principal amount of such Notes in respect of which such offer is accepted by a holder, plus any interest accrued and unpaid to, but excluding, the fundamental change purchase date. If such purchase date is after a record date but on or prior to an interest payment date, however, then the interest payable on such date will be paid to the holder of record of the Notes on the relevant record date.

As promptly as practicable following the date we publicly announce such transaction, but in no event less than 20 days prior to the anticipated effective date of a fundamental change, we must mail to the Trustee and to all holders of Notes at their addresses shown in the register of the Registrar and to beneficial owners as required by applicable law a notice regarding the fundamental change and an offer to purchase the Notes notice (a "fundamental change offer notice"), which notice must state, among other things:

- the events causing a fundamental change;
- the date of such fundamental change;
- the last date on which a holder may accept our offer to purchase the Notes;
- the fundamental change purchase price in our offer;
- the day on which we will purchase Notes for which a holder has accepted our offer;
- the name and address of the Paying Agent and the Conversion Agent;
- the conversion rate and any adjustments to the conversion rate;
- that Notes with respect to which a fundamental change purchase offer has been accepted by the holder may be converted, if otherwise convertible, only if the acceptance of the fundamental change purchase offer has been withdrawn in accordance with the terms of the Indenture; and
- the procedures that holders must follow to accept our offer to purchase the Notes.

To accept the fundamental change purchase offer, the holder must deliver a written notice so as to be received by the Paying Agent no later than the close of business on the third business day prior to the fundamental change purchase date. The required acceptance notice must state:

- the certificate numbers of the Notes to be delivered by the holder, if applicable;
- the portion of the principal amount of Notes to be purchased, which portion must be US$1,000 or an integral multiple of US$1,000; and
- that the holder accepts our offer to purchase such Notes pursuant to the applicable provisions of the Notes.

A holder may withdraw any acceptance of the fundamental change purchase offer by delivering to the Paying Agent a written notice of withdrawal prior to the close of business on the business day prior to the fundamental change purchase date. The notice of withdrawal must state:

- the principal amount of the Notes being withdrawn;
- the certificate numbers of the Notes being withdrawn, if applicable; and
- the principal amount of the Notes, if any, which remains subject to an acceptance of the fundamental change purchase offer.

We will cause the fundamental change purchase price for such Note to be paid promptly following the later of the fundamental change purchase date or the time of delivery of such Note. Payment of the purchase price for a Note for which an acceptance notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the Note, together with necessary endorsements, to the Paying Agent at its office in the Borough of Manhattan, The City of New York, or any other office of the Paying Agent, at any time after delivery of the acceptance notice. If the Paying Agent holds money sufficient to pay the purchase price of a Note on the purchase date:

- that Note will cease to be outstanding;
- interest on that Note will cease to accrue; and

- all rights of the holder will terminate, other than the right to receive the fundamental change purchase price upon delivery of that Note.

This will be the case whether or not book-entry transfer of the Note has been made or the Note has been delivered to the Paying Agent.

In connection with any purchase offer in the event of a fundamental change, we will to the extent applicable comply with any laws and regulations of Canada and other relevant jurisdictions.

Payment of the fundamental change purchase price for a Note for which a notice to accept the fundamental change purchase offer has been delivered and not validly withdrawn is conditioned upon delivery of the Note, together with necessary endorsements, to the Paying Agent at any time after delivery of such acceptance notice. Payment of the fundamental change purchase price for the Note will be made promptly following the later of the fundamental change purchase date or the time of delivery of the Note, together with necessary endorsements.

If the Paying Agent holds money sufficient to pay the fundamental change purchase price of the Note on the business day following the fundamental change purchase date in accordance with the terms of the Indenture, then, immediately after the fundamental change purchase date, the Note will cease to be outstanding and interest on such Note will cease to accrue, whether or not the Note is delivered to the Paying Agent. Thereafter, all other rights of the holder will terminate, other than the right to receive the fundamental change purchase price upon delivery of the Note.

We may be unable to purchase the Notes if a holder accepts our offer to purchase the Notes pursuant to this provision. If a holder accepts our offer to purchase the Notes, we may not have enough funds to pay the fundamental change purchase price. A fundamental change may constitute an event of default under existing or future credit or other agreements. If a holder accepts our offer to purchase the Notes at a time when we are prohibited from purchasing Notes, we could seek the consent of our lenders or other relevant parties to purchase the Notes or attempt to refinance the relevant debt. If we do not obtain consent or refinance the indebtedness, we would not be permitted to purchase the Notes. Our failure to purchase Notes pursuant to this provision would constitute an event of default under the Indenture, which might constitute a default under the terms of our other indebtedness.

We could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change with respect to the designated event purchase feature of the Notes but that would increase the amount of our, or our subsidiaries', indebtedness.

We may not purchase Notes upon a fundamental change if there has occurred and is continuing an event of default with respect to the Notes, other than a default in making a fundamental change purchase offer or in the payment of the fundamental change purchase price with respect to the Notes.

A "fundamental change" will be deemed to have occurred upon a change of control or a termination of trading, each as defined below.

A "change of control" will be deemed to have occurred at such time after the original issuance of the Notes when the following has occurred:

(1) the acquisition by any person of beneficial ownership, directly or indirectly, through a purchase, merger, amalgamation or other acquisition transaction or series of transactions of shares of our capital stock entitling that person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors, other than any acquisition by us or any of our subsidiaries; or

(2) our consolidation, amalgamation or merger with or into any other person, any merger of another person into us, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of our properties and assets to another person other than to one or more of our wholly-owned subsidiaries, other than:

    - any transaction:

        - that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of our capital stock, and

- pursuant to which holders of our capital stock immediately prior to the transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in the election of directors of the continuing or surviving person immediately after the transaction; or

- any merger solely for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding Common Shares solely into common stock of the surviving entity; or

(3) during any consecutive two-year period, individuals who at the beginning of that two-year period constituted our board of directors, together with any new directors whose election or appointment to our board of directors, or whose nomination for election by our shareholders, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election, appointment or nomination for election was previously so approved, cease for any reason to constitute a majority of our board of directors then in office; or

(4) the adoption of a plan of liquidation, dissolution or winding up of our Company.

Notwithstanding the foregoing, it will not constitute a change of control if 100% of the consideration for our Common Shares (excluding cash payments for fractional shares, cash payments made in respect of dissenters' appraisal rights, and cash payments that do not exceed US$1.00 or similar nominal amount for each Common Share) in the transaction or transactions constituting the change of control consists of Common Shares and any associated rights listed on the Toronto Stock Exchange or a U.S. national securities exchange or quoted on a U.S. national automated dealer quotation system, or which will be so traded or quoted when issued or exchanged in connection with the change of control, and as a result of such transaction or transactions the Notes become convertible solely into such Common Shares.

A "termination of trading" will be deemed to have occurred if our Common Shares into which the Notes are convertible are neither listed for trading on the Toronto Stock Exchange, nor listed for trading on a United States national securities exchange, or approved for listing on any Untied States system of automated dissemination of quotations of securities price, or traded in over-the-counter securities markets in the United States or Canada, and no American Depositary Shares or similar instruments for such Common Shares are so listed or approved for listing in the United States.

For purposes of the foregoing, beneficial ownership shall be determined in accordance with Rule 13d-3 promulgated by the SEC under the Exchange Act. The term "person" includes any syndicate or group which would be deemed to be a "person" under Section l3(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Clause (2) of the definition of change of control includes a phrase relating to the conveyance, transfer, lease, or other disposition of "all or substantially all" of our properties and assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase such Notes as a result of a conveyance, transfer, lease, or other disposition of less than all of our properties and assets may be uncertain.

In some circumstances, the fundamental change purchase feature of the Notes may make it more difficult or discourage a takeover of us and thus the removal of incumbent management. The fundamental change purchase feature, however, is not the result of management's knowledge of any specific effort to accumulate Common Shares or to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. Instead, the fundamental change purchase feature is the result of negotiations between us and the Initial Purchasers.

We may, to the extent permitted by applicable law, at any time purchase the Notes in the open market or by tender at any price or by private agreement. Any Note so purchased by us may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the Trustee for cancellation. Any Notes surrendered to the Trustee may not be reissued or resold and will be canceled promptly.

The preceding provisions would not necessarily protect holders of the Notes if highly leveraged or other transactions involving us occur that may adversely affect holders.

Our ability to repurchase Notes upon the occurrence of a fundamental change is subject to important limitations. The occurrence of a fundamental change could cause an event of default under, or be prohibited or limited by, the terms of future debt. Further, we may not have the financial resources, or be able to arrange financing, to pay the fundamental purchase price for all the Notes that might be delivered by holders of Notes seeking to exercise the repurchase right. In addition, payment of the fundamental change purchase price may violate or may be limited by the terms of our future indebtedness. Any failure by us to repurchase the Notes when required following a fundamental change would result in an event of default under the Indenture. Any such default may, in turn, cause a default under future debt. See "Risk Factors — Risks Related to the Notes and Our Common Shares — We may be unable to raise the funds to pay interest on the Notes or to purchase the Notes upon a fundamental change or at maturity."

Make Whole Premium Upon a Fundamental Change

If a fundamental change, as defined above under "— Offer to Purchase at Option of the Holder Upon a Fundamental Change," occurs prior to the maturity date as a result of a termination of trading or a transaction described in clauses (1), (2) or (4) of the definition of change of control (as set forth under "— Offer to Purchase at Option of the Holder Upon a Fundamental Change"), we will pay, to the extent described below, a make whole premium if a holder converts its Notes in connection with any such transaction by increasing the conversion rate for the Notes so surrendered for conversion if and as required below. A conversion of the Notes by a holder will be deemed for these purposes to be "in connection with" a fundamental change if the conversion notice is received by the Conversion Agent on or subsequent to the date 10 trading days prior to the date announced by us as the anticipated effective date of the fundamental change but before the close of business on the business day immediately preceding the related fundamental change purchase date or 10 trading days after the effective date of the fundamental change, if later.

Any make whole premium will be in addition to, and not in substitution for, any cash, securities or other assets otherwise due to holders of Notes upon conversion.

Any make whole premium will be determined by reference to the table below and is based on the date on which the relevant fundamental change becomes effective, which we refer to as the "effective date," and the price, which we refer to as the "stock price," paid, or deemed to be paid, per Common Share in the transaction constituting the fundamental change, subject to adjustment as described below. If holders of our Common Shares receive only cash in the fundamental change, the stock price shall be the cash amount paid per Common Share, (translated, if necessary, into U.S. dollars at the prevailing exchange rate on the effective date). In all other cases, the stock price shall be the average of the closing sale prices of our Common Shares for each of the 10 consecutive trading days (translated, if necessary, into U.S. dollars at the prevailing exchange rate on the relevant trading days) immediately prior to but not including the effective date.

The following table shows what the make whole premium would be for each hypothetical stock price and effective date set forth below, expressed as additional Common Shares per US$1,000 principal amount of Notes.

Make Whole Premium Upon a Fundamental Change (Number of Additional Shares)

Stock Price on Effective Date	July 23, 2008	August 1, 2009	August 1, 2010	August 1, 2011	August 1, 2012	August 1, 2013
USD$15.03	15.3026	15.3026	15.3026	15.3026	15.3026	15.3026
USD$20.00	10.7275	9.6933	8.5057	7.0717	5.1085	0.7159
USD$25.00	7.6868	6.6954	5.5254	4.0838	2.2449	0.0000
USD$30.00	5.9931	5.1345	4.1251	2.9096	1.5037	0.0000
USD$35.00	4.9408	4.1978	3.3606	2.3440	1.2161	0.0000
USD$40.00	4.2112	3.5723	2.8402	1.9885	1.0414	0.0000
USD$45.00	3.6548	3.1028	2.4683	1.7310	0.9109	0.0000

The actual stock price and effective date may not be set forth on the table, in which case:

- if the actual stock price on the effective date is between two stock prices on the table or the actual effective date is between two effective dates on the table, the make whole premium will be determined by a straight-line interpolation between the make whole premiums set forth for the two stock prices and the two effective dates on the table based on a 365-day year, as applicable;
- if the stock price on the effective date exceeds US$45.00 per share, subject to adjustment as described below, no make whole premium will be paid; and
- if the stock price on the effective date is less than US$15.03 per share, subject to adjustment as described below, no make whole premium will be paid.

The stock prices set forth in the first column of the table above will be adjusted as of any date on which the conversion rate of the Notes is adjusted as set forth under "— Conversion Rights — Conversion Rate Adjustments." The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the conversion rate as so adjusted. The number of additional shares set forth in the table above will be adjusted in the same manner as the conversion rate as set forth above under "— Conversion Rights — Conversion Rate Adjustments," other than by operation of an adjustment to the conversion rate by adding the make whole premium as described above.

Notwithstanding the foregoing, in no event will the conversion rate exceed 64.60 Common Shares per US$1,000 principal amount of Notes, subject to adjustments in the same manner set forth in paragraphs (i) through (v) under "— Conversion Rights—Conversion Rate Adjustments" above.

The additional shares (or cash in lieu thereof) delivered to satisfy our obligations to holders that convert their Notes in connection with a fundamental change will be delivered upon the settlement date for the conversion or promptly following the effective date of the fundamental change transaction, if later.

Redemption For Tax Reasons

We or the Surviving Person (as defined under "— Consolidation, Mergers and Sales of Assets") may redeem all but not part of the Notes for cash if we, the Surviving Person or any Subsidiary Guarantor has or would become obligated to pay to the holder of any Note "Additional Amounts" (which are more than a *de minimis* amount) as a result of any change, in the case of Additional Amounts owed by us or any initial Subsidiary Guarantor, from the date of this Offering Memorandum, or in the case of Additional Amounts owed by the Surviving Person or any future Subsidiary Guarantor, from the date such Surviving Person or Subsidiary Guarantor assumes the obligations under the Indenture, in the laws or any regulations of any Relevant Taxing Jurisdiction (as defined under "— Additional Amounts" below), or any change, in the case of Additional Amounts owed by us or any initial Subsidiary Guarantor, from the date of this Offering Memorandum, or in the case of Additional Amounts owed by the Surviving Person or any future Subsidiary Guarantor, from the date such Surviving Person or Subsidiary Guarantor assumes the obligations under the Indenture, in an interpretation or application of such laws or regulations by any legislative body, court, governmental agency, taxing authority or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory or administrative determination); provided we cannot avoid these obligations by taking reasonable measures available to us and that we deliver to the Trustee an opinion of independent legal counsel of recognized standing with respect to such matters and an officers' certificate attesting to such change and obligation to pay Additional Amounts. The term "Additional Amounts" is defined under "— Additional Amounts" below. The redemption price would be at 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date but without reduction for applicable withholding taxes (except in respect of certain excluded holders as described under "— Additional Amounts"). We will give you not less than 30 days' nor more than 60 days' notice of this redemption, except that (i) we will not give notice of redemption earlier than 60 days prior to the earliest date on or from which we would be obligated to pay any such Additional Amounts, and (ii) at the time we give the notice, the circumstances creating our obligation to pay such Additional Amounts remain in effect.

Upon receiving such notice of redemption, each holder who does not wish to have us redeem its Notes will have the right to elect to:

- convert its Notes; or
- not have its Notes redeemed, provided that no Additional Amounts will be payable on any payment of interest or principal with respect to the Notes after such redemption date. All future payments will be subject to the deduction or withholding of any taxes of a Relevant Taxing Jurisdiction required by law to be deducted or withheld.

The holder must deliver to the Paying Agent a written notice of election so as to be received by the Paying Agent no later than the close of business on a business day at least 5 business days prior to the redemption date. Where no election is made, the holder will have its Notes redeemed without any further action.

A holder may withdraw any notice of election by delivering to the Paying Agent a written notice of withdrawal prior to the close of business on the business day prior to the redemption date.

Additional Amounts

All payments made by or on behalf of us, the Surviving Person (as defined under "— Consolidation, Mergers and Sales of Assets" below) or any Subsidiary Guarantor under or with respect to the Notes or the Subsidiary Guarantees (including payments of cash or delivery of Common Shares upon conversion) will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges (including, without limitation, penalties, interest and other liabilities thereto) of whatever nature imposed or levied by or within any jurisdiction in which we, the Surviving Person or the applicable Subsidiary Guarantor are organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Taxing Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, we, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the net amount received by the holder of each Note or the Subsidiary Guarantee, as the case may be, after such withholding or deduction (and after deducting any taxes on the Additional Amounts) shall equal the amounts which would have been received by such holder had no such withholding or deduction been required. Similar payment of Additional Amounts to holders of Notes that are exempted from withholding but are required by the government or other authorities in any Relevant Taxing Jurisdiction to pay tax directly on amounts otherwise subject to withholding will also be made by us, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be. However, no Additional Amounts will be payable:

(1) with respect to a payment made to a holder or beneficial owner of Notes:

- with which we, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be, do not deal at arm's length (within the meaning of the Income Tax Act (Canada)) at the time of making such payment (provided that this clause shall only be applicable if and when the Relevant Taxing Jurisdiction is Canada or any province or territory thereof);

- that is subject to such tax, duty, assessment or other governmental charge by reason of its failure to comply with any certification, identification, information, documentation or other reporting requirement if compliance is required by law, regulation or administrative practice as a precondition to exemption from, or a reduction in the rate of deduction or withholding of, such tax, duty, assessment or other governmental charge (provided that in the case of any imposition or change in any such certification, identification, information, documentation or other reporting requirements which applies generally to holders of Notes who are not residents of the Relevant Taxing Jurisdiction, at least 60 days prior to the effective date of any such imposition or change, we, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be, shall give written notice, in the manner provided in the Indenture, to the Trustee and the holders of the Notes then outstanding of such imposition or change, as the case may be, and provide the Trustee and such Holders with such forms or documentation, if any, as may be required to comply with such certification, identification, information, documentation, or other reporting requirements); or

- that is subject to such tax, duty, assessment or other governmental charge by reason of its carrying on business in or otherwise being connected with the Relevant Taxing Jurisdiction otherwise than by the mere holding of such Notes or the receipt of payment, or exercise of any enforcement rights, thereunder;

(2) with respect to any estate, inheritance, gift, sales, excise, transfer, personal property, consumption, value-added or similar tax, assessment or governmental charge ("excluded taxes"); or

(3) with respect to any payment on a Note to a holder who is a fiduciary, a partnership, a limited liability company or a person other than the sole beneficial owner of that payment to the extent that such payment would be required by the laws of the Relevant Taxing Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the holder.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, redemption price, fundamental change purchase price and other amounts in respect of any Note, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

We, the Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will furnish to the Trustee, within 30 days after the date the payment of any tax, duty, assessment or other governmental charge is due pursuant to applicable law, certified copies of tax receipts evidencing that such payment has been made. We will indemnify and hold harmless each holder of Notes (other than a holder who shall have been excluded from receiving the relevant Additional Amounts under this section, "— Additional Amounts") and upon written request reimburse each such holder for the amount of (A) any tax, duty, assessment or other governmental charge so levied or imposed and paid by such holder as a result of payments made under or with respect to the Notes or any Subsidiary Guarantee, as the case may be, (B) any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, and (C) any tax, duty, assessment or other governmental charge levied or imposed and paid by such holder with respect to any reimbursement under (A) and (B) above, but excluding any excluded taxes.

Events of Default and Acceleration

The following are events of default under the Indenture:

- default in the payment of any principal amount (including any related Additional Amount), any redemption price or fundamental change purchase price due with respect to the Notes, when the same becomes due and payable;
- default in payment of any interest (including any related Additional Amount) under the Notes, which default continues for 30 days;
- default in the delivery when due of Common Shares and any cash payable upon conversion with respect to the Notes, including any make whole premium;
- failure to provide a fundamental change offer notice within the time required to provide such notice;
- failure of our Company or any Subsidiary Guarantor to comply with any of its other agreements in the Notes or the Indenture upon our receipt of notice of such default from the Trustee or from holders of not less than 25% in aggregate principal amount of the Notes, and the failure to cure (or obtain a waiver of) such default within 60 days after receipt of such notice;
- failure by us or any of our subsidiaries to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of US$5 million, which judgments are not paid, discharged or stayed for a period of 60 days;
- default by us or any of our subsidiaries in the payment of principal or interest on any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any of our indebtedness or indebtedness of our subsidiaries for money borrowed in excess of US$5 million in the aggregate, whether such indebtedness exists or shall hereafter be created, resulting in such indebtedness becoming or being declared due and payable, and such acceleration shall not have been rescinded or annulled within 30 days after written notice of such acceleration has been received by us or such subsidiary, provided that if such default is cured, waived, rescinded or annulled, then the event of default by reason thereof would not be deemed to have occurred;
- certain events of bankruptcy, insolvency or reorganization affecting us or any of our subsidiaries; or
- any Subsidiary Guarantor repudiates its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an event of default shall have happened and be continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare the principal of the Notes and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency with respect to us or any subsidiary, the principal amount of the Notes together with any accrued interest through the occurrence of such event shall automatically become and be immediately due and payable. Any declaration with respect to the Notes may be rescinded or annulled by the holders of a majority in aggregate principal amount of the outstanding Notes if all defaults and events of default, other than the nonpayment of accelerated principal and interest, have been cured or waived as provided in the Indenture, and certain other conditions specified in the Indenture are satisfied. The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders of Notes, unless such holders have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Consolidation, Mergers or Sales of Assets

The Indenture provides that:

(1) we may not consolidate with, amalgamate with or merge with or into another person, permit any person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of our and our subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- we shall be the continuing person or the person (if other than us) formed by such consolidation or amalgamation or merger or that acquired or leased such property and assets (the "Surviving Person") is a corporation organized and validly existing under the laws of Canada or any province of Canada, and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all of all our obligations under the Notes and the Indenture, and the Indenture and the Notes shall remain in full force and effect;

- after giving effect to the transaction no event of default, and no event that, after notice or passage of time, would become an event of default, has occurred and is continuing;

- each Subsidiary Guarantor, unless such Subsidiary Guarantor is the person with which we have entered into a transaction described under "—Consolidation, Mergers and Sales of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of our Company or the Surviving Person in accordance with the Notes and the Indenture; and

- other conditions described in the Indenture are met.

(2) no Subsidiary Guarantor may consolidate with, amalgamate with or merge with or into another person, or permit any person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its subsidiaries' properties and assets (computed on consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another person (other than to us or another Subsidiary Guarantor), unless:

- such Subsidiary Guarantor shall be the continuing person or the person (if other than it) formed by such consolidation, amalgamation or merger or that acquired or leased such property and assets shall be us or another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

- after giving effect to the transaction no event of default, and no event that, after notice or passage of time, would become an event of default, has occurred and is continuing; and

- other conditions described in the Indenture are met.

There is no precise established definition of the phrase "substantially all" or "substantially as an entirety" under applicable law. Accordingly, there may be uncertainty as to whether the provisions above would apply to a conveyance, transfer, lease or other disposition of less than all of our or such Subsidiary Guarantor's assets or properties.

Upon the assumption of our obligations by such entity in such circumstances except for a lease of our properties substantially as an entirety and, subject to certain other exceptions, we shall be discharged from all obligations under the Notes and the Indenture.

Although such transactions are permitted under the Indenture, certain of the foregoing transactions occurring could constitute a fundamental change of our Company, requiring us to make an offer to purchase the Notes of such holder as described above.

Modification and Waiver

The Trustee, we and the Subsidiary Guarantors may amend the Indenture or the Notes with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then outstanding. However, the consent of the holder of each outstanding Note affected is required to:

- alter the manner of calculation or rate of accrual of interest on the Note or change the time of payment;
- make the Note payable in money or payable in or convertible into securities other than that stated in the Note;
- change the stated maturity of the Note;
- reduce the principal amount, redemption price or fundamental change purchase price (including any make whole premium payable) with respect to the Note;
- make any change that adversely affects the right to require us to purchase the Note in any material respect;
- impair the right to institute suit for the enforcement of any payment with respect to the Note or with respect to conversion of the Note;
- change the currency of payment of principal of, or interest on, or Additional Amounts in respect of, the Note;
- except as otherwise permitted or contemplated by provisions of the Indenture concerning specified reclassification or corporation reorganizations, adversely affect the conversion rights of the Note;
- reduce the percentage in principal amount of outstanding Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- change the provisions in the Indenture that relate to modifying or amending the Indenture;
- amend, change or modify our, the Surviving Person's or any Subsidiary Guarantor's obligation to pay Additional Amounts; or
- release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture.

Without the consent of any holder of Notes, the Trustee, we and the Subsidiary Guarantors may amend the Indenture:

- to evidence a successor to us and the assumption by that successor of our obligations under the Indenture and the Notes;
- to add to our covenants for the benefit of the holders of the Notes or to surrender any right or power conferred upon us;
- to secure our and any Subsidiary Guarantor's obligations in respect of the Notes;
- to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;
- to provide for conversion rights of holders if any reclassification or change of Common Shares or any consolidation, amalgamation, merger or sale of all or substantially all of our property and assets occurs or otherwise comply with the provisions of the Indenture in the event of a merger, consolidation or transfer of assets;
- to add guarantees with respect to the Notes;
- to increase the conversion rate in accordance with the terms of the Notes;
- to cure any ambiguity, omission, defect or inconsistency in the Indenture; or
- to make any change that does not adversely affect the rights of the holders of the Notes in any material respect; provided that any amendment made solely to conform the provisions of the Indenture to the description of the Notes in this Offering Memorandum will not be deemed to adversely affect the rights of holders of the Notes.

Some of the amendment, modifications or changes described above will require that we obtain certain regulatory approvals, including stock exchange approvals, which we will seek to obtain prior to the amendment, modification or change becoming effective.

The holders of a majority in aggregate principal amount of the outstanding Notes may, on behalf of all the holders of all Notes:

- waive compliance by us or any Subsidiary Guarantor with restrictive provisions of the Indenture, as detailed in the Indenture; or
- waive any past default under the Indenture and its consequences, except a default in the payment of any amount due, or in the obligation to deliver Common Shares or cash, with respect to any Note or in respect of any provision which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding Note affected.

Any amendment to the Indenture of the Notes might, depending on the facts and circumstances, be deemed or considered for United States and Canada federal income tax purposes to be an exchange of the Notes for new Notes by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an amendment.

Discharge of the Indenture

We may satisfy and discharge our and the Subsidiary Guarantors' obligations under the Indenture by delivering to the Trustee for cancellation all outstanding Notes or by depositing with the Trustee, the Paying Agent or the Conversion Agent, if applicable, after the Notes have become due and payable, whether at stated maturity, or any redemption date, or a fundamental change purchase date, or upon conversion or otherwise, cash or Common Shares (as applicable under the terms of the Indenture) sufficient to pay all of the outstanding Notes and paying all other sums payable under the Indenture.

Calculations in Respect of Notes

We are responsible for soliciting any necessary bids and for making all calculations called for under the Notes. These calculations include, but are not limited to, determination of the average market prices, the conversion rate, the applicable conversion rate, any adjustment thereto, conversion value, daily conversion value amount, daily common share amount, closing sale price, volume weighted average trading price prevailing exchange rate in respect of the Notes or our Common Shares, as the case may be. We will make all these calculations in good faith and, absent manifest error, our calculations are final and binding on the Trustee, the Conversion Agent, each Paying Agent and on holders of Notes. We will provide a schedule of our calculations to the Trustee and the Conversion Agent, and each of the Trustee and the Conversion Agent is entitled to conclusively rely upon the accuracy of our calculations without independent verification, shall have no liability with respect thereto and shall have no liability to the holder of the Notes for any loss any of them may incur in connection with no independent verification having been done.

Rule 144A Information Requirements

We will agree in the Indenture to furnish to the holders or beneficial holders of the Notes and prospective purchasers of the Notes designated by the holders of the Notes, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, if, at any time while the Notes or the Common Shares issuable upon conversion of the Notes are restricted securities within the meaning of the Securities Act, we are not subject to the informational requirements of the Exchange Act.

Listing and Trading

The Notes sold in reliance on Rule 144A are expected to be eligible for trading on The PORTAL Market. Our Common Shares are listed under the symbols "TRE" and "TRE.S" on the Toronto Stock Exchange.

Unclaimed Money; Prescription

Claims against us or any Subsidiary Guarantor for the payment of principal of, or interest on, or other amounts due under the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Shareholders, Officers, Directors or Employees

No recourse for the payment of the principal of, or interest on, or other amounts in respect of any Note or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of our Company or any Subsidiary Guarantors in the Indenture, any of the Notes or the Subsidiary Guarantees or because of the creation of any indebtedness represented thereby, shall be had against any incorporators, shareholders, officers, directors, employee or controlling person of our Company, any Subsidiary Guarantor or any successor person thereof. Each holder of the Notes, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such wavier and release may not be effective to waive liabilities under the U.S. federal and other securities laws.

Consent to Jurisdiction; Service of Process

We and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Services Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

The Indenture and the Notes are governed by, and construed in accordance with, the law of the State of New York.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by us or any Subsidiary Guarantor under or in connection with the Notes, the Indenture or its Subsidiary Guarantee, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or through the enforcement of, a judgment or order of a court of any jurisdiction, in our or any Subsidiary Guarantor's winding-up or dissolution or otherwise) by any holder of a Note or Subsidiary Guarantee or the Trustee in respect of any sum expressed to be due to it from us or the applicable Subsidiary Guarantor will only constitute a discharge to us or such Subsidiary Guarantor to the extent of the U.S. dollar amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recover (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so.) If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Note, the Indenture or Subsidiary Guarantee, we or the applicable Subsidiary Guarantor will indemnify such holder or the Trustee against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such holder or the Trustee, such holder or the Trustee will, by accepting a Note or Subsidiary Guarantee, be deemed to have agreed to repay such excess. In any event, we or the applicable Subsidiary Guarantor, as the case may be, will indemnify the recipient against the cost of making any such purchase.

For the purposes of the proceeding paragraph, it will be sufficient for the holder of a Note or Subsidiary Guarantee or the Trustee to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from our and any Subsidiary

Guarantor's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a Note or Subsidiary Guarantee and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Subsidiary Guarantee.

Information Concerning the Trustee and Transfer Agent

The Bank of New York Mellon, a New York banking corporation, will be the Trustee, Registrar, Paying Agent and Conversion Agent under the Indenture for the Notes. The Canadian transfer agent and registrar of our Common Shares is CIBC Mellon Trust Company of Canada at its principal office in Toronto, Canada.

Global Notes; Book Entry; Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S (the "Regulation S Notes") will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with The Bank of New York Mellon, as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking S.A. Luxembourg ("Clearstream").

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Rule 144A Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with The Bank of New York Mellon, as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Rule 144A Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. None of our Company, any of the Subsidiary Guarantors, the Trustee, the Conversion Agent, or any Paying or Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

We expect that DTC will take any action permitted to be taken by a holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of our Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by us within 90 days, we will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with The Bank of New York Mellon, as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear holders and of Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts.

However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;

(2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See "— Trading between DTC Seller and Euroclear or Clearstream Purchaser" above.

None of our Company, the Trustee or any Conversion Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DESCRIPTION OF THE SHARES

Our company is governed by the CBCA as to matters of corporate law. Set forth below is certain information relating to our Common Shares, including brief summaries of certain provisions of the CBCA and our articles and by-laws.

General

Our authorized share capital consists of an unlimited number of Common Shares, of which 182,697,961 Common Shares were issued and outstanding as of July 11, 2008, and an unlimited number of preference shares issuable in series, of which none were issued and outstanding as of July 11, 2008.

On a diluted basis, we have 186,641,414 Common Shares outstanding as of July 11, 2008, assuming the exercise of 3,943,453 outstanding stock options.

Please also refer to "Market Price Information for Our Common Shares" of this Offering Memorandum which describes the historical market prices of our Common Shares.

Dividends

Under the CBCA, a corporation may pay a dividend by issuing fully paid shares of the corporation and, subject to certain limitations, a corporation may pay a dividend in money or property. The CBCA provides that a corporation shall not declare or pay a dividend if there are reasonable grounds for believing that the corporation is, or would after the payment be, unable to pay its liabilities as they become due or if the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes.

To date, we have not declared any dividends on our Common Shares. The covenants of the 2004 Senior Notes and the Syndicated Term Loan prohibit us from declaring and paying dividends unless certain conditions are met. Subject to this restriction, any payment of dividends on our Common Shares is at the discretion of our Board of Directors and is dependent upon our results of operations, financial condition, financing requirements and other factors that our Board of Directors deems relevant.

Pre-Emptive Rights and Issue of Additional Common Shares

The CBCA permits certain pre-emptive rights for existing shareholders of a corporation if the corporation's articles provide for such pre-emptive rights. The CBCA does not permit pre-emptive rights in respect of shares to be issued for a consideration other than money, as a share dividend or pursuant to the exercise of conversion privileges, options or rights previously granted by the corporation.

There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to our Common Shares.

Meetings of Shareholders

Subject to a corporation's articles and by-laws, the CBCA requires meetings of shareholders of a corporation to be held within Canada within 15 months of the last preceding annual meeting but no later than six months after the end of the corporation's preceding financial year. The directors of a corporation may at any time call a special meeting of shareholders.

The CBCA provides, subject to certain provisions, notice of the time and place of a meeting of shareholders shall be sent not less than 21 days and not more than 60 days before the meeting to each shareholder entitled to vote at the meeting, each director and the auditor of the corporation. The notice of the record date for determining shareholders entitled to receive notice of a meeting must be given not less than 21 days and not more than 60 days before the meeting by advertisement in a newspaper published or distributed in the place where the corporation has its registered office and in each place in Canada where it has a transfer agent or where a transfer of its shares may be recorded, or by written notice to each stock exchange in Canada on which the shares of the corporation are listed for trading.

The CBCA also provides that all meetings of shareholders at which special business, which is all business except the consideration of the financial statements, auditor's report, election of directors and appointment of the auditor, is to be transacted shall state the nature of that business in sufficient detail to permit the shareholder to form a reasoned judgment thereon and the text of any special resolution to be submitted to the meeting.

Voting Rights

Each holder of our Common Shares is entitled to one vote at meetings of our shareholders other than meetings of the holders of another class of shares.

Except in certain circumstances outlined in the CBCA, a shareholder resolution may be passed by a majority of the votes cast by the shareholders who voted in respect of that resolution. The CBCA requires certain fundamental corporate changes, such as certain amendments to the corporation's articles, the dissolution or amalgamation of the corporation, or the sale of all or substantially all of the property of the corporation, to be approved by a special resolution of the shareholders. A special resolution is defined in the CBCA as a resolution passed by not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution or signed by all the shareholders entitled to vote on that resolution.

Registration of Shareholders

We have appointed CIBC Mellon Trust Company of Canada at its principal offices in the city of Toronto, Ontario ("CIBC Mellon") as the transfer agent and registrar for our Common Shares. Transfers of Common Shares will be entered in the register of shareholders maintained by CIBC Mellon.

Liquidation Rights

In addition to holders' rights under the CBCA, holders of our 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.

Convertible Securities

The CBCA permits a corporation to issue certificates, warrants or other evidences of conversion privileges, or options or rights to acquire securities of the corporation, and the corporation shall set out the conditions thereof in the certificates, warrants or other evidences or in certificates evidencing the securities to which the conversion privileges, options or rights are attached.

Employee Stock Option Plan

We have adopted and maintain an incentive stock option plan (the "Plan") in order to provide effective incentives to our directors, officers, employees and consultants, and to enable us to attract and retain experienced and qualified individuals in those positions by permitting such individuals to directly participate in an increase in per share value created for our shareholders.

The maximum number of Common Shares issuable pursuant to exercises of options granted under the Plan is 10,000,000. As of July 11, 2008, 3,943,453 Common Shares, being approximately 2% of the currently issued and outstanding number of Common Shares, were issuable pursuant to unexercised options granted to such date under the Plan and options to purchase a further 1,703,325 Common Shares, being 1% of the currently issued Common Shares, remained available for grant under the Plan as at such date.

Please also refer to "Management — Stock Options" of this Offering Memorandum which describes our current outstanding options under the Plan.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Offering Memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision of a prospective purchaser to acquire or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. You are advised to consult your own tax advisors concerning the overall tax consequences of the purchase, ownership and disposition of the Notes.

Canada

Canadian federal income tax considerations

In the opinion of Aird & Berlis LLP, Canadian counsel to the Company and Stikeman Elliott LLP, Canadian counsel to the Initial Purchasers (collectively, "counsel"), the following is a general summary of the principal Canadian federal income tax considerations generally applicable under the *Income Tax Act* (Canada) (the "Tax Act") to a holder who acquires Notes as beneficial owner pursuant to this Offering Memorandum and who, at all relevant times, for the purposes of the Tax Act, holds such Notes and Conversion Shares acquired pursuant to the terms of the Notes as capital property, deals at arm's length with the Company and is not affiliated with the Company (a "Holder"). The Notes and Conversion Shares will generally be considered capital property to a Holder unless either (i) the Holder holds the Notes or Conversion Shares in the course of carrying on a business of buying and selling securities or the Holder has acquired the Notes or Conversion Shares in a transaction or transactions considered to be an adventure in the nature of trade. This summary is not applicable to a Holder that is a financial institution (as defined in the Tax Act for purposes of the mark-to-market rules in the Tax Act), a "specified financial institution," a Holder an interest in which is a "tax shelter investment" or a Holder who has elected to have the "functional currency" reporting rules apply to it, all as defined in the Tax Act. Such Holders should consult their own advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "Regulations"), the current provisions of the Canada-United States Income Tax Convention (1980) (the "Convention"), and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA").

This summary also takes into account all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (collectively, the "Proposed Tax Amendments"). No assurances can be given that the Proposed Tax Amendments will be enacted or will be enacted as proposed. Other than the Proposed Tax Amendments, this summary does not take into account or anticipate any changes in the law or the administrative policies or assessing practices of CRA, whether by judicial, legislative, governmental or administrative decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder and no representations with respect to the income tax consequences to any particular holder are made. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective investors in Notes should consult their own tax advisors with respect to their own particular circumstances.

Currency conversion

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Notes or Common Shares (other than the amounts related to the acquisition of Conversion Shares on a conversion of the principal amount of Notes for only Conversion Shares pursuant to the Holder's right of conversion), including interest, dividends, adjusted cost base and proceeds of disposition must be converted into Canadian dollars based on the United States-Canadian dollar exchange rate quoted by the Bank of Canada at noon on the relevant date of the related acquisition, disposition or recognition of income or such other note of exchange that is acceptable to CRA.

Residents of Canada

The following portion of the summary is generally applicable to a Holder who, at all relevant times, for the purposes of the Tax Act, is or is deemed to be resident in Canada (a "Resident Holder"). Certain such Resident Holders whose Notes or Conversion Shares might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making the irrevocable election permitted by subsection 39(4) of the Tax Act to deem the Notes, the Conversion Shares and any other Canadian securities (as defined in the Tax Act) owned by such Resident Holder in the taxation year in which the election is made, and in all subsequent taxation years, to be capital property.

Taxation of interest on the Notes

A Resident Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest on a Note that accrues or is deemed to accrue to the Resident Holder to the end of that taxation year or becomes receivable or is received by the Resident Holder before the end of that taxation year, except to the extent that such amount was already included in the Resident Holder's income for that or a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing its income for a taxation year any interest on a Note that is received or receivable by such Resident Holder in that year (depending upon the method regularly followed by the Resident Holder in computing income), to the extent that such amount was not otherwise already included in the Resident Holder's income for that or a preceding taxation year. In addition, any such Resident Holder who holds a Note on any anniversary day of the Note shall be required to include in computing its income for a taxation year any interest that accrued on the Note to the end of that day, to the extent the interest was not otherwise included in the Resident Holder's income for the year or any preceding taxation year.

A Resident Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable for a refundable tax of 6-2/3% on its aggregate investment income (as defined in the Tax Act). For this purpose, aggregate investment income will generally include interest income.

On an assignment or other transfer of a Note, including a conversion pursuant to the right of conversion, a redemption, a payment on maturity, or a purchase for cancellation, a Resident Holder will generally also be required to include in income the amount of interest accrued on the Note from the date of the last interest payment to the date of such assignment or other transfer to the extent that such amount has not otherwise already been included in the Resident Holder's income for the taxation year or a preceding taxation year. If the Company were to satisfy interest on the Notes by issuing Conversion Shares as described under the heading "Description of the Notes — Conversion Rights — Conversion Procedures", the Canadian federal income tax consequences to a Holder should not differ from those described above.

In addition, any amount paid by the Company as a penalty or bonus to a Resident Holder as a result of the early repayment of all or part of the principal amount of the Notes by the Company will generally be deemed to be interest received by a Resident Holder at the time of the redemption and will be required to be included in computing the Resident Holder's income as described above to the extent that it can reasonably be considered to relate to, and does not exceed the value at the time of the redemption of, the interest that would have been paid or payable by the Company on the Note for a taxation year ending after the redemption.

Disposition of Notes

In general, a disposition or deemed disposition of a Note, including a redemption, payment on maturity, purchase for cancellation of Notes or a conversion (but not including a conversion of a Note where the Resident Holder receives only Conversion Shares (plus any cash not exceeding Cdn.$200 in lieu of a fraction of a Conversation Share) pursuant to the Resident Holder's conversion right) will give rise to a capital gain (capital loss) to the extent that the proceeds of disposition, net of any accrued interest and any amounts included in the Resident Holder's income on such disposition or deemed disposition as interest, exceed (are less than) the adjusted cost base of the Note to the Resident Holder immediately before the disposition or deemed disposition and any reasonable costs of disposition. Such capital gain or capital loss will be subject to the tax treatment described below under the heading "Taxation of capital gains and capital losses."

If on a conversion the Company elects to pay the Resident Holder in a combination of cash and Conversion Shares or cash only, the Resident Holder's proceeds of disposition of the Note will be equal to the fair market value, at the time of disposition of the Note, of the Conversion Shares and any other consideration so received, which may result in a capital gain or a capital loss and will be subject to the tax treatment described below under the heading "Taxation of capital gains and capital losses." The cost to the Resident Holder of the Conversion Shares so acquired will be equal to the fair market value thereof at the time of acquisition and must be averaged with the adjusted cost base of all other Common Shares held as capital property by the Resident Holder for the purpose of calculating the adjusted cost base of the Conversion Shares to the Resident Holder.

Exercise of conversion right

The conversion of Notes into only Conversion Shares plus any cash not exceeding Cdn.$200 in lieu of a fraction of a Conversion Share pursuant to a Resident Holder's right of conversion will generally be deemed not to constitute a disposition of the Notes pursuant to the Tax Act and, accordingly, the Resident Holder will not realize a capital gain or capital loss on such conversion. We do not currently have a rights plan and the previous statement assumes that there is no rights plan in existence at the time of the conversion of the Notes into Conversion Shares. If a Resident Holder also receives rights under a rights plan on a conversion, the Canadian tax consequences to a Resident Holder will be materially different than set out herein. In this case, Resident Holders should consult their own tax advisors.

A Resident Holder's aggregate cost of the Conversion Shares acquired on conversion of the Notes where the Resident Holder receives only Conversion Shares (plus cash in lieu of a fraction of a share) will be equal to the aggregate adjusted cost base of the Notes converted and the amount of the accrued and unpaid interest on the Note up to, but not including, the conversion date, which is included in such Resident Holder's income, subject to the discussion below regarding cash in lieu of a fraction of a share. The adjusted cost base to the Resident Holder of such Conversion Shares will be averaged with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property.

Under the current administrative practice of the CRA, a Resident Holder who, upon conversion of the Notes, receives only Conversion Shares (plus cash in lieu of a fraction of a share) receives cash not in excess of Cdn.$200 in lieu of a fraction of a share may either treat the amount of cash as proceeds of disposition of a portion of the Notes thereby realizing a capital gain or capital loss, as discussed below under the heading "Taxation of capital gains and capital losses," or alternatively may reduce the adjusted cost base to the Resident Holder of the Conversion Shares that the Resident Holder received on the conversion by the amount of cash received. If a Resident Holder receives greater than Cdn.$200 in lieu of a fraction of a share, the Resident Holder must treat such amount as proceeds of disposition and report any capital gain or capital loss, as discussed below under the heading "Taxation of capital gains and capital losses."

Taxation of dividends on Conversion Shares

Dividends received or deemed to be received on the Conversion Shares by an individual (other than certain trusts) will be included in computing the individual's income for tax purposes and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from taxable Canadian corporations (as defined in the Tax Act), including the enhanced gross-up and dividend tax credit for eligible dividends (as defined in the Tax Act) paid by "taxable Canadian corporations" such as the Company, where those dividends have been designated as eligible dividends by the dividend-paying corporation in accordance with the provisions of the Tax Act.

A Resident Holder that is a corporation will include dividends received or deemed to be received on the Conversion Shares in computing its income for tax purposes and generally will be entitled to deduct the amount of such dividends in computing its taxable income, with the result that no Part I tax will be payable by it in respect of such dividends.

Certain corporations, including a "private corporation" or a "subject corporation" (as such terms are defined in the Tax Act), may be liable to pay a refundable tax under Part IV of the Tax Act at the rate of 33-1/3% of the dividends received or deemed to be received on the Conversion Shares to the extent that such dividends are deductible in computing taxable income. This tax will be refunded to the corporation at a rate of Cdn.$1 for every Cdn.$3 of taxable dividends paid by the Corporation while it is a private corporation.

Taxable dividends received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Disposition of Conversion Shares

A disposition or deemed disposition of a Conversion Share (other than to the Company) will generally result in a Resident Holder realizing a capital gain (capital loss) to the extent that the proceeds of disposition of the Conversion Share exceed (are less than) the Resident Holder's adjusted cost base of the Conversion Share and any reasonable costs of disposition. The general tax treatment of capital gains and capital losses is discussed below under the heading "Taxation of capital gains and capital losses."

In general, in the case of a Resident Holder that is a corporation, the amount of any capital loss otherwise determined arising from a disposition or deemed disposition of the Conversion Shares may be reduced by the amount of dividends previously received thereon, or deemed received thereon, to the extent and under the circumstances prescribed in the Tax Act. Analogous rules apply where a corporation is, directly or through a trust or partnership, a member of a partnership or a beneficiary of a trust which owns the Conversion Shares.

Taxation of capital gains and capital losses

Under the current provisions of the Tax Act, one-half of the amount of any capital gain (a "taxable capital gain") realized by a Resident Holder in a taxation year generally must be included in the Resident Holder's income in that year, and, subject to and in accordance with the provisions of the Tax Act, one-half of the amount of any capital loss (an "allowable capital loss") realized by a Resident Holder in a taxation year generally must be deducted from the taxable capital gains realized by the Resident Holder in that year. Allowable capital losses in excess of taxable capital gains realized in any particular year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

As discussed above, a Resident Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable for an additional refundable tax of 6-2/3% on its aggregate investment income (as defined in the Tax Act). For this purpose, aggregate investment income will generally include net taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Non-residents of Canada

The following portion of the summary is generally applicable to a Holder who, at all relevant times, for purposes of the Tax Act, is not, and is not deemed to be, a resident of Canada and has not and will not use or hold, or be deemed to use or hold, the Notes or Conversion Shares in or in the course of carrying on business in Canada (a "Non-Resident"). Special rules, which are not discussed below, may apply to a non-resident of Canada that is an insurer which carries on business in Canada and elsewhere.

The term "U.S. Holder," for the purposes of this summary, means a Non-Resident who, for purposes of the Convention, is at all relevant times a resident of the United States, entitled to the full benefit of the Convention, and does not use or hold and is not deemed to use or hold the Note or the Conversion Shares in connection with carrying on a business in Canada through a permanent establishment or fixed base in Canada. It is the present published policy of the CRA that most entities (including most limited liability companies) that are treated as being fiscally transparent for United States federal income tax purposes will not qualify as residents of the United States under the provisions of the Convention and are therefore not entitled to any benefits under the Convention. Under the Fifth Protocol to the Convention, Canada and the United States have agreed that the Convention will be extended to apply, in some circumstances, in respect of fiscally transparent entities (including limited liability companies). However, the Fifth Protocol to the Convention has not yet been ratified and is not currently in force. U.S. Holders are urged to consult with their own tax advisors to determine their entitlement to benefits under the Convention based on their particular circumstances.

Interest on the Notes

A Non-Resident will not be subject to Canadian withholding tax in respect of amounts paid or credited by the Company as, on account or in lieu of payment of, or in satisfaction of, the principal of the Notes or interest thereon.

Exercise of conversion right

The conversion of Notes into only Conversion Shares (plus cash not exceeding Cdn.$200 in lieu of a fraction of a share) pursuant to a Non-Resident's right of conversion will generally be deemed not to constitute a disposition of the Notes pursuant to the Tax Act and, accordingly, the Non-Resident will not realize a capital gain or capital loss on such conversion. We do not currently have a rights plan and the previous statement assumes that there is no rights plan in existence at the time of the conversion of the Notes into Conversion Shares. If a Non-Resident also receives rights under a rights plan on a conversion, the Canadian tax consequences to a Non-Resident will be materially different than set out herein. In this case, Non-Residents should consult their own tax advisors.

A Non-Resident's aggregate cost of the Conversion Shares acquired on conversion of the Notes will be equal to the adjusted cost base to the Non-Resident of the Notes converted, subject to the discussion below regarding cash in lieu of a fraction of a share. The adjusted cost base of such Conversion Shares will be averaged with the adjusted cost base of all other Common Shares held by a Non-Resident as capital property. Under the current administrative practice of the CRA, a Non-Resident who, upon conversion of the Notes, receives cash not in excess of Cdn.$200 in lieu of a fraction of a share may either treat this amount as proceeds of disposition of a portion of the Notes thereby realizing a capital gain or capital loss, as discussed below under the heading "Disposition of Conversion Shares and Notes," or alternatively may reduce the adjusted cost base of the Conversion Shares that the Non-Resident acquires on the conversion by the amount of cash received. If a Non-Resident receives greater than Cdn.$200 in lieu of a fraction of a share, the Non-Resident must treat such amount as proceeds of disposition and report any capital gain or capital loss realized, as discussed below under the heading "Disposition of Conversion Shares and Notes."

Disposition of Conversion Shares and Notes

A Non-Resident will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident on a disposition of the Notes (including upon conversion except as set out above) or the Conversion Shares acquired under the terms of the Notes, as the case may be, unless the Notes or the Conversion Shares constitute "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident at the time of disposition and the Non-Resident is not entitled to relief under an applicable income tax treaty or convention. As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), the Notes and the Conversion Shares generally will not constitute taxable Canadian property of a Non-Resident, unless at any time during the 60-month period immediately preceding the disposition the Non-Resident, persons with whom the Non-Resident did not deal at arm's length, or the Non-Resident together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of the Company. In such case, both the Notes and the Conversion Shares will constitute taxable Canadian property to the Non-Resident.

Even if the Notes or Conversion Shares constitute taxable Canadian property to a Non-Resident, any capital gain realized by the Non-Resident on the disposition or deemed disposition of such Notes or Conversion Shares, may be exempt from Canadian federal income tax pursuant to the terms of an applicable income tax treaty or convention between Canada and the country of residence of the Non-Resident.

Under the Convention, a U.S. Holder should not be subject to tax on a disposition of a Note. Moreover, under the Convention, a U.S. holder should not be subject to tax on a disposition of

Conversion Shares provided that at the time of disposition the Conversion Share does not derive its value principally from real property situated in Canada. We have advised counsel that the Conversion Shares do not currently derive their value principally from real property situated in Canada and it is not expected that they will in the future. Non-Residents who are resident in a jurisdiction other than the United States and whose Notes and Conversion Shares constitute taxable Canadian property should consult their own advisors.

Taxation of dividends on Conversion Shares

Under the Tax Act, dividends paid or credited on Conversion Shares to a Non-Resident will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividends. This withholding tax may be reduced pursuant to the terms of an applicable income tax treaty or convention between Canada and the country of residence of the particular Non-Resident.

Under the Convention, a US Holder will generally be subject to Canadian withholding tax at the rate of 15% of the gross amount of such dividends. Under the Convention, U.S. holders that are corporations and that own at least 10% of the voting stock of the Company will generally be subject to Canadian withholding tax at the rate of 5% of the gross amount of such dividends. In addition, under the Convention, dividends may be exempt from Canadian non-resident withholding tax if paid to certain U.S. Holders that are qualifying religious, scientific, literary, educational or charitable tax-exempt organizations and qualifying trusts, companies, organizations or arrangements operated exclusively to administer or provide pension, retirement or employee benefits that are exempt from tax in the United States and that have complied with specific administrative procedures.

Certain U.S. Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

* * * * *

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes or Conversion Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the issue price that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes or Conversion Shares by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly) 10% or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as certain financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes or Conversion Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes or Conversion Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes or Conversion Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes or Conversion Shares by the partnership.

The summary assumes that the Company is not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders. See "Passive Foreign Investment Company Considerations" below.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Canada (the "Treaty"), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES OR CONVERSION SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale and Retirement of the Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income.

Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

Conversion

Conversion of Notes. The Notes may be settled upon conversion by delivery of Conversion Shares, delivery of cash, or delivery of a combination of Conversion Shares and cash. If the Notes are settled by delivery of Conversion Shares, a U.S. Holder's conversion of Notes into Conversion Shares generally will not be a taxable event (except to the extent attributable to cash received in lieu of a fractional Conversion Share) for U.S. federal income tax purposes. A U.S. Holder's basis in Conversion Shares received upon conversion will generally be the same as the U.S. Holder's basis (exclusive of any tax basis allocable to a fractional Conversion Share) in the Notes converted. If the Notes are settled by delivery of cash, the treatment described above under "Sale and Retirement of the Notes" will apply. If a U.S. Holder converts a Note and receives a combination of Conversion Shares and cash, the Company intends to take the position (and the following discussion assumes) that the conversion will be treated as a recapitalization for U.S. federal income tax purposes, although the tax treatment is uncertain.

Assuming such treatment, a U.S. Holder will recognize capital gain, but not loss, equal to the excess of the sum of the fair market value of the Conversion Shares and cash received over the holder's adjusted tax basis in the Note, but in no event will the capital gain recognized exceed the amount of cash received.

In such circumstances, a U.S. Holder's tax basis in the Conversion Shares received upon a conversion of a Note (including any basis allocable to a fractional Conversion Share) will equal the tax basis of the Note that was converted, reduced by the amount of cash received (excluding cash received in lieu of a fractional Conversion Share), increased by the amount of gain, if any, recognized (other than with respect to a fractional Conversion Share).

Alternative characterizations are possible. For example, one alternative would be to treat the cash payment received on conversion as proceeds from a sale of a portion of the Note, and would tax the sale portion in the manner described under "Sale and Retirement of the Notes" above. Under this alternative characterization, the holder would not recognize gain or loss with respect to the Company's Conversion Shares received, and the U.S. Holder's holding period for such shares would include the period during which such holder held the Notes. In such case, the holder's basis in the Note would be allocated pro rata between the Conversion Shares and cash received, in accordance with their fair market values.

U.S. Holders should consult their tax advisors regarding the tax treatment of the receipt of cash and Conversion Shares for Notes upon conversion.

The receipt of cash in lieu of a fractional Conversion Share will result in capital gain or loss (measured by the difference between the cash received in lieu of the fractional Conversion Share and the U.S. Holder's tax basis in the fractional Conversion Share). A U.S. Holder's tax basis in a fractional Conversion Share will be determined by allocating the holder' s tax basis in the Notes between the Conversion Share received upon conversion and the fractional Conversion Share, in accordance with their respective fair market values.

Adjustment of Conversion Price. As discussed under "Description of the Notes" — "Conversion Rate Adjustments," the conversion ratio of the Notes is subject to adjustment in certain circumstances. These adjustments may give rise to deemed dividend income to U.S. Holders. In particular, if a conversion price reset occurs within 3 years of the payment of a dividend by the Issuer (including certain payments of interest on outstanding convertible debt that are treated as dividends for this purpose), a U.S. Holder could be deemed to receive a dividend equal to the amount by which the U.S. Holder's proportionate equity interest in the Issuer is increased by the conversion price reset. Furthermore, the failure to adjust the conversion ratio to reflect certain events can in some circumstances give rise to deemed dividend income to U.S. Holders. Prospective purchasers should consult their tax advisers concerning the consequences of these adjustments and events.

Dividends

General. Distributions paid by the Company on Conversion Shares out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Canadian withholding tax paid by the Company with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Conversion Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to Conversion Shares will constitute ordinary dividend income. U.S. Holders should consult their own tax advisors with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

For taxable years that begin before 2011, dividends paid by the Company will generally be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the Treaty. A U.S. Holder will be eligible for this reduced rate only if it has held the Conversion Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

Effect of Canadian Withholding Taxes. As discussed in "Taxation — Canadian Federal Income Tax Consideration," under current law payments of dividends by the Company to foreign investors are subject to a 25% Canadian withholding tax. The rate of withholding tax applicable to U.S. Holders that are eligible for benefits under the Treaty is reduced to a maximum of 15%. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Canadian taxes withheld by the Company, and as then having paid over the withheld taxes to the Canadian taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

A U.S. Holder will generally be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Canadian income taxes not exceeding the Treaty rate withheld by the Company. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two "baskets," and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid by the Company generally will constitute foreign source income in the "passive income" basket. If a U.S. Holder receives a dividend from the Company that qualifies for the reduced rate described above under "Dividends-General," the amount of the dividend taken into account in calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder has not held the Conversion Shares for at least 16 days in the 31-day period beginning 15 days before the ex dividend date.

U.S. Holders that are accrual basis taxpayers, and who do not otherwise elect, must translate Canadian taxes into U.S. Dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. Dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for Canadian taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend. However, cash basis and electing accrual basis U.S. Holders may translate Canadian taxes into U.S. Dollars using the exchange rate in effect on the day the taxes were paid. Any such election by an accrual basis U.S. Holder will apply for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the IRS.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of Canadian taxes.

Sale or other Disposition

Upon a sale or other disposition of Conversion Shares, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Conversion Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Conversion Shares exceeds one year. However, regardless of a U.S. Holder's actual holding period, any loss may be long-term capital loss to the extent the U.S. Holder receives a dividend that qualifies for the reduced rate described above under "Dividends — General," and exceeds 10% of the U.S. Holder's basis in its Conversion Shares.

For this purpose, the holding period of the Conversion Shares includes the holding period of any Notes that were converted into the Conversion Shares. Any gain or loss will generally be U.S. source.

Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it will be a PFIC for U.S. federal income tax purposes for its current taxable year, and does not expect to become a PFIC in the foreseeable future, but the Company's status as a PFIC must be determined annually and therefore may be subject to change. This determination will depend in part on the Company's spending schedule for its cash balances and the proceeds of the offering.

If the Company were to be treated as a PFIC, unless a U.S. Holder makes certain elections, gain recognized upon a disposition (including, under certain circumstances, a pledge) of Conversion Shares by such U.S. Holder will be allocated ratably over the U.S. Holder's holding period for such Conversion Shares. Similarly, under certain proposed regulations, gain on disposition of Notes will be allocated ratably over the U.S. Holder's holding period for such Notes. The amounts allocated to the taxable year of disposition and to years before we became a PFIC will be taxed as ordinary income. The amount allocated to each other taxable year will be subject to tax at the highest rate in effect for such taxable year for individuals or corporations, as appropriate, and an interest charge will be imposed on the tax attributable to such allocated amounts. Further, to the extent that any distribution received by a U.S. Holder on its Conversion Shares exceeds 125% of the average of the annual distributions on such Conversion Shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, such distribution will be subject to taxation in the manner just described for gains. Additionally, dividends paid by the Company would not be eligible for the special reduced rate of tax described above under "Dividends — General." Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime. For PFIC purposes, the holding period of Conversion Shares acquired upon the conversion of Notes includes the holding period of the Notes.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes, as well as dividends and other proceeds with respect to Conversion Shares, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

PLAN OF DISTRIBUTION

We intend to offer the Notes through the Initial Purchasers. Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is acting as representative of each of the Initial Purchasers named below. Subject to the terms and conditions contained in a purchase agreement dated as of July 17, 2008, by and among us, the Subsidiary Guarantors and the Initial Purchasers (the "Purchase Agreement"), we have agreed to sell to the Initial Purchasers, and each of the Initial Purchasers, severally and not jointly, has agreed to purchase from us, the principal amount of the Notes listed opposite its name below.

Initial Purchaser	Principal Amount
Merrill Lynch, Pierce, Fenner & Smith Incorporated	US$216,600,000
Credit Suisse Securities (USA) LLC	US$83,400,000
Total	US$300,000,000

Subject to the terms and conditions contained in the Purchase Agreement, the Initial Purchasers have agreed to purchase all of the Notes being sold pursuant to the purchase agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchaser may be increased or the Purchase Agreement may be terminated. The Initial Purchasers have advised us that they propose initially to offer the Notes at a price of 100% of the principal amount of the Notes, plus accrued interest from the issue date of the Notes, if any. After the initial offering, the offering price may change.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officers' certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The purchase price to be paid by the Initial Purchasers for the Notes in this offering will be 97.61% of the principal amount thereof.

Merrill Lynch is selling US$60 million principal amount of Notes to an affiliate. With respect to the US$60 million principal amount of the Notes to be purchased by Merrill Lynch and resold to its affiliate, Merrill Lynch will reimburse us US$621,209, which is equal to the selling concession Merrill Lynch will charge in respect of these Notes.

We estimate that the net proceeds from the offering of the Notes will be approximately US$291.0 million (or approximately US$335.0 million if the Initial Purchasers' overallotment option is exercised in full) after giving effect to the Initial Purchasers' discount and offering expenses payable by us.

Overallotment Option

We have granted the Initial Purchasers an option to purchase up to an additional US$45,000,000 principal amount of the Notes at the initial offering price thereof less the Initial Purchasers' discount. The Initial Purchasers may exercise this option within 30 days from the date of this Offering Memorandum to cover overallotments, if any.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering

Memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations.

United States

The Notes, the Subsidiary Guarantees and the Conversion Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be "qualified institutional buyers" as defined in Rule 144A, or pursuant to offers and sales that occur outside the United States in accordance with Regulation S. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser severally represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of Notes to the public in that Relevant prior to the publication of a prospectus in relation to the Notes which are the subject of the offering contemplated by the Offering Memorandum to the public in that Relevant Member State other than:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the manager for any such offer; or
- in any other circumstances falling within to Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require us or any Initial Purchase to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/7/1/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Initial Purchaser has severally represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us or any Subsidiary Guarantor) and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

The Notes have not been and may not be offered or sold in Hong Kong, by means of any document, other than, (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (ii) in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. Each Initial Purchaser has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

Singapore

Each Initial Purchaser has acknowledged that this Offering Memorandum or any other material distributed by it relating to the Notes has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and that the Notes will be offered in Singapore pursuant to exemptions under Section 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each Initial Purchaser has severally represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person who is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor under the SFA; or

- a trust (where the trustee is not an accredited investor under the SFA) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor under the SFA,

the shares, debentures or units of shares and debentures of that corporation, or the beneficiaries' rights and interest in that trust, as the case may be, shall not be transferable for six months after that corporation or that trust has so acquired the Notes unless:

- to an institutional investor under Section 274 of the SFA, or to a relevant person or to any person under Section 2750 and Section 275(1A) of the SFA, respectively, and in accordance with the conditions specified in Section 275 of the SFA;

- where no consideration is or will be given for the transfer; or

- where the transfer is by operation of law.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and each Initial Purchaser has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

PRC

This Offering Memorandum does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this Offering Memorandum or any other document.

Canada

In Canada, the Notes will be offered and sold only to investors who are "accredited investors" within the meaning of National Instrument 45-106 — *Prospectus and Registration Exemptions.*

No Sales of Similar Securities

Our Company has agreed that it shall not, and shall cause any of its subsidiaries not to, during a period of 90 days from the date of the Offering Memorandum, without the prior written consent of Merrill Lynch, directly or indirectly:

(i) issue (in the case of the Company), sell, offer or agree to sell, grant any option for the sale of, or otherwise transfer or dispose of, any other debt securities of the Company, or securities of the Company that are convertible into, or exchangeable for, the Notes or such other debt securities;

(ii) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, lend or otherwise transfer or dispose of any Common Shares or securities convertible into or exchangeable or exercisable for or repayable with Common Shares; or

(iii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, the economic consequences of ownership of the Common Shares, or any securities convertible into or exchangeable or exercisable for or repayable with Common Shares, whether any such swap or transaction described in clause (ii) or (iii) above is to be settled by delivery of Common Shares or such other securities, in cash or otherwise.

Notwithstanding the foregoing, the Company may offer, issue and sell Common Shares or securities convertible into or exercisable for Common Shares, or debt securities (A) pursuant to the Purchase Agreement, (B) pursuant to any employee, officer or director stock or benefit plan, or (C) upon the conversion or exercise of the Notes or securities outstanding on the date hereof.

New Issue of Notes

The Notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the Notes on any securities exchange or for quotation of the Notes on any automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the offering. However, the Initial Purchasers are under no obligation to do so and may discontinue any market-making activities at any time without any notice.

The Notes have not been registered under the Securities Act or any state securities laws and will be subject to restrictions on resale. Prior to the offering, there has been no active market for the Notes. The Notes sold to qualified institutional buyers in reliance on Rule 144A are expected to be eligible for trading in The PORTAL Market, the NASDAQ screen-based automated market for designated securities through an automated quotation and communication system that facilitates private offerings, resales, trading, clearing and settlement of securities eligible for resale under Rule 144A. However, that does not ensure that a liquid or active public trading market for the Notes will develop. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

Our Common Shares are listed on the TSX under the symbols "TRE" and "TRE.S." Application has been made for the Common Shares issuable upon conversion of the Notes to be listed on the TSX.

Price Stabilization and Short Positions

In connection with the offering, the Stabilizing Manager may engage in transactions that stabilize the market price of the Notes and our Common Shares. Such transactions include, without limitation, bids or purchases to peg, fix or maintain the price of the Notes or the Common Shares. If the Initial Purchasers create a short position in the Notes in connection with the offering, i.e., if they sell more Notes than are on the cover page of this Offering Memorandum, the Stabilizing Manager may reduce that short position by purchasing Notes in the open market. The Stabilizing Manager may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes or the Common Shares. In addition, neither we nor the Initial Purchasers make any representation that the Stabilizing Manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

Each Initial Purchaser will be facilitating an Internet distribution for this offering to some of its Internet subscription customers. An electronic Offering Memorandum is available on the Internet website maintained by each Initial Purchaser. The information on an Initial Purchaser's website is not part of this Offering Memorandum.

Other Relationships

The Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking, commercial banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any resale, pledge or transfer of the Notes or the Conversion Shares.

United States Restrictions

This offering is being made pursuant to Rule l44A and Regulation S under the Securities Act. The Notes (including the Subsidiary Guarantees attached thereto) and the Conversion Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state in the United States or other jurisdiction. Accordingly, the Notes are being offered and sold only (a) to "qualified institutional buyers" ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or (b) outside the United States in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any other applicable law.

Transfer Restrictions on the 144A Notes

Each purchaser of Notes pursuant to Rule 144A (such Notes, the "Rule 144A Notes") will, by its acceptance thereof, be deemed to have acknowledged, represented to and agreed with us, the Trustee and the Initial Purchasers that:

1. The Rule 144A Notes (and the Subsidiary Guarantees attached thereto) and the Conversion Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

2. The purchaser is a QIB purchasing the Rule 144A Notes for its own account, or for the accounts of one or more QIBs with respect to which account it exercises sole investment discretion or an account which is a QIB, and the purchaser is aware that the transferor of such Notes is relying on the exemption from registration under the Securities Act provided by Rule 144A for the transfer;

3. The purchaser will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A Notes and the Conversion Shares except as permitted by the applicable legend set forth in paragraph 4 below;

4. The Rule 144A Notes will bear a legend to the following effect, unless we determine otherwise in compliance with applicable law, and that it will observe the transfer restrictions contained therein:

   THE NOTES (THE "SECURITIES") EVIDENCED HEREBY, AND THE COMMON SHARES OF SINO-FOREST CORPORATION ISSUABLE UPON CONVERSION HEREOF (THE "CONVERSION SHARES"), HAVE NOT BEEN, AND ARE NOT EXPECTED TO BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER

JURISDICTIONS. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A NOTE OR AN INTEREST IN THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS NOTE AND THE CONVERSION SHARES;

5. The Rule 144A Notes offered in this offering will initially be evidenced by a Rule 144A Global Note and before any beneficial interest in the Rule 144A Notes evidenced by such Rule 144A Global Note may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Notes evidenced by the Regulation S Global Note, the transferor will be required to provide a written certification, as described below in "Other Provisions Regarding Transfer of the Notes"; and

6. Any resale or other transfer, or attempted resale or other transfer, of the Rule 144A Notes made other than in compliance with the above-stated restrictions shall not be recognized by us in respect of the Rule 144A Notes.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A

Transfer Restrictions on the Regulation S Notes

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S by its acceptance thereof will be deemed to have acknowledged and represented to and agreed with us, the Trustee and the Initial Purchasers that:

1. The Regulation S Notes (and the Subsidiary Guarantees attached thereto) and the Conversion Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States; and

2. The purchaser purchasing any Regulation S Notes is purchasing the Regulation S Notes in an offshore transaction meeting the requirements of Regulation S, and is not an affiliate of us or a person acting on behalf of such affiliate.

Other Provisions Regarding Transfer of the Notes

The above legends and the certifications as further described in the Indenture prohibit or restrict certain transfers as summarized below. Interests in Notes evidenced by the Rule 144A Global Note may be transferred to a person whose interest in such Notes is subsequently represented by the Regulation S Global Note only upon receipt by the transfer agent of such written certifications from the transferor and the transferee to the effect that such transfer is being made in accordance with Regulation S. Interests in Notes represented by the Regulation S Global Note may be transferred to a person whose interest in such Notes is subsequently evidenced by the Rule 144A Global Note only upon receipt by the transfer agent of such written certifications from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 144A. Any interest in Notes evidenced by one of the Global Notes that is transferred to a person whose interest in such Note is subsequently evidenced by an interest in the other Global Note will, upon transfer, cease to be an interest in the Notes evidenced by such first Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in Notes evidenced by the such other global note for so long as it remains such an interest.

Except in the limited circumstances described the Indenture, no person will be entitled to receive physical delivery of definitive Notes. The Notes are not issuable in bearer form.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

Canadian Restrictions

Each purchaser of Notes by its acceptance thereof will be deemed to have acknowledged and represented to and agreed with us, the Trustee and the Initial Purchasers that it will not transfer, sell, or otherwise dispose of Notes, or Conversion Shares (or any legal or beneficial interest in those securities), in, or to a resident of, Canada, or through a Canadian stock exchange or over-the-counter trading market operating in Canada, until the date that is four months and one day following the closing of this offering, unless such transfer, sale, or other disposition is made to a person that is an accredited investor within the meaning of applicable Canadian securities laws or unless the principal amount of Notes or Conversion Shares transferred, sold or otherwise disposed of is in a principal amount that is not less than Cdn.$150,000.

RATINGS

The Notes have been rated (P)Ba2 by Moody's Investors Service. The rating is provisional and subject to change. The rating reflects the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not constitute a recommendation to purchase, hold or sell the Notes in as much as such rating does not comment as to market price or suitability for a particular investor. There can be no assurance that the rating will remain in effect for any given period or that the rating will not be revised by such rating agency in the future if in its judgment circumstances so warrant. This rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Aird & Berlis LLP as to Canadian law and Linklaters as to United States federal and New York law, and for the Initial Purchasers by Stikeman Elliott LLP as to Canadian law and by Davis Polk & Wardwell as to United States federal and New York law.

Certain legal matters as to the law of the People's Republic of China will be passed upon for us by Jingtian & Gongcheng, and for the Initial Purchasers by Commerce & Finance Law Offices.

INDEPENDENT AUDITORS

Our consolidated financial statements for the years ended December 31, 2005 and 2006 were audited by the audit firm BDO McCabe Lo Limited, independent auditors, as stated in their reports appearing therein, and our consolidated financial statements for the year ended December 31, 2007, as well as adjustments to our consolidated financial statements for the years ended December 31, 2005 and 2006 were audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein. Such financial statements have been included herein with the consent of and in reliance upon the reports of BDO McCabe Lo Limited and Ernst & Young LLP, as applicable.

CHANGE OF AUDITORS

On August 13, 2007, we announced the appointment of Ernst & Young LLP as our auditor, replacing BDO McCabe Lo Limited. The decision to change auditors was approved by our Board of Directors and its Audit Committee.

The change of auditors was primarily due to our rapid growth in operations since BDO McCabe Lo Limited's engagement as our auditor in 2005, and such change was not prompted by any discovery of any accounting or other irregularities with respect to us or any of our subsidiaries. In connection with our financial statements for the years ended December 31, 2005 and 2006 and through March 31, 2007, there were no disagreements with BDO McCabe Lo Limited on any matter of accounting principles or practices, financial disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BDO McCabe Lo Limited, would have caused BDO McCabe Lo Limited to make reference to the subject matter of the disagreement in connection with its audit report on our financial statements for such years.

Ernst & Young LLP previously acted as our auditor for the three years ended December 31, 2004.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through the DTC, Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	PORTAL	CUSIP	ISIN	Common Code
Rule 144A Notes	P82934HAB7	82934HAB7	US82934HAB78	037875945
Regulation S Notes	—	C83912AB8	USC83912AB84	037875953

2. **Authorizations**: We have obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes.

3. **No Material Adverse Change**: Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial or trading position or prospect since March 31, 2008.

4. **Litigation**: Save as disclosed in this Offering Memorandum, neither we nor any of our subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor are we aware that any such proceedings are pending or threatened.

5. **Available Documents:** For so long as the Notes are outstanding, our latest annual report and consolidated financial statements and our latest unaudited interim consolidated financial statements, as well as the indenture and the underwriting agreement relating to the issue and offering of the Notes, will be available for inspection at the specified office of the payment agents at The Bank of New York Mellon, 101 Barclay Street, Floor 4-E, New York, NY 10286, USA during normal business hours.

6. **Auditors**: Our consolidated financial statements for the years ended December 31, 2005 and 2006 were audited by the audit firm BDO McCabe Lo Limited, independent auditors, as stated in their reports appearing therein, and our consolidated financial statements for the year ended December 31, 2007, as well as adjustments to our consolidated financial statements for the years ended December 31, 2005 and 2006 were audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein.

7. **Certain Reporting Obligations in Canada**: As a result of our status as a reporting issuer in all of the provinces of Canada and our Common Shares being listed on the TSX, we are subject to certain ongoing reporting obligations. Among other things, we publicly disclose and file with the Canadian securities regulatory authorities (i) annual audited financial statements and related management's discussion and analysis of financial conditions and results of operations within 90 days of the end of our financial year, (ii) interim quarterly unaudited and related management's discussion and analysis of financial conditions and results of operations within 45 days of the end of the respective interim period and (iii) an annual information form within 90 days of the end of our financial year setting out all material information with respect to our business (e.g., information with respect to our business, operations and capital structure).

SUMMARY OF CERTAIN DIFFERENCES BETWEEN CANADIAN GAAP AND U.S. GAAP

The preparation of financial information of our Company included in the audited financial statements set forth in this Offering Memorandum is prepared and presented in accordance with Canadian GAAP, which differs in certain material respects from U.S. GAAP. Certain significant differences between Canadian GAAP and U.S. GAAP that may be relevant to our Company are summarized below. This summary should not be construed to be complete and only illustrates some of the differences between Canadian GAAP and U.S. GAAP as of March 31, 2008 that may be relevant to our Company. No attempt has been made to identify all recognition, measurement, disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or notes thereto as of March 31, 2008. Further, no attempt has been made to identify future differences between Canadian GAAP and U.S. GAAP as a result of changes in accounting standards and regulations with effective dates after March 31, 2008 and no attempt has been made to identify all future differences between Canadian GAAP and U.S. GAAP that may affect our financial information as a result of transactions, events or accounting changes that may occur in the future. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and our financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between Canadian GAAP and U.S. GAAP, and how these differences might affect the financial information herein.

Inventories

Accounting for inventories under Canadian GAAP and U.S. GAAP is substantially the same. Under Canadian GAAP, inventory provisions are reversible whenever they are no longer required. Under U.S. GAAP, a provision to write down inventories to market value cannot be reversed until the related inventory item is sold.

Deferred Financing Costs

Under Canadian GAAP, from January 1, 2007, debt issuance costs are not classified as deferred charges, but instead are deducted from the carrying value of the debt which deduction is then accreted through charges to earnings using the effective interest rate method. Prior to January 1, 2007, debt issuance costs were treated as deferred financing costs and amortized over the life of the debt instrument on a straight line basis. On January 1, 2007, a catch up adjustment to retained earnings was made, without restatement of comparative periods, to reflect the accumulated difference between the straight line and effective interest methods and the adjusted deferred financing costs were reclassified as reduction of the related debt carrying value.

Under U.S. GAAP, debt issuance costs paid to the lender are generally treated in the same manner as current Canadian GAAP and other issuance costs are generally treated as deferred financing costs which are recognized as additional interest expense over the life of the debt instrument using the effective interest method.

Borrowing Costs

Under Canadian GAAP, borrowing costs may be, but are not required to be, capitalized in the year in which they are incurred if such costs relate to the acquisition, construction or development of capital assets over time.

Under U.S. GAAP, interest cost must be capitalized as part of the historical cost of capital assets that are acquired constructed or developed over time.

Start-up Costs and Pre-Operating Costs

Current Canadian GAAP permits the deferral and amortization of pre-operating costs (start-up costs) incurred during a pre-operating period, subject to specific criteria, when an entity starts up a new facility or business. Costs capitalized must be amortized when the pre-operating period ends over a future benefit period that should not exceed five years. The amount of deferred pre-operating expenses should be disclosed.

U.S. GAAP prohibits the deferral and amortization of start-up costs. Such costs must be expensed as incurred.

Future Income Taxes

Under Canadian GAAP, future income taxes are accounted for using the liability method and are recognized for all deductible temporary differences and the carryforward of unused tax assets and unused tax losses, to the extent that it is more likely than not that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax assets and unused tax losses can be utilized. Future tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settle, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Under U.S. GAAP, the liability method is also applied. Deferred tax is amounted for on all temporary differences and the carryforward of unused tax losses. All deferred tax assets and liabilities are recorded. A valuation allowance with respect to deferred tax assets is recognized to reduce the total deferred tax assets to an amount which is "more likely than not" to be realized. Deferred tax assets and liabilities are measured based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

Stock Based Compensation

Stock options are required to be accounted for using the fair value method under both Canadian and U.S. GAAP. Canadian GAAP allows forfeitures to be estimated in advance or to be accounted for as they occur. Accordingly, under Canadian GAAP, the Company accounts for forfeitures as they occur. Under U.S. GAAP, the compensation expenses recognized for stock-based compensation awards must reflect an estimate of award forfeitures at the time of grant, which estimate is revised in subsequent periods, if necessary.

Tax Uncertainty

Under U.S. GAAP, FIN48 addresses the accounting for Uncertain Tax Positions and was effective commencing on January 1, 2007. The adoption of FIN48 under U.S. GAAP is effected through a cumulative catch up adjustment as of January 1, 2007 without restatement of comparative periods.

The Company voluntarily adopted the provisions of FIN48 in its Canadian GAAP accounts. Canadian GAAP requires that a voluntary change in accounting policy be retroactively applied with restatement of comparative periods. Accordingly, the Company's Canadian GAAP accounts reflect the provision of FIN48 for all periods presented in its annual consolidated financial statements included herein.

Accounting for Derivative Instruments

Under current Canadian GAAP effective for the Company on January 1, 2007, all derivatives are recorded on the balance sheet at fair value. Unrealized gain and losses on these instruments are included in earnings, unless the instruments are designated as part of a cash flow hedge relationship in which case gains and losses are recorded in other comprehensive income to the extent the hedge is effective. Prior to January 1, 2007, derivative instruments to which hedge accounting was applied were held off-balance sheet with only realized gains and losses recorded in earnings. Non-hedge related derivative instruments were recorded on the balance sheet at fair value with changes in fair value recorded in other income.

U.S. GAAP is generally consistent with current Canadian GAAP. Therefore, prior to January 1, 2007, under U.S. GAAP, all derivatives would have been recorded on the balance sheet as either assets or liabilities at fair value. The accounting for changes in the fair value of derivatives would have depended on whether the derivative qualified as part of hedging relationship and further whether the derivative had been designated as a fair value or cash flow hedge.

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CANADIAN GAAP

AUDITORS' REPORT

To the Shareholders of
Sino-Forest Corporation

We have audited the consolidated balance sheets of **Sino-Forest Corporation** as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Hong Kong
March 19, 2007

BDO McCabe Lo Limited
Certified Public Accountants

AUDITORS' REPORT

To the Directors of
Sino-Forest Corporation

We have audited the consolidated balance sheet of **Sino-Forest Corporation** as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The 2006 and 2005 consolidated financial statements have been restated as described in notes 2 and 18.

The consolidated balance sheets as at December 31, 2006 and 2005 and for the years then ended, prior to the adjustments described in notes 2 and 18, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 19, 2007. We have audited the adjustments to the 2006 and 2005 consolidated financial statements and, in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Vancouver, Canada
March 12, 2008 except as to notes 2, 18 and 23
which are as of July 17, 2008.

/s/ Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31, *[Expressed in thousands of United States dollars]*	**2007**	**[Restated see notes 2 & 18]** **2006**	**[Restated see notes 2 & 18]** **2005**
	$	**$**	**$**
ASSETS			
Current			
Cash and cash equivalents	328,690	152,887	108,418
Short-term deposits *[note 3(a)]*	22,163	18,550	30,268
Accounts receivable *[note 4]*	105,329	124,784	114,960
Inventories *[note 5]*	46,661	15,178	7,622
Prepaid expenses and other	24,185	19,524	7,933
Assets of discontinued operations *[note 18]*	—	2,686	8,139
Total current assets	527,028	333,609	277,340
Timber holdings	1,174,153	752,783	513,412
Capital assets, net *[note 6]*	78,608	87,939	81,077
Other assets *[note 7]*	57,708	32,924	23,442
	1,837,497	1,207,255	895,271
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness *[note 3(b)]*	55,383	70,958	41,312
Accounts payable and accrued liabilities *[note 13(b)]*	107,989	68,669	74,527
Income taxes payable	1,615	1,121	738
Liabilities of discontinued operations *[note 18]*	32,016	38,300	38,779
Total current liabilities	197,003	179,048	155,356
Long-term debt *[note 9]*	441,985	450,000	300,000
Derivative financial instrument *[notes 2 and 9]*	11,211	—	—
Total liabilities	650,199	629,048	455,356
Commitments and Contingencies *[notes 19 and 20]*			
Shareholders' equity			
Share capital *[note 10]*	537,141	143,511	142,815
Contributed surplus *[note 11]*	3,906	4,726	1,804
Accumulated other comprehensive income *[note 12]*	105,287	32,590	11,396
Retained earnings	540,964	397,380	283,900
Total shareholders' equity	1,187,298	578,207	439,915
	1,837,497	1,207,255	895,271

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan *Director*	**James M.E. Hyde** Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31, *[Expressed in thousands of United States dollars, except for earnings per share information]*	**2007**	**[Restated see notes 2 & 18] 2006**	**[Restated see notes 2 & 18] 2005**
	$	**$**	**$**
Revenue	713,866	555,480	341,260
Costs and expenses			
Cost of sales	470,825	380,508	237,222
Selling, general and administration	40,209	35,852	20,611
Depreciation and amortization	5,364	3,975	3,099
	516,398	420,335	260,932
Income from operations before the undernoted	197,468	135,145	80,328
Interest expense	(43,960)	(37,340)	(28,994)
Interest income	15,184	6,486	4,179
Exchange gains	12,409	3,676	1,253
Write-down of capital assets *[note 6]*	(20,846)	(877)	—
Loss on changes in fair value of financial instrument	(2,996)	(1,179)	(554)
Other income	3,206	1,312	1,236
Amortization of deferred financing costs *[note 2]*	—	(1,819)	(1,338)
Income before income taxes	160,465	105,404	56,110
Provision for income taxes *[note 13]*	(18,034)	(13,192)	(9,010)
Net income from continuing operations	142,431	92,212	47,100
Net income from discontinued operations *[note 18]*	9,842	21,268	29,052
Net income for the year	152,273	113,480	76,152
Earnings per share *[note 14]*			
Basic	0.91	0.82	0.55
Diluted	0.90	0.81	0.55
Earnings per share from continuing operations			
Basic	0.85	0.67	0.34
Diluted	0.84	0.66	0.34
Earnings per share from discontinued operations			
Basic	0.06	0.15	0.21
Diluted	0.06	0.15	0.21
Retained earnings			
Retained earnings, beginning of year, as previously presented	397,380	283,900	230,307
Cumulative impact of accounting changes relating to income taxes *[note 2]*	—	—	(22,559)
Cumulative impact of accounting changes relating to financial instruments *[note 2]*	(8,689)	—	—
Retained earnings, beginning of year, as restated	388,691	283,900	207,748
Net income for the year	152,273	113,480	76,152
Retained earnings, end of year	540,964	397,380	283,900

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, *[Expressed in thousands of United States dollars]*	**2007**	**[Restated see notes 2 & 18] 2006**	**[Restated see notes 2 & 18] 2005**
	$	**$**	**$**
Net income for the year	152,273	113,480	76,152
Other comprehensive income			
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	(738)	—	—
Unrealized gains on foreign currency translation of self-sustaining operations	73,435	21,194	11,396
Other comprehensive income	72,697	21,194	11,396
Comprehensive income	224,970	134,674	87,548

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, *[Expressed in thousands of United States dollars]*	2007	[Restated see notes 2 & 18] 2006	[Restated see notes 2 & 18] 2005
	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year	152,273	113,480	76,152
Net income from discontinued operations	(9,842)	(21,268)	(29,052)
Add (deduct) items not affecting cash			
Depletion of timber holdings included in cost of sales	284,808	177,730	140,204
Depreciation and amortization	5,364	3,975	3,099
Stock-based compensation	2,898	3,105	2,672
Amortization of deferred financing costs	—	1,819	1,338
Loss on disposal of capital assets	135	212	—
Write-down of capital assets *[note 6]*	20,846	877	—
Gain on disposal of other assets	(3,369)	—	—
Loss on changes in fair value of financial instrument	2,996	1,179	554
Loss on changes in fair value of other assets	1,663	—	—
Interest income from Mandra	(2,100)	(300)	(767)
Other	1,645	(150)	(153)
Exchange gains	(1,816)	—	—
	455,501	280,659	194,047
Net change in non-cash working capital balances *[note 15]*	27,000	(16,456)	(41,176)
Cash flows from operating activities of continuing operations	482,501	264,203	152,871
Cash flows from operating activities of discontinued operations	3,856	26,169	43,889
CASH FLOWS USED IN INVESTING ACTIVITIES			
Additions to timber holdings	(640,257)	(415,087)	(265,158)
Increase in other assets	(31,225)	(10,000)	(14,501)
Additions to capital assets	(12,571)	(10,028)	(16,584)
(Increase) decrease in non-pledged short-term deposits	(8,698)	11,912	(5,155)
Business acquisition *[note 8]*	(795)	—	—
Proceeds from disposal of capital assets	1,073	167	—
Proceeds from disposal of other assets	151	—	—
Cash flows used in investing activities	(692,322)	(423,036)	(301,398)

Years ended December 31, *[Expressed in thousands of United States dollars]*	2007	[Restated see notes 2 & 18] 2006	[Restated see notes 2 & 18] 2005
	$	$	$
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in long-term debt	—	150,000	—
(Decrease) increase in bank indebtedness	(17,015)	29,175	12,532
Issuance of shares, net of issue costs *[note 10]*	389,912	513	—
Decrease/(increase) in pledged short-term deposits	6,180	385	(1,024)
Payment on derivative financial instrument	(2,165)	(872)	(305)
Increase in deferred financing costs	—	(3,001)	—
Cash flows from financing activities	376,912	176,200	11,203
Effect of exchange rate changes on cash and cash equivalents	4,856	933	687
Net increase/(decrease) in cash and cash equivalents	175,803	44,469	(92,748)
Cash and cash equivalents, beginning of year	152,887	108,418	201,166
Cash and cash equivalents, end of year	328,690	152,887	108,418
Supplemental cash flow information			
Cash payment for interest charged to income	41,971	35,642	28,994
Interest received	12,693	6,025	3,563

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

All significant intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses for the periods reported. Areas where the nature of estimates makes it reasonably possible that the actual results could materially differ from amounts estimated include inventory obsolescence, product warranty, estimated useful lives of assets, asset impairment of timber holdings and capital assets, wood product contracts and provision for income taxes.

Revenue recognition

Revenue from standing timber is recognized when the contract is entered into which establishes a fixed and determinable price with the customer, collection is reasonably assured and the significant risks and rewards of ownership have been transferred to the customer.

Revenue from the sale of wood chips is recognized when the products are processed by the authorized intermediaries on our behalf and shipped to the customer in accordance with the agreed upon customer terms.

Commission income relating to wood chips sales represents transactions when the Company acts as an agent to the transaction and is recorded on a net basis. Commission income is recognized when the services are rendered.

Revenue from wood product contracts are recorded based on the percentage-of-completion method, determined based on total costs incurred to expected total cost of the project and work performed. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any losses on such projects are charged to operations when determined.

Revenue from the sale of logs and other products is recognized when the logs and other products are shipped to the customer.

Foreign currency translation

The Company's reporting and functional currency is U.S. dollars. The assets and liabilities of subsidiaries denominated in their functional currencies other than U.S. dollars are translated into U.S. dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the accumulated other comprehensive income account in shareholders' equity.

Other foreign currency transactions are translated using the temporal method. Exchange gains or losses are included in the consolidated statement of income.

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity on loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents and short-term deposits are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income.
- Accounts receivable and subordinated loans are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains or losses resulting from periodic revaluation are recorded in other comprehensive income. No revaluation is recorded where an equity investment does not have a quoted market price.

Derivative financial instruments

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value are recorded in income at each reporting period. The Company does not enter into derivative financial agreements for trading or speculative purposes.

Convertible Bonds

Convertible bonds contain embedded derivative instruments that are bifurcated and accounted for as assets. The total disbursement allocated to the convertible hybrid instrument is first allocated to the fair value of all the derivative instruments to be bifurcated determined using the Black Scholes model. The remaining disbursements, if any, are then allocated to the host instruments, usually resulting in those instruments being recorded at a discount from their face amount.

To the extent that the fair values of any bifurcated derivative instrument assets exceed the total disbursement paid, an immediate charge to income is recognized in order to initially record the derivative instrument asset at their fair value. The bifurcated embedded derivatives are then revalued at each reporting date, with changes in the fair value reported as charges or credits to income.

The discount from the face value of the convertible bonds, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to income, using the effective interest rate method.

Inventories

Raw materials, timber logs and nursery are valued at the lower of cost, determined on an average cost basis, and replacement cost. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads.

Timber holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance which are capitalized over a period of 5 to 12 years based on the growth cycle of the type of tree. Timber holdings are depleted when the trees are harvested on the basis of the area of timber cut. Timber holdings from standing timber sales are depleted based on the area of timber sold when the significant risks and rewards of ownership have been transferred to the buyer.

Investments

Investments where the Company does not have significant influence or control are accounted for on the cost basis. Investments are written down only when there is evidence that a decline in value that is other than temporary has occurred.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Capital assets

Capital assets are recorded at cost including interest capitalized on assets under construction. Repairs and maintenance expenditures are charged to income; major betterments and replacements are capitalized. Depreciation and amortization are provided on a straight-line basis over the following estimated useful lives of capital assets:

Land-use rights	Over the term of the land-use rights
Buildings	20 years
Machinery and equipment	15 years
Office furniture and equipment	5 to 10 years
Vehicles	5 to 10 years

Impairment of long-lived assets

Timber holdings, capital assets and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are measured as the amount by which the carrying amount of an asset group exceeds its fair value, once it is determined that the undiscounted future cash flows of the asset group do not exceed its carrying amount.

Stock-based compensation plan

The Company has a stock option plan as described in note 10. Stock options are accounted for using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized as a charge to selling, general and administration expense on a straight line basis over the vesting period with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when options are exercised.

Earnings per share ("EPS")

Basic EPS is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

Deferred financing costs

Financing costs incurred in connection with long-term debt have been deferred and are recorded as a reduction to the principal amount of the associated long-term debt. The costs are amortized over the term of the related long-term debt using the effective interest rate method.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are presented net when there is a legally enforceable right to set off the recognized amounts and intend to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and short-term deposits with original maturities of less than three months at the date of acquisition.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments and Comprehensive Income

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, Section 3855 Financial Instruments — Recognition and Measurement, Section 3861 Financial Instruments — Disclosure and Presentation, Section 3865 Hedges, Section 1530 Comprehensive Income, and Section 3251 Equity. These accounting standards introduce new requirements for recognition and measurement of financial instruments, the application of hedge accounting, the reporting and display of comprehensive income as well as the recognition of certain transition adjustments. The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of the prior period except for the presentation of unrealized foreign currency translation adjustments arising from self-sustaining foreign operations which are presented as part of other comprehensive income retroactively.

Deferred financing costs relating to the non-convertible senior notes and the syndicated loan facility amounting to $8,713,000 as at January 1, 2007 that were previously reported in other assets, are now recorded against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line in the consolidated statement of income. Deferred financing costs will no longer be amortized using the straight-line method, and will be taken into the income statement and recorded as interest expense using the effective interest rate method over the term of the related debt. Effective January 1, 2007 a cumulative adjustment was made to account for the difference between the accumulated amortization of deferred financing costs using the effective interest rate method and the straight-line method. This resulted in a decrease in long-term debt and an increase in equity of $1,097,000 net of tax of nil.

Upon adoption of CICA Section 3865, the Company determined that its foreign currency swap [note 9] did not qualify for hedge accounting treatment. As a result, the fair value of the swap as at January 1, 2007 was included as a liability on the balance sheet through an adjustment to equity, decreasing it by $9,786,000.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new policy for accounting for uncertainty in income taxes. As a result of this change in accounting policy, the Company recorded a non-cash charge of $22,559,000 in equity as of January 1, 2005 with an offset to current liabilities. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated.

Under its new accounting policy, the Company evaluates a tax position using a two-step process.

Step 1 — Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50% ("more-likely-than-not") that the tax position taken or to be taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 — Measurement, which is only addressed if the recognition threshold has been met, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that is greater than 50% likely of being realized upon ultimate settlement.

The Company believes that this new policy will provide reliable and more relevant information because all uncertain tax positions of the Company will be affirmatively evaluated for recognition and derecognition using a consistent threshold of more-likely-than-not, based on the technical merits of a tax position.

The Company recognizes interest and penalties related to unrecognized tax benefits as an income tax expense.

Accounting Changes

On January 1, 2007, the Company adopted the revised Section 1506 Accounting Changes, relating to changes in accounting policies, changes in accounting estimates, and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ended December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date (refer to Future Accounting Standards below).

Future Accounting Standards

During the fourth quarter of 2006, the CICA issued three new accounting standards: CICA Handbook Section 1535 "Capital Disclosures", CICA Handbook Section 3863 "Financial Instruments — Presentation" and CICA Handbook Section 3862 "Financial Instruments — Disclosures". These standards are effective for interim and annual financial statements for the Company's reporting periods beginning on January 1, 2008.

Capital Disclosures section describes the standards for disclosing information about a company's objectives, policies and processes for managing capital, quantitative data about what a company regards as capital and whether a company has complied with any capital requirements and, if not, the consequences of such non-compliance. Financial Instruments — Presentation carries forward the guidance under Section 3861 with little change and Financial Instruments — Disclosures requires disclosure on the face of the balance sheet of each of the financial instrument categories as well as additional disclosure regarding credit, market and liquidity risk faced by the Company.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

As at December 31, 2007, 2006 and 2005, short-term deposits were made for varying periods less than twelve months depending on the immediate cash requirements of the Company, and earn interest at rates of 1.4% to 5.6%, 1.4% to 5.1% and 1.2% to 4.3% per annum, respectively.

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $133,908,000, $90,569,000 and $54,137,000 as at December 31, 2007, 2006 and 2005, respectively. These credit facilities bear interest at a weighted average rate of 6.2%, 6.4% and 5.2% per annum as at December 31, 2007, 2006 and 2005, respectively, and are repayable on demand or due in less than one year.

As at December 31, the following credit facilities were utilized:

	2007	2006	2005
	$	$	$
Trust receipt loans	27,848	49,482	27,253
Bank loans	27,535	21,476	14,059
	55,383	70,958	41,312

Certain of the Company's banking facilities are collateralized by:

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2007, 2006 and 2005 of $11,445,000, $6,940,000 and $3,713,000, respectively; and

[b] certain short-term deposits at December 31, 2007, 2006 and 2005 of $260,000, $6,071,000 and $6,166,000, respectively.

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when accounts are determined to be doubtful. Accounts receivable are substantially from companies located in the People's Republic of China ("PRC") and denominated in Renminbi and U.S. dollars. Accounts receivable as at December 31, 2007, 2006 and 2005 included $40,132,000, $56,765,000 and $45,731,000, respectively, which are due from three customers representing 38%, 45% and 40%, respectively, of outstanding accounts receivable. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi.

5. INVENTORIES

Inventories consist of the following:

	2007	2006	2005
	$	$	$
Raw materials	1,271	1,169	1,207
Work in progress	15,172	6,685	795
Finished goods	5,471	2,240	2,730
Timber logs	20,826	2,360	—
Nursery	3,921	2,724	2,890
	46,661	15,178	7,622

6. CAPITAL ASSETS

Capital assets consist of the following:

	2007		2006		2005	
	Cost	Accumulated depreciation and amortization	Cost	Accumulated depreciation and amortization	Cost	Accumulated depreciation and amortization
	$	$	$	$	$	$
Machinery and equipment	59,155	3,581	81,161	10,458	75,059	8,604
Buildings	15,694	2,160	11,235	1,574	8,760	1,079
Land-use rights	5,816	842	5,148	679	4,980	539
Office furniture and equipment	2,203	1,060	1,577	899	1,362	764
Vehicles	4,692	1,309	3,425	997	2,574	672
	87,560	8,952	102,546	14,607	92,735	11,658
Less: accumulated depreciation and amortization	(8,952)		(14,607)		(11,658)	
Net book value	78,608		87,939		81,077	

Buildings, machinery and equipment of $25,841,000, $31,427,000 and $42,034,000 as at December 31, 2007, 2006 and 2005, respectively, are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior period.

During the fourth quarter of 2007, the Company completed an impairment analysis for certain manufacturing facilities. This analysis indicated that estimated undiscounted future cash flows to be generated by the capital assets over their economic lives were less than their carrying values. The carrying values of the capital assets were therefore reduced to fair market value resulting in a capital assets write-down of $20,846,000. The fair values of the assets subject to impairment were determined using discounted cash flow methodology and liquidation value.

7. OTHER ASSETS

Other assets consist of the following:

	2007	2006	2005
	$	$	$
Investment in Mandra Holdings [a]	2	2	2
Subordinated loan and interest receivable [a]	18,167	16,067	15,767
Prepaid plantation costs [b]	23,565	—	—
Investment in Omnicorp and Greenheart [c]	4,354	—	—
Convertible bond [c]	919	—	—
Derivative financial instrument [c]	3,149	—	—
Deferred financing costs, net [note 2]	—	8,713	7,531
Deposit for purchase of logs [d]	5,700	8,000	—
Other	1,852	142	142
	57,708	32,924	23,442

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project"). Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Holdings at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of its $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $3,167,000, $1,067,000 and $767,000 at December 31, 2007, 2006 and 2005, respectively. The Company's maximum exposure of loss from Mandra is limited to the Company's investment in and subordinated loan and related interest receivable.

[b] In September 2007, the Company entered into two agreements to lease 10,438 hectares of plantation land in Yunnan for 30 years for approximately $21.9 million of which $9.3 million was paid. The remaining amount represents deposits paid for acquisition of plantations.

[c] In July 2007, the Company signed a master sale and purchase agreement with Greenheart Resources Holdings Limited ("Greenheart"), a natural forest concession owner and operator in Suriname, South America to secure 34,285 cubic meters of logs from Suriname for $175 per cubic meter up to January 31, 2009. In addition, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 Omnicorp common shares, convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp which matures on November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000) resulting in a gain of $3,369,000 being recorded in other income. In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp common shares.

The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. This derivative asset was initially recorded at its fair value using the Black Scholes model at inception of $4,965,000 and adjusted to its fair value of $3,149,000 at December 31, 2007 resulting in a charge of $1,816,000 recorded in other income.

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000). This discount, together with the stated interest on the convertible bonds, is being accreted using the effective interest rate method over its remaining term. The Company recorded accretion of $153,000 recorded in other income.

The following assumptions were used to estimate the fair value of the share purchase options at December 31:

Risk-free interest rate	3.26%
Expected option life (in years)	1.85
Dividend yield	0.0%
Volatility	111.76%

[d] The amount represents a refundable deposit of $10.0 million out of which $4.3 million has been reclassified to current assets, paid to a third party in connection with wood fiber to be purchased by the Company under the twelve-year wood fiber supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million cubic metres of wood fiber to the Company. The deposit will be refunded within five years after the first anniversary of signing the contract in July 2006.

8. BUSINESS ACQUISITION

On October 31, 2007, the Company completed the acquisition of 100% of the equity interests of a limited company incorporated in the PRC for cash, which is principally engaged in the manufacturing of semi-finished flooring products.

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were as follows:

	$
Cash and bank balances	80
Accounts receivable	207
Inventories	703
Prepaid expenses and other	257
Capital assets	578
Accounts payable and accrued liabilities	(1,116)
	709
Goodwill	166
Purchase price	875

9. LONG-TERM DEBT

Long term debt consists of the following:

	2007	2006	2005
	$	$	$
Senior Notes [a]	300,000	300,000	300,000
Syndicated Loans [b]	150,000	150,000	—
Unamortized deferred financing costs	(8,015)	—	—
	441,985	450,000	300,000

[a] On August 17, 2004, the Company issued $300,000,000 non-convertible guaranteed senior notes. The notes bear interest at a rate of 9.125% per annum and payable semi-annually. The notes mature on August 17, 2011. The notes are:

— general obligations of the Company;

— guaranteed by the Subsidiary Guarantors (as defined in the indenture of the notes) on a senior basis subject to certain limitations;

— senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;

— at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and

— secured by a pledge of the shares of the Subsidiary Guarantors.

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged Rmb113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. Management estimates that a loss of $11,211,000, being the fair value of the contract, would be realized if the contract was terminated on December 31, 2007. The fair value decrease of $1,425,000 has been recorded in loss on changes in fair value of financial instrument.

The fair value of the non-convertible guaranteed senior notes as at December 31, 2007, 2006 and 2005 were approximately $316,000,000, $324,000,000 and $322,000,000, respectively.

Total interest expense on the notes for the years ended December 31, 2007, 2006 and 2005 were $28,616,000, $27,375,000 and $27,375,000, respectively.

[b] On February 24, 2006, the Company entered into a $150 million 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 Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.10% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and rank at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, except for obligations mandatory preferred by law applying to companies generally. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility was fully drawn down in 2006. Principal of $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the years ended December 31, 2007, 2006 and 2005 were $10,573,000, $6,714,000 and nil, respectively.

The carrying amount of the syndicated loans approximates their fair value.

[c] Under the terms of the above debt agreements, the Company must meet certain financial and non-financial covenants including limitation on dividend and other payment restrictions affecting the Company and the restricted subsidiaries (as defined in the debt agreements).

10. SHARE CAPITAL

Share capital consists of the following:

	2007		2006		2005	
	Number of Common Shares	**Common Share Capital**	**Number of Common Shares**	**Common Share Capital**	**Number of Common Shares**	**Common Share Capital**
		$		**$**		**$**
Authorized						
Unlimited common shares, without par value						
Unlimited preference shares, issuable in series, without par value						
Issued						
Balance, beginning of year	137,999,548	143,511	137,789,548	142,815	136,589,548	138,915
Issue of shares	41,255,191	379,142	—	—	1,200,000	3,900
Exercise of options	3,338,222	10,770	210,000	513	—	—
Transfer from contributed surplus	—	3,718	—	183	—	—
Balance, end of year	182,592,961	537,141	137,999,548	143,511	137,789,548	142,815

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2007, 2006 and 2005 are Cdn.$677,547,313, Cdn.$228,637,336 and Cdn.$227,820,790.

During the years ended December 31, 2007, 2006 and 2005, the movements in share capital were as follows:

[a] In conjunction with the completion of the equity offering in May 2004, the Company purchased from management certain rights to acquire shares in Sino-Wood Partners, Limited ("Sino-Wood") pursuant to securities purchase agreements for a

pre-determined purchase price not to exceed Cdn.$12,000,000. The amount was settled by the issuance of 2,400,000 common shares valued at Cdn.$2.65 per share based upon the offering price. One half of the shares vested 90 days following the completion of the offering and the remaining one half vested on the first anniversary of the completion of the offering. The Company has recorded the compensation expense of approximately $7,800,000 over the vesting period. The compensation expense recorded in 2005 and 2004 was $1,432,000 and $6,368,000, respectively. As a result, in August 2004 and May 2005, 1,200,000 common shares each were issued to management in settlement for the rights described above for $3,900,000 each.

[b] During the year ended December 31, 2006, 210,000 stock options were exercised for proceeds of $513,000.

[c] In April 2007, the Company closed a private placement in which 25,355,191 common shares were issued at Cdn.$9.15 per share for gross proceeds of Cdn.$232,000,000 (equivalent to $200,000,000 at April 10, 2007) less share issue costs of $294,000.

[d] In June 2007, the Company completed a public offering of 15,900,000 common shares at Cdn.$12.65 for gross proceeds of Cdn.$201,135,000 (equivalent to $188,540,000 at June 12, 2007) less share issue costs of $9,104,000.

[e] During the year ended December 31, 2007, 3,338,222 stock options were exercised for proceeds of $10,770,000.

Authorized

Each holder of common shares is entitled to one vote per common share at meetings of the Company's shareholders. Each holder of common shares is entitled to receive dividends if, as and when declared by the Company's board of directors. The holders of the common shares are entitled to receive the remaining property of the Company upon dissolution.

The preference shares may from time to time be issued in one or more series, each series of which will have the rights and other features determined by the board of directors of the Company. The preference shares of each series will rank equally with the preference shares of every other series with respect to priority in payment of dividends and return of capital in the event of the liquidation, dissolution or winding-up of the Company and have a preference over the common shares.

Stock options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

As at December 31, 2007, options to purchase 8,296,675 common shares have been granted and options to purchase 1,703,325 common shares remain available to be granted under the Stock Option Plan.

During the year ended December 31, 2007, options to acquire 1,570,417 common shares were granted to employees and directors at exercise prices ranging from Cdn.$13.15 to Cdn.$19.00 in accordance with the Company's Stock Option Plan. The options granted will vest over one to three years and expire in five years.

As at December 31, 2006, options to acquire 5,816,258 common shares have been granted and outstanding options to purchase 3,173,742 common shares remain available to be granted under the Stock Option Plan.

During the year ended December 31, 2006, options to acquire 1,589,258 common shares were granted to employees and directors at exercise prices ranging from Cdn.$4.36 to Cdn.$5.50 in accordance with the Company's Stock Option Plan. The options granted will vest over three years and expire in five years.

As at December 31, 2005, options to acquire 4,437,000 common shares have been granted and options to purchase 4,763,000 common shares remain available to be granted under the Stock Option Plan.

During the year ended December 31, 2005, options to acquire 1,942,000 common shares were granted to employees and directors at exercise prices ranging from Cdn.$2.70 to Cdn.$3.90 in accordance with the Company's Stock Option Plan. The options granted will vest over three years and expire in five years.

The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	November 23, 2007	August 21, 2007	June 4, 2007
Number of options	250,000	2,081	1,318,336
Exercise price (in Cdn.$)	$ 19.00	$ 14.01	$ 13.15
Dividend Yield	0.0%	0.0%	0.0%
Volatility	55.5%	56.4%	56.6%
Risk-free interest rate	4.22%	4.59%	4.11%
Expected option lives (in years)	5.0	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	$ 9.98	$ 7.00	$ 6.54

	August 25, 2006	August 15, 2006
Number of options	239,258	1,350,000
Exercise Price (in Cdn.$)	$ 4.36	$ 5.50
Dividend Yield	0.0%	0.0%
Volatility	51.0%	50.4%
Risk-free interest rate	4.07%	4.19%
Expected option lives (in years)	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	$ 1.92	$ 1.69

	September 14, 2005	April 5, 2005	January 21, 2005
Number of options	292,000	1,350,000	300,000
Exercise price (in Cdn.$)	$ 2.70	$ 3.67	$ 3.90
Dividend Yield	0.0%	0.0%	0.0%
Volatility	53.9%	53.3%	54.3%
Risk-free interest rate	3.4%	3.6%	3.4%
Expected option lives (in years)	3.5	3.5	3.5
Weighted average fair value of each option (in U.S. dollars)	$ 0.98	$ 1.26	$ 1.35

The compensation expense recorded for the years ended December 31, 2007, 2006 and 2005 with respect to the above options granted amounted to $2,898,000, $3,105,000 and $1,240,000, respectively.

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2007, 2006 and 2005:

	2007		2006		2005	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
		Cdn.$		**Cdn.$**		**Cdn.$**
Balance, beginning of year	5,816,258	3.69	4,437,000	3.06	2,945,000	2.68
Granted	1,570,417	14.15	1,589,258	5.33	1,942,000	3.56
Cancelled	(100,000)	13.15	—	—	(450,000)	2.72
Exercised	(3,338,222)	3.46	(210,000)	2.72	—	—
Balance, end of year	3,948,453	7.78	5,816,258	3.69	4,437,000	3.06
Exercisable at year-end	1,510,703	3.63	3,277,147	3.50	915,000	2.59

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2007:

Range of exercise prices	**Options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options Exercisable**	**Options Non-exercisable**	**Weighted average exercise price**
Cdn.$2.00 - Cdn.$3.00	700,000	1.55 years	Cdn.$2.72	602,667	97,333	Cdn.$2.72
Cdn.$3.00 - Cdn.$4.00	871,000	2.23 years	Cdn.$3.70	621,000	250,000	Cdn.$3.70
Cdn.$4.00 - Cdn.$5.00	157,036	3.65 years	Cdn.$4.36	37,036	120,000	Cdn.$4.36
Cdn.$5.00 - Cdn.$6.00	750,000	3.62 years	Cdn.$5.50	250,000	500,000	Cdn.$5.50
Cdn.$13.00 - Cdn.$14.00	1,218,336	4.42 years	Cdn.$13.15	—	1,218,336	Cdn.$13.15
Cdn.$14.00 - Cdn.$15.00	2,081	4.64 years	Cdn.$14.01	—	2,081	Cdn.$14.01
Cdn.$19.00 - Cdn.$20.00	250,000	4.89 years	Cdn.$19.00	—	250,000	Cdn.$19.00

11. CONTRIBUTED SURPLUS

The contributed surplus represents stock-based compensation and options granted over the vesting period which was charged to the income statement.

	2007	2006	2005
	$	$	$
Balance, beginning of year	4,726	1,804	3,032
Stock-based compensation	2,898	3,105	2,672
Transfer to share capital	(3,718)	(183)	(3,900)
Balance, end of year	3,906	4,726	1,804

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2007	2006	2005
	$	$	$
Balance, beginning of year	32,590	11,396	—
Other comprehensive income	72,697	21,194	11,396
Balance, end of year	105,287	32,590	11,396

As at December 31, 2007, 2006 and 2005 accumulated other comprehensive income comprises of the following amounts:

	2007	2006	2005
	$	$	$
Unrealized gains on translation of financial statements of self-sustaining foreign operations	106,025	32,590	11,396
Unrealized loss on financial assets designated as available-for-sale	(738)	—	—
Balance, end of year	105,287	32,590	11,396

13. PROVISION FOR INCOME TAXES

The provision for income taxes differs from that obtained by applying the statutory tax rate as a result of the following:

	2007	2006	2005
	$	$	$
Income before income taxes	160,465	105,404	56,110
Expected statutory tax rate of Canada	36.12%	36.12%	36.12%
Expected income tax expense	57,960	38,072	20,267
Unrecognized income tax benefit arising from losses of the Company and its subsidiaries	23,789	22,830	16,043
Income tax at lower rates in foreign jurisdiction	(63,668)	(47,592)	(27,213)
Income not currently subject to foreign enterprise tax	(47)	(118)	(87)
Income Tax Expense	18,034	13,192	9,010
Effective Rate	11.2%	12.5%	16.1%

[a] Income tax rates of major tax jurisdictions in which the Company's subsidiaries operate

PRC wholly foreign-owned enterprises ("WFOEs") are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Corporate Income Tax Laws effective January 1, 2008 ("New CIT Law"), WFOEs, Sino-foreign equity and co-operative joint venture enterprises ("CJV") are subject to corporate income tax at an effective rate of 25% [2007 — 24% to 33%] on income as reported in their statutory financial statements. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing are eligible for an exemption from state income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. If the tax holiday has not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New CIT Law, the PRC WFOEs and CJVs engaged in plantation are eligible for an exemption from income taxes.

Hong Kong profits tax has been provided at the rate of 17.5%, 17.5% and 17.5% on the estimated assessable profits arising in Hong Kong during the years ended December 31, 2007, 2006 and 2005, respectively.

[b] Provision for tax related liabilities

Two of the Company'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.

Included in accounts payable and accrued liabilities including discontinued operations as at December 31, 2007, 2006 and 2005 are the balance of the provision for these tax related liabilities amounting to $80,165,000, $66,558,000 and $53,473,000 provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

[c] Losses carry forward

As at December 31, 2007, the Company has income tax losses of approximately $59,537,000 which can be applied against future years' taxable income in Canada. The losses will expire as follows:

	$
Year of Expiry	
2008	1,156
2009	1,002
2010	1,027
2014	14,359
2015	21,836
2026	16,689
2027	3,468
	59,537

In addition, as at December 31, 2007, 2006 and 2005, the Company's PRC WFOEs and CJVs have incurred tax losses which can only be carried forward to a maximum of 5 years of approximately $30,097,000, $28,499,000 and $18,451,000, respectively.

The benefit of these losses, has not been reflected in the financial statements as management does not consider it to be more likely than not that the related future income tax asset will be realized. There are no other material temporary differences.

14. EARNINGS PER SHARE

The following table sets forth the number of shares used in computation of basic and diluted earnings per share:

	2007	2006	2005
Weighted average shares for basic earnings per share	166,823,000	137,910,000	137,359,000
Dilutive stock options	1,783,000	1,751,000	230,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	168,606,000	139,661,000	137,589,000

15. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances comprises the following:

	2007	2006	2005
	$	$	$
Cash provided by (used for):			
Accounts receivable	23,628	(9,502)	(44,171)
Inventories	(25,428)	(7,301)	(4,819)
Prepaid expenses and other	(789)	(9,346)	(144)
Accounts payable and accrued liabilities [a]	29,096	9,312	7,788
Income taxes payable	493	381	170
	27,000	(16,456)	(41,176)

[a] As at December 31, 2007, 2006 and 2005, the Company had an aggregate amount of $12,318,000, $5,530,000 and $25,286,000, respectively, payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

[b] During the year ended December 31, 2005, 1,200,000 common shares were issued to management as consideration for the purchase of certain rights to acquire shares in Sino-Wood [note 10a]. The corresponding contributed surplus of $3,900,000 was transferred to share capital.

16. FINANCIAL INSTRUMENTS

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates, price of wood-based products and standing timber, in the normal course of business.

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to fix interest payments at $27.4 million per annum over the next 2 years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In 2007, 2006 and 2005, 81.6%, 68.9% and 75.3% of the sales were received in Renminbi respectively and 18.4%, 31.1% and 24.7% of the sales were received in U.S. dollars and Hong Kong dollars respectively. The Company translates its results of foreign operations into U.S. dollars. It is expected in the future that substantially all of the sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has a substantial amount of indebtedness denominated in U.S. dollars. The Company cannot predict the effect that currency exchange rate fluctuations may have on its operating results or cash flows.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of December 31, 2007, the Company had Renminbi denominated bank accounts of Rmb454.6 million (equivalent to $62.0 million), U.S. dollar denominated bank accounts of $275.2 million, Canadian dollar denominated bank accounts of Cdn.$10.1 million (equivalent to $10.2 million), Hong Kong dollar denominated bank accounts of HK$13.6 million (equivalent to $1.7 million) and Euro denominated bank accounts of €1.2 million (equivalent to $1.7 million). The Company also had U.S. dollar and Renminbi denominated accounts receivable of $16.3 million and Rmb652.2 million (equivalent to $89.0 million) respectively.

As of December 31, 2006, the Company had Renminbi denominated bank accounts of Rmb250.3 million (equivalent to $32.0 million), U.S. dollar denominated bank accounts of $127.6 million, Canadian dollar denominated bank accounts of Cdn.$10.6 million (equivalent to $9.1 million), Hong Kong dollar denominated bank accounts of HK$0.6 million (equivalent to $0.1 million) and Euro denominated bank accounts of €2.0 million (equivalent to $2.7 million). The Company also had U.S. dollar and Renminbi denominated accounts receivable of $40.2 million and Rmb661.5 million (equivalent to $84.6 million) respectively.

As of December 31, 2005, the Company had Renminbi denominated bank accounts of Rmb298.6 million (equivalent to $37.0 million), U.S. dollar denominated bank accounts of $88.6 million, Canadian dollar denominated bank accounts of Cdn.$12.2 million (equivalent to $10.5 million), Hong Kong dollar denominated bank accounts of HK$2.2 million (equivalent to $0.3 million) and Euro denominated bank accounts of €2.0 million (equivalent to $2.4 million). The Company also had U.S. dollar and Renminbi denominated accounts receivable of $31.3 million and Rmb677.1 million (equivalent to $83.7 million) respectively.

The Company mainly incurred U.S. dollar denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

Credit Risk

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company.

The Company is exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote. The Company has accounts receivable from clients primarily in the PRC engaged in various industries including pulp mills, wood panel and furniture manufacturers and construction.

These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents a significant credit risk [note 4].

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness and syndicated loans. The debts consist of fixed and variable rate debt obligations with original maturities ranging from less than one to seven years. The Company undertakes debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the debt obligations carried at fixed rate. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the sales of standing timber and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber and wood-based products have a significant effect on the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales of standing timber and wood-based products.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discounted rates which reflect varying degrees of risk.

17. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Company's revenue is derived from customers based in the PRC, and 85% of the Company's assets are located in the PRC.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segments. The segments were organized to reflect the Company's role as a key wood fiber supplier and provider of value-added wood products through its manufacturing operations. The Company has determined, based on the aggregation criteria in CICA Handbook, Section 1701, "Segment Disclosures", and the criteria set out in EIC-115, "Segmented Disclosures", that the previously reported fiber segment should be disaggregated and reported as Plantation Operations and Other Fiber. Summary details of the industry segments are as follows:

[a] the plantation fiber segment engages in the sale of standing timber;

[b] the other fiber segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operation's products and other.

Corporate assets, corporate income and costs are included in the Company's corporate segment to differentiate its risks and returns from other business segments.

By Industry Segment

	2007				
	Plantation Fiber	Other Fiber	Manufacturing	Corporate	Total
	$	$	$	$	$
Revenue					
Sale of standing timber	521,489	—	—	—	521,489
Sale of imported wood products	—	150,731	—	—	150,731
Sale of wood logs	—	3,233	—	—	3,233
Sale of manufacturing operation's products and other	—	—	38,413	—	38,413
	521,489	153,964	38,413	—	713,866
Income (loss) from continuing operations before interest, other income, exchange gains and write down of capital assets	230,229	2,898	(14,202)	(21,457)	197,468
Net income from discontinued operations	—	9,842	—	—	9,842
Interest income	623	104	1,893	12,564	15,184
Interest expense	620	3,512	634	39,194	43,960
Write down of capital assets	—	—	20,846	—	20,846
Depreciation and amortization	247	23	4,938	156	5,364
Provision for income taxes	17,745	88	140	61	18,034
Identifiable assets	1,309,415	52,293	251,628	224,161	1,837,497
Depletion of timber holdings included in cost of sales	284,808	—	—	—	284,808
Additions to timber holdings and capital assets	647,762	85	11,347	422	659,616

	2006				
	Plantation Fiber	Other Fiber	Manufacturing	Corporate	Total
	$	$	$	$	$
Revenue					
Sale of standing timber	352,574	—	—	—	352,574
Sale of imported wood products	—	178,379	—	—	178,379
Sale of wood logs	—	495	—	—	495
Sale of manufacturing operation's products and other	—	—	24,032	—	24,032
	352,574	178,874	24,032	—	555,480
Income (loss) from continuing operations before interest, other income, exchange gains and write down of capital assets	164,857	4,381	(8,278)	(25,815)	135,145
Net income from discontinued operations	—	21,268	—	—	21,268
Interest income	460	147	154	5,725	6,486
Interest expense	78	2,710	457	34,095	37,340
Write down of capital assets	1	—	870	6	877
Depreciation and amortization	184	4	3,623	164	3,975
Provision for income taxes	12,802	308	82	—	13,192
Identifiable assets	856,207	65,258	141,365	144,425	1,207,255
Depletion of timber holdings included in cost of sales	177,730	—	—	—	177,730
Additions to timber holdings and capital assets	395,538	138	9,263	41	404,980

	2005				
	Plantation Fiber	Other Fiber	Manufacturing	Corporate	Total
	$	$	$	$	$
Revenue					
Sale of standing timber	240,829	—	—	—	240,829
Sale of imported wood products	—	84,136	—	—	84,136
Sale of wood logs	—	3,829	—	—	3,829
Sale of manufacturing operation's products and other	—	—	12,466	—	12,466
	240,829	87,965	12,466	—	341,260
Income (loss) from continuing operations before interest, other income, exchange gains and write down of capital assets	99,309	1,939	(5,917)	(15,003)	80,328
Net income from discontinued operations	—	29,052	—	—	29,052
Interest income	332	56	261	3,530	4,179
Interest expense	83	1,113	423	27,375	28,994
Depreciation and amortization	101	62	2,821	115	3,099
(Recovery) provision for income taxes	(9,172)	233	(71)	—	(9,010)
Identifiable assets	632,729	46,456	120,474	95,612	895,271
Depletion of timber holdings included in cost of sales	140,204	—	—	—	140,204
Additions to timber holdings and capital assets	283,282	89	15,819	461	299,651

Revenue from the Company's largest customer for the years ended December 31, 2007, 2006 and 2005 amounted to approximately 16%, 13% and 18% of total revenue, respectively. During the years ended December 31, 2007, 2006 and 2005, there were four, six and three customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 52%, 68% and 39% of total revenue, respectively.

Purchases from the Company's largest vendor for the years ended December 31, 2007, 2006 and 2005 accounted for approximately 32%, 13% and 29% of total purchases, respectively. During the years ended December 31, 2007, 2006 and 2005, one, two and three vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 32%, 24% and 61% of total purchases, respectively.

By Geographic Segment

The Company conducts substantially all of its operations in PRC. In 2007, revenue in the PRC and other countries amounted to approximately $708,331,000 and $5,535,000, respectively. In 2006, revenue in the PRC and other countries amounted to approximately $555,139,000 and $341,000, respectively. In 2005, revenue in the PRC and other countries amounted to approximately $341,260,000 and $nil, respectively.

As at December 31, 2007, 2006 and 2005, approximately $39,883,000, $32,010,000 and $36,954,000, respectively, of the Company's cash and cash equivalents were denominated in Renminbi.

As at December 31, 2007, 2006 and 2005, all of the Company's timber holdings and approximately $77,913,000, $87,346,000 and $80,520,000, respectively, of the Company's capital assets were located in the PRC.

18. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission revenue ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations. As a result, the Consolidated Statement of Income and Retained Earnings, have been reclassified from statements previously presented.

	2007	2006	2005
	$	$	$
Revenue	7,172	89,499	152,041
Cost of Sales	(5,849)	(69,973)	(119,208)
Income from operations	1,323	19,526	32,833
Income before income taxes	1,323	19,526	32,833
Recovery (Provision) of income tax	8,519	1,742	(3,781)
Net income from discontinued operations	9,842	21,268	29,052

Assets and liabilities on the Consolidated Balance Sheets include the following amounts for discontinued operations:

	2007	2006	2005
	$	$	$
Assets of discontinued operations			
Accounts receivable	—	523	5,029
Prepaids expenses and other	—	2,163	3,110
	—	2,686	8,139
Liabilities of discontinued operations			
Accounts payable and accrued liabilities *[note 13(b)]*	32,016	38,300	38,779
	32,016	38,300	38,779

19. CAPITAL CONTRIBUTIONS AND COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

As at December 31, 2007, 2006 and 2005, the Company has capital commitments in respect of capital contributions to our WFOEs of $18,600,000, $25,000,000 and $25,000,000, respectively.

[b] Capital commitments

As at December 31, 2007, 2006 and 2005, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $16,523,000, $12,305,000 and $7,820,000, respectively.

[c] Purchase commitments

As at December 31, 2007, 2006 and 2005, the Company has purchase commitments mainly regarding logs of $21,470,000, $17,538,000 and $5,367,000, respectively.

[d] Operating leases

Commitments under operating leases for land and buildings as at December 31, 2007 are as follows:

	$
2008	22,548
2009	2,281
2010	2,033
2011	1,754
2012	1,790
2013 and thereafter	37,717
	68,123

[e] Wood fiber

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 59,313 hectares of plantation trees for $249,999,000 as at December 31, 2007.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88,071,000 as at December 31, 2007.

Under the master agreement entered in July 2006 to secure at least 1.5 million cubic meters of wood fiber for twelve years in Inner Mongolia, the Company has acquired 17,000 cubic meters of wood fiber as at December 31, 2007.

Under the master agreement entered in December 10, 2007 to acquire 150,000 hectares of plantation trees for 5-year in Guangxi, the Company has not acquired any wood fiber as at December 31, 2007.

20. CONTINGENCIES FOR TAX RELATED LIABILITIES

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 Company's tax expense. The Company 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 Company operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company 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.

21. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the years ended December 31, 2007, 2006 and 2005 amounted to $4,587,000, $4,136,000 and $2,737,000, respectively.

[b] In addition, as at December 31, 2007, 2006 and 2005, the Company had an aggregate amount of $3,950,000, $3,150,000 and $2,129,000, respectively, owed to these related companies.

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.

23. SUBSEQUENT EVENT

On July 17, 2008, the Company signed a purchase agreement (the "Purchase Agreement") to issue convertible senior notes (the "Notes") for gross proceeds of up to \$300,000,000 (or up to \$345,000,000 if the Initial Purchasers, as defined in the Purchase Agreement, exercise their overallotment option to purchase additional Notes in full). The Notes will bear interest at a rate of 5.00% per annum payable in semi annual installments and will mature on August 1, 2013. The Notes are guaranteed by several subsidiaries of the Company as defined in the Purchase Agreement. The Notes may be converted into common shares of the Company at an initial conversion rate of 49.2974 common shares per \$1,000 principal amount of Notes. The net proceeds will be used for the acquisition of commercial plantation forests, lease land and plant trees and general corporate purposes.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

[Expressed in thousands of United States dollars] [Unaudited]	As at March 31, 2008	[Restated see notes 2 & 18] As At December 31, 2007
	$	$
ASSETS		
Current		
Cash and cash equivalents	230,222	328,690
Short-term deposits *[note 4(b)]*	29,060	22,163
Accounts receivable	134,560	105,329
Inventories *[note 3]*	51,657	46,661
Prepaid expenses and other	27,907	24,185
Total current assets	473,406	527,028
Timber holdings	1,271,686	1,174,153
Capital assets, net *[note 5]*	91,155	78,608
Other assets *[note 6]*	78,791	57,708
	1,915,038	1,837,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 4]*	49,863	55,383
Accounts payable and accrued liabilities *[note 12]*	108,852	107,989
Income taxes payable	2,103	1,615
Liabilities of discontinued operations *[note 18]*	34,530	32,016
Total current liabilities	195,348	197,003
Long-term debt *[note 8]*	443,310	441,985
Derivative financial instrument *[note 8(a)]*	11,625	11,211
Total liabilities	650,283	650,199
Commitments and Contingencies *[notes 19 and 20]*		
Shareholders' equity		
Share capital *[note 9]*	537,141	537,141
Contributed surplus *[note 10]*	5,039	3,906
Accumulated other comprehensive income *[note 11]*	167,084	105,287
Retained earnings	555,491	540,964
Total shareholders' equity	1,264,755	1,187,298
	1,915,038	1,837,497

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Three months ended March 31, *[Expressed in thousands of United States dollars, except for earnings per share information] [Unaudited]*	**2008**	**[Restated see notes 2 & 18] 2007**
	$	$
Revenue	136,137	112,777
Costs and expenses		
Cost of sales	89,258	80,686
Selling, general and administration	11,322	6,765
Depreciation and amortization	1,001	1,143
	101,581	88,594
Income from operations before the undernoted	34,556	24,183
Interest expense	(10,571)	(11,114)
Interest income	2,595	1,467
Exchange losses	(2,839)	(467)
Loss on changes in fair value of financial instruments	(4,535)	(314)
Other income	682	297
Income before income taxes	19,888	14,052
Provision for income taxes	(4,274)	(2,346)
Net income from continuing operations	15,614	11,706
Net loss from discontinued operations *[note 18]*	(1,087)	(196)
Net income for the period	14,527	11,510
Earnings per share *[note 13]*		
Basic	0.08	0.08
Diluted	0.08	0.08
Earnings per share from continuing operations		
Basic	0.09	0.08
Diluted	0.09	0.08
Loss per share from discontinued operations		
Basic	(0.01)	—
Diluted	(0.01)	—
Retained earnings		
Retained earnings, beginning of year, as previously presented	540,964	397,380
Cumulative impact of accounting changes relating to financial instruments	—	(8,689)
Retained earnings, beginning of period	540,964	388,691
Net income for the period	14,527	11,510
Retained earnings, end of period	555,491	400,201

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, *[Expressed in thousands of United States dollars] [Unaudited]*	**2008**	**[Restated see notes 2 & 18]** **2007**
	$	**$**
Net income for the period	14,527	11,510
Other comprehensive income:		
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	(949)	—
Unrealized gains on foreign currency translation of self-sustaining operations	62,746	9,090
Other comprehensive income	61,797	9,090
Comprehensive income	76,324	20,600

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, *[Expressed in thousands of United States dollars] [Unaudited]*	**2008**	**[Restated see notes 2 & 18] 2007**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	14,527	11,510
Net loss from discontinued operations	1,087	196
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	38,054	21,625
Loss on changes in fair value of financial instruments	4,535	314
Unrealized exchange losses	2,497	153
Stock-based compensation	1,133	455
Depreciation and amortization	1,001	1,143
Interest income from Mandra	(300)	—
Other	529	447
	63,063	35,843
Net change in non-cash working capital balances *[note 14]*	(31,042)	10,457
Cash flows from operating activities of continuing operations	32,021	46,300
Cash flows from operating activities of discontinued operations	1	4,038
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	(83,637)	(77,273)
Increase in other assets	(22,411)	—
Additions to capital assets	(10,036)	(1,031)
Increase in non-pledged short-term deposits	(3,947)	(1,761)
Business acquisition *[note 7]*	(1,928)	—
Proceeds from disposal of capital assets	1	—
Cash flows used in investing activities	(121,958)	(80,065)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	(6,757)	916
Increase in long-term debts	855	—
(Increase) decrease in pledged short-term deposits	(1,938)	1,054
Payment on derivative financial instrument	(2,100)	(930)
Cash flows (used in) from financing activities	(9,940)	1,040
Effect of exchange rate changes on cash and cash equivalents	1,408	131
Net decrease in cash and cash equivalents	(98,468)	(28,556)
Cash and cash equivalents, beginning of year	328,690	152,887
Cash and cash equivalents, end of year	230,222	124,331
Supplemental cash flow information		
Cash payment for interest charged to income	16,458	16,658
Interest received	2,595	1,575

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

1. BASIS OF PRESENTATION

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2007 with the exceptions of certain changes in accounting policies as mentioned in Note 2 below. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2007.

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue is typically the lowest in the first quarter of the year end represents approximately 15% of the entire year. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

2. CHANGES IN AND ADOPTION OF ACCOUNTING POLICIES

Changes in accounting policy

On January 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards.

Section 3862 Financial Instruments — Disclosure, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks and Section 3863 Financial Instruments — Presentation, describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments — Disclosure and Presentation. Additional disclosure has been provided in Note 15 to the Company's unaudited interim consolidated financial statements.

Section 1535 Capital Disclosures, establishes standards for disclosing information about a Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital as discussed further in Note 16 to the Company's unaudited interim consolidated financial statements.

Section 3031 Inventories, which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. Additional disclosure has been provided in Note 3 to the Company's unaudited interim consolidated financial statements.

The above noted new standards have no material impact on the classification and measurement in the Company's interim consolidated financial statements.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new accounting policy for uncertainty in income taxes. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated. Under its new policy, the Company evaluates a tax position using a two step process.

Step 1 — Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50 percent ("more-likely-than-not") that the tax position taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 — Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The impact of this change in accounting policy was a non-cash charge of $28,094,000 to the Company's opening retained earnings as of January 1, 2006 with an offset to current liabilities in fiscal 2006. The impact of this change in accounting policy was an increase in the provision for income taxes of $1,348,000 with an offset to current liabilities as at March 31, 2007, and a decrease in earnings per share by $0.01 for the three months ended March 31, 2007.

Future Accounting Standards

The CICA has issued the following Handbook Section, which applies commencing with the Company's 2009 fiscal year.

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to fiscal years beginning on or after January 1, 2009. The Company has evaluated the new section and determined that adoption of these requirements will have no impact on the Company's consolidated financial statements.

Adoption of accounting policy

An intangible asset was recorded as a result of the acquisition of greenery and nursery operation. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

3. INVENTORIES

Raw materials, timber logs and nursery are valued at the lower of cost, determined on an weighted average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories consist of the following:

	March 31, 2008	December 31, 2007
	$	$
Raw materials	1,961	1,271
Work in progress	15,263	15,172
Finished goods	6,086	5,471
Timber logs	23,035	20,826
Nursery	5,312	3,921
	51,657	46,661

The amount of inventory recognized as an expense and included in cost of sales for the three months ended March 31, 2008 was $51,204,000 [March 31, 2007 — $59,061,000]. The amount charged to the income statement and included in selling, general and administration expenses for the write down of inventory for valuation issues for the three months ended March 31, 2008 was $370,000 [March 31, 2007 — nil].

4. BANK INDEBTEDNESS

Certain of the Company's banking facilities are collateralized by:

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at March 31, 2008 of $7,055,000 [December 31, 2007 — $11,445,000]; and

[b] certain short-term deposits at March 31, 2008 of $2,209,000 [December 31, 2007 — $260,000].

5. CAPITAL ASSETS

Capital assets consist of the following:

	March 31, 2008		December 31, 2007	
	Cost	Accumulated depreciation and amortization	Cost	Accumulated depreciation and amortization
	$	$	$	$
Machinery and equipment	63,052	4,331	59,155	3,581
Buildings	24,664	2,398	15,694	2,160
Land-use rights	6,071	914	5,816	842
Office furniture and equipment	2,351	1,165	2,203	1,060
Vehicles	5,283	1,458	4,692	1,309
	101,421	10,266	87,560	8,952
Less: accumulated depreciation and amortization	(10,266)		(8,952)	
Net book value	91,155		78,608	

As at March 31, 2008, buildings, machinery and equipment of $34,388,000 [December 31, 2007 — $25,841,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior period.

6. OTHER ASSETS

Other assets consist of the following:

	March 31, 2008	December 31, 2007
	$	$
Investment in Mandra Holdings [a]	2	2
Subordinated loan and interest receivable [a]	18,467	18,167
Prepaid plantation costs	47,480	23,565
Investment in Omnicorp and Greenheart [b]	3,405	4,354
Convertible bond [b]	1,205	919
Derivative financial instrument [b]	1,128	3,149
Deposit for purchase of logs [c]	5,700	5,700
Other	1,404	1,852
	78,791	57,708

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project"). Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Forestry Holdings Limited ("Mandra Holdings") at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of its $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. As at March 31, 2008, included in the balance of the subordinated loan and interest receivable is accrued interest of $3,467,000 [December 31, 2007 — $3,167,000]. The Company's maximum exposure to loss from Mandra is limited to the Company's investment in and subordinated loan and related interest receivable.

[b] In July 2007, the Company signed a master sale and purchase agreement with Greenheart Resources Holdings Limited ("Greenheart"), a natural forest concession owner and operator in Suriname, South America to secure 34,285 cubic meters of logs from Suriname for $175 per cubic meter up to January 31, 2009. In addition, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after

the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 Omnicorp common shares, convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp which matures on November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000) resulting in a gain of $3,369,000 being recorded in other income in fiscal year 2007. In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp common shares.

The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. This derivative asset was adjusted to its fair value of $1,128,000 using the Black Scholes model as at March 31, 2008 resulting in a charge of $2,021,000 [March 31,2007 — nil] recorded in loss on changes in fair value of financial instruments during the three months ended March 31, 2008.

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) on the completion date. This discount, together with the stated interest on the convertible bonds, is being accreted using the effective interest rate method over its remaining term. For the three months ended March 31, 2008, the Company recorded accretion of $286,000 in other income.

The following assumptions were used to estimate the fair value of the share purchase options:

	March 31, 2008	**December 31, 2007**
Risk-free interest rate	1.54%	3.26%
Expected option life (in years)	1.6	1.85
Dividend yield	0.0%	0.0%
Volatility	116.80%	111.76%

[c] The amount represents a refundable deposit of $10.0 million out of which $4.3 million has been reclassified to current assets, paid to a third party in connection with wood fiber to be purchased by the Company under the twelve-year wood fiber supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million cubic metres of wood fiber to the Company. The deposit will be refunded within five years after the first anniversary of signing the contract in July 2006.

7. BUSINESS ACQUISITION

On January 31, 2008, the Company acquired 100% equity interest in a limited company incorporated in the PRC for cash, which is principally engaged in the greenery and nursery operations.

In accordance with the purchase price method of accounting, the purchase price paid has been allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The Company is continuing to evaluate the assets acquired and liabilities assumed, and there may be adjustments to the estimated purchase date fair values. The preliminary purchase price allocation based on estimated fair values of assets acquired and liabilities assumed are as follows:

	$
Cash and bank balances	132
Accounts receivable	989
Other receivables	458
Inventories	751
Capital assets	318
License [a]	636
Accounts payable and accrued liabilities	(1,224)
Purchase price paid in cash	2,060

[a] The purchase price in excess of the net tangible assets acquired of $636,000 was allocated to the identified intangible asset being the license. The license enables the Company to tender for greenery projects in the PRC. The fair value of the license was based on the related discounted cash flows. The license is not amortized as it does not have definite useful life.

8. LONG-TERM DEBT

Long term debt consist of the following:

	March 31, 2008	December 31, 2007
	$	$
Senior notes [a]	300,000	300,000
Syndicated loans [b]	150,000	150,000
Bank loans [c]	855	—
Unamortized deferred financing costs	(7,545)	(8,015)
	443,310	441,985

[a] On August 17, 2004, the Company issued $300,000,000 non-convertible guaranteed senior notes. The notes bear interest at a rate of 9.125% per annum and payable semi-annually. The notes mature on August 17, 2011. The notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture of the notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- pledge of the shares of the Subsidiary Guarantors.

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged Rmb113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. Management estimates that a loss of $11,625,000 [December 31, 2007 — $11,211,000], being the fair value of the contract, would be realized if the contract was terminated on March 31, 2008. The fair value increase of $2,514,000 has been recorded in loss on changes in fair value of financial instrument.

Total interest expense on the notes for the three months period ended March 31, 2008 was $7,164,000 [March 31, 2007 — $7,178,000].

[b] On February 24, 2006, the Company entered into a $150 million 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 Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 0.8% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and rank at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, except for obligations mandatorily preferred by law applying to companies generally. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility was fully drawn down in 2006. Principal of $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the three months period ended March 31, 2008 was $2,408,000 [March 31, 2007 — $2,663,000].

[c] The bank loans bear interest rate of 8.3% per annum and mature on December 9, 2010. The bank loans are secured by timber holdings which have a net book value at March 31, 2008 of $1,180,000. Total interest expense on the bank loans for the three months period ended March 31, 2008 was $7,000.

[d] Under the terms of the above debt agreements, the Company must meet certain financial and non-financial covenants including limitation on dividend and other payment restrictions affecting the Company and the restricted subsidiaries (as defined in the debt agreements).

9. SHARE CAPITAL

Share capital consists of the following:

	Three months ended March 31, 2008		Twelve months ended December 31, 2007	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
		$		$
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of period	182,592,961	537,141	137,999,548	143,511
Issue of shares	—	—	41,255,191	379,142
Exercise of options	—	—	3,338,222	10,770
Transfer from contributed surplus *[note 10]*	—	—	—	3,718
Balance, end of period	182,592,961	537,141	182,592,961	537,141

10. CONTRIBUTED SURPLUS

The contributed surplus represents the amortization of stock-based compensation and options granted over the vesting period which was charged to the income statement.

	Three months ended March 31, 2008	Twelve months ended December 31, 2007
	$	$
Balance, beginning of period	3,906	4,726
Stock-based compensation	1,133	2,898
Transfer to share capital *[note 9]*	—	(3,718)
Balance, end of period	5,039	3,906

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

Three months ended March 31,	2008	2007
	$	$
Balance, beginning of period	105,287	32,590
Other comprehensive income	61,797	9,090
Balance, end of period	167,084	41,680

Accumulated other comprehensive income comprises of the following amounts:

	March 31, 2008	December 31, 2007
	$	$
Unrealized gains on translation of financial statements of self-sustaining foreign operations	168,771	106,025
Unrealized loss on financial assets designated as available-for-sale	(1,687)	(738)
Balance, end of period	167,084	105,287

12. PROVISION FOR TAX RELATED LIABILITIES

Two of the Company'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 the PRC 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.

Included in accounts payable and accrued liabilities including discontinued operations as at March 31, 2008 is the balance of the provision for these tax related liabilities amounting to $88,571,000 [December 31, 2007 — $80,165,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

13. EARNINGS PER SHARE

The following table sets forth the number of shares used in computation of basic and diluted earnings per share:

Three months ended March 31,	2008	2007
Weighted average shares for basic earnings per share	182,593,000	138,000,000
Dilutive stock options	1,899,000	3,441,000
Adjusted weighted average shares for diluted earnings per share	184,492,000	141,441,000

14. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances comprises the following:

Three months ended March 31,	2008	[Restated] 2007
	$	$
Cash provided by (used for):		
Accounts receivable	(22,635)	25,093
Inventories	(3,405)	(5,574)
Prepaid expenses and other	(2,522)	(5,257)
Accounts payable and accrued liabilities [a]	(2,937)	(3,787)
Income taxes payable	457	(18)
	(31,042)	10,457

[a] As at March 31, 2008, the Company had an aggregate amount of $10,949,000 [March 31, 2007 — $5,225,000] payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

15. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	March 31, 2008	December 31, 2007
	$	$
Held for trading [a]	259,282	350,853
Loans and receivables [b]	154,232	123,496
Available for sale assets [c]	3,407	4,356
Other financial liabilities [d]	547,984	557,208
Derivative (foreign currency swap) [e]	11,625	11,211
Embedded derivative [f]	1,128	3,149

[a] Cash and cash equivalents and short-term deposits, measured at fair value.

[b] Accounts receivable, subordinated loans and convertible bond are measured at amortized cost.

[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.

[d] Bank indebtedness, accounts payable and accrued liabilities excluding provision for tax related liabilities and long-term debts are measured at amortized cost.

[e] Foreign currency swap contract is measured at fair value.

[f] Conversion option embedded in convertible bonds is measured at fair value.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of syndicated loans approximates its carrying value. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value, quoted market prices and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discount rates which reflect varying degrees of risk.

The fair value of the non-convertible guaranteed senior notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts of the senior notes as at March 31, 2008 were $300,000,000 and $300,000,000, respectively [December 31, 2007 — $316,000,000 and $300,000,000, respectively].

Foreign currency swap contract and convertible bonds

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to meet interest payments at $27.4 million per annum over the next 2 years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

The Company has $5,731,000 (equivalent to HK$44,697,000) in convertible bonds issued by Omnicorp which mature on November 8, 2009. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The mark to market value of these financial instruments for the period ended March 31, 2008 was an unrealized loss of $2,021,000 which has been charged to the income statement.

Risks arising from financial instruments and risk management

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates, the prices of wood-based products and standing timber, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. For the three months ended March 31, 2008 and 2007, 87.3 % and 53.3% of the sales were received in Renminbi respectively and 12.7% and 46.7% of the sales were received in U.S. dollars and Hong Kong dollars respectively. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. It is expected in the future that substantially all of the sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. A fluctuation of +/-1%, provided as an indicative range in currency movement, would, everything else being equal, have an effect on net income after tax for the three months ended March 31, 2008 of approximately $1.8 million.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of March 31, 2008, the Company had Renminbi denominated bank accounts of Rmb398.5 million (equivalent to $56.8 million) [December 31, 2007 — Rmb454.6 million, equivalent to $62.0 million], U.S. dollar denominated bank accounts of $192.7 million [December 31, 2007 — $275.2 million], Canadian dollar denominated bank accounts of Cdn.$7.8 million (equivalent to $7.6 million) [December 31, 2007 — Cdn.$10.1million, equivalent to $10.2 million], Hong Kong dollar denominated bank accounts of HK$2.7 million (equivalent to $0.3 million) [December 31, 2007 — HK$13.6 million, equivalent to $1.7 million] and Euro denominated bank accounts of €1.2 million (equivalent to $1.9 million) [December 31, 2007 — €1.2 million, equivalent to $1.7 million]. The Company also had U.S. dollar and Renminbi denominated accounts receivable of $15.0 million [December 31, 2007 — $16.3 million] and Rmb838.8 million (equivalent to $119.6 million) [December 31, 2007 — Rmb652.2 million, equivalent to $89.0 million] respectively.

The Company mainly incurred U.S. dollar denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

Credit Risk

The Company is exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at March 31, 2008 included $80,645,000 due from three customers [December 31, 2007 — $40,132,000 due from three customers] representing 59.9% [2007 — 38.1%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company. As at March 31, 2008, $21,060,000 [December 31, 2007 — $3,983,000] or 15.7% [December 31, 2007 — 3.8%] of accounts receivable, were more than 90 days, which is consistent with historical ageing profiles. The Company has no allowance for doubtful accounts for the three months ended March 31, 2008.

The Company is exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents in instruments that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents a significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at March 31, 2008, the Company was holding cash and cash equivalents of $230.2 million and had unutilized lines of credit of $106.0 million. The Company has determined that continued cash flow from operations in 2008 together with the cash and cash equivalents from previous equity financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

The contractual maturies of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended December 31, 2007.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness and syndicated notes. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at March 31, 2008, $167.4 million or 33.9% of the Company's total debt is subject to variable in interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $0.5 million. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk. The Company minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the sales of standing timber and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber and wood-based products have a significant effect on the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales of standing timber and wood-based products.

16. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital and to safeguard the Company's ability to continue to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes bank indebtedness of $49,863,000, long-term debt of $443,310,000 and shareholders' equity of $1,264,755,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities, senior notes and syndicated loans and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at March 31, 2008, the Company has retained earnings of $555 million in the PRC which may be restricted.

17. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segments. The segments were organized to reflect the Company's role as a key wood fiber supplier and provider of value-added wood products through its manufacturing operations. Summary details of the industry segments are as follows:

[a] the plantation fiber segment engages in the sale of standing timber and harvested logs;

[b] the other fiber segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operation's products and other.

Corporate assets, corporate income and costs are included in the Company's corporate segment to differentiate its risks and returns from other business segments.

By Industry Segment

	March 31, 2008				
	Plantation Fiber	Other Fiber	Manufacturing	Corporate	Total
	$	$	$	$	$
Revenue					
Sale of standing timber and harvested logs	102,670	—	—	—	102,670
Sale of imported wood products	—	24,064	—	—	24,064
Sale of wood logs	—	123	—	—	123
Sale of manufacturing operation's products and other	—	—	9,280	—	9,280
	102,670	24,187	9,280	—	136,137
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	45,133	370	(5,190)	(5,757)	34,556
Net loss from discontinued operations	—	(1,087)	—	—	(1,087)
Interest income	166	66	505	1,858	2,595
Interest expense	151	487	359	9,574	10,571
Depreciation and amortization	63	11	884	43	1,001
Provision for income taxes	3,850	117	252	55	4,274
Identifiable assets	1,448,940	81,443	221,166	163,489	1,915,038
Depletion of timber holdings included in cost of sales	37,158	—	896	—	38,054
Additions to timber holdings and capital assets	82,364	5	9,910	25	92,304

	March 31, 2007				
	Plantation Fiber	Other Fiber	Manufacturing	Corporate	Total
	$	$	$	$	$
Revenue					
Sale of standing timber	51,316	—	—	—	51,316
Sale of imported wood products	—	55,048	—	—	55,048
Sale of wood logs	—	728	—	—	728
Sale of manufacturing operation's products and other	—	—	5,685	—	5,685
	51,316	55,776	5,685	—	112,777
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	28,647	1,348	(2,005)	(3,807)	24,183
Net loss from discontinued operations [restated]	—	(196)	—	—	(196)
Interest income	84	22	87	1,274	1,467
Interest expense	94	1,035	143	9,842	11,114
Depreciation and amortization	55	5	1,044	39	1,143
Provision for income taxes [restated]	2,267	74	5	—	2,346
Identifiable assets	899,033	74,527	151,773	93,028	1,218,361
Depletion of timber holdings included in cost of sales	21,625	—	—	—	21,625
Additions to timber holdings and capital assets	76,970	11	956	62	77,999

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the three months ended March 31, 2008, sales to customers in the PRC and other countries amounted to approximately $135,747,000 [March 31, 2007 — $109,467,000] and $390,000 [March 31, 2007 — $3,310,000], respectively.

18. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission operations ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations. As a result, the Consolidated Statement of Income and Retained Earnings, have been reclassified from statements previously presented.

Three months ended March 31,	2008	[Restated] 2007
	$	$
Revenue	—	7,172
Cost of sales	—	(5,849)
Income from operations	—	1,323
Income before income taxes	—	1,323
Provision for income tax	(1,087)	(1,519)
Net loss from discontinued operations	(1,087)	(196)

Liabilities on the Consolidated Balance Sheets include the following amounts for discontinued operations:

	March 31, 2008	December 31, 2007
	$	$
Liabilities of discontinued operations		
Accounts payable and accrued liabilities *[note 12]*	34,530	32,016
	34,530	32,016

19. COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

As at March 31, 2008, the Company has capital commitments in respect of capital contributions to our WFOEs of $15,480,000 [December 31, 2007 — $18,600,000].

[b] Capital commitments

As at March 31, 2008, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $25,337,000 [December 31, 2007 — $16,523,000].

[c] Purchase commitments

As at March 31, 2008, the Company has purchase commitments mainly regarding logs of $24,369,000 [December 31, 2007 — $21,470,000].

[d] Operating leases

Commitments under operating leases for land and buildings are as follows:

	$
2008	22,871
2009	2,650
2010	2,298
2011	2,284
2012	2,156
2013 and thereafter	45,509
	77,768

[e] Wood fiber

Under the master agreements entered into in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 64,053 hectares of plantation trees for $267,030,000 as at March 31, 2008.

Under the master agreement entered into in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88,071,000 as at March 31, 2008.

Under the master agreement entered into in July 2006 to secure at least 1.5 million m^3 of wood fiber for twelve years in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fiber as at March 31, 2008.

Under the master agreement entered into in December 10, 2007 to acquire 150,000 hectares of plantation trees for 5-year in Guangxi, the Company has acquired 22,966 hectares of standing timber for $60,876,000 as at March 31, 2008.

20. CONTINGENCIES FOR TAX RELATED LIABILITIES

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 Company's tax expense. The Company 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

Company operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company 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 the 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.

Management evaluates the provision for tax related liabilities on quarterly basis or as necessary and believe adequate provision for tax related liabilities has been recognized in the financial statements.

21. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the three months ended March 31, 2008 amounted to $152,000 [March 31, 2007 — $151,000] were recorded at exchange amount as agreed upon by the related parties.

[b] In addition, as at March 31, 2008, the Company had an aggregate amount of $3,950,000 [December 31, 2007 — $3,950,000] owed to these related companies

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the consolidated financial statements for the three months period ended March 31, 2008.

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Sino-Forest Corporation

(a company existing under the laws of Canada with limited liability)

5.00% Convertible Senior Notes due 2013

OFFERING MEMORANDUM

Merrill Lynch & Co.

Credit Suisse

July 17, 2008