

US\$400,000,000



## Sino-Forest Corporation

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

### 4.25% Convertible Senior Notes due 2016

We are offering US\$400,000,000 principal amount of our 4.25% Convertible Senior Notes due 2016 (the "Notes"). The Notes will bear interest at the rate of 4.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning on June 15, 2010. The Notes will mature on December 15, 2016. 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.

Holders may convert their Notes into our common shares ("Common Shares"), at any time prior to the close of business on the business day immediately preceding the stated maturity date of the Notes based on an initial conversion rate of 47.2619 Common Shares per US\$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately Cdn.\$22.26, based on a fixed exchange rate applicable on conversion of the Notes of US\$1.00 = Cdn.\$1.05205), 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. Upon conversion, a holder will not receive any additional cash payment or additional Common Shares representing any accrued but unpaid interest, except in limited circumstances. Instead, accrued but unpaid interest will be deemed to be paid by our Common Shares (or any cash in lieu of all or a portion thereof) received by the holder on conversion. Holders who convert their Notes in connection with certain make-whole 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 symbol "TRE". On December 10, 2009, the last quoted sale price of Common Shares was Cdn.\$16.80 per Common Share. The TSX has conditionally approved the listing of the Common Shares issuable upon conversion of the Notes.

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 are being offered 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") and to persons outside the United States in accordance with Regulation S ("Regulation S") under the Securities Act.

Concurrently with this offering, we are conducting an underwritten offering of Common Shares to raise gross proceeds of approximately US\$302,415,917 (or US\$347,778,312 if the underwriters in that offering exercise their over-allotment option in full) in an underwritten offering pursuant to a Canadian short form prospectus and an international offering memorandum (the "Equity Offering"). The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00. The Common Shares being offered and sold in the Equity Offering have not been and will not be registered under the Securities Act. This Offering Memorandum does not constitute an offer of such Common Shares in the United States. We do not intend to register any of such Common Shares in the United States. This offering of Notes is not contingent upon the consummation of the Equity Offering, and the Equity Offering is not contingent upon the consummation of this offering of Notes.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 18.**

#### Offering Price: 100%

Plus accrued interest, if any, from December 17, 2009

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 (as defined below) may also purchase up to an additional US\$60,000,000 principal amount of Notes within 30 days from the date of this Offering Memorandum to cover over-allotments, 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 December 17, 2009.

#### Joint Book-Running Managers

**Credit Suisse**

**BofA Merrill Lynch**

**TD Securities**

The date of this Offering Memorandum is December 10, 2009.

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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 Guarantees 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 Guarantees 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, the Subsidiary Guarantees 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 GUARANTEES ATTACHED THERETO) OR THE CONVERSION SHARES 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, CREDIT SUISSE SECURITIES (USA) LLC 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 THAN 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.**

**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 IT IS 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.**

## 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 December 7, 2009, the noon buying rate for cable transfers in Renminbi was RMB6.8292 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 including assumptions regarding expected yields, future wood fibre prices, business and operating strategies, and our ability to operate our production facilities and plantations on a profitable basis. Important risk 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. Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives, and cautions readers that the information may not be appropriate for other purposes. 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, except as required by applicable law. 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 “PRC Forestry Industry Overview” was taken from the PRC State Forestry Administration’s Seventh Enumeration of the Nation’s Forest Resources, dated as of November 17, 2009, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2007, dated March 14, 2008 (the “2008 Pöyry Report”) and Sino-Forest Corporation Valuation of China Forest Crop Assets as at 31 December 2008, dated April 1, 2009 (the “2009 Pöyry Report,” together with the 2008 Pöyry Report, the “Pöyry Reports”), prepared by Pöyry Forest Industry Pte. Ltd. (“Pöyry”), a consulting and engineering firm specializing in the forest industry sector. We commissioned the Pöyry Reports to provide us with, among other things, PRC forestry industry data and a valuation of our forestry assets.

While we have compiled, extracted, reproduced or incorporated by reference 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 or incorporated by reference from 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 whether 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 such decision.*

### The Company

#### Overview

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

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

Our business operations are comprised of two core business segments. Our wood fibre operations are our main revenue contributor, while our manufacturing and other operations enable us to enhance the value of our fibre operations by producing downstream products.

#### Wood Fibre Operations Segment

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

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture value through wood fibre growth during the course of our ownership. Under our planted plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate the trees using improved breeding, planting and silviculture techniques and sell the trees as standing timber. Under our integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods and we have the option to enter into long-term leases, typically for up to 50 years, under which we can plant and subsequently harvest several rotations of trees.

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

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

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

#### Manufacturing and Other Operations Segment

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

#### Growth Opportunities in China

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

Over the last 14 years we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships have strengthened the development of our business in the past and, coupled with our proven track record and

commitment to developing advanced breeding, planting and silviculture techniques applicable in China, will continue to benefit us in expanding our forestry resources in the future.

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

We believe we are well positioned to benefit from the country's forestry reform and three-year Forestry Revitalization Plan (2010-2012) by collaborating with the Chinese forestry authorities and state-owned plantation entities to develop fast-growing high yielding ("FGHY") plantations to reduce the country's chronic wood deficit. We have gained recognition for our sustainable plantation development practices in the PRC, which we expect will help enable us to enter into additional long-term fibre agreements.

### **Our Competitive Strengths**

We believe that we have the following strengths:

- **Leading commercial forest plantation operator in the PRC with established track record.** We are a leading commercial forest plantation operator in the PRC with approximately 474,000 hectares of tree plantations under management as of September 30, 2009. With a 14 year track record of managing forestry plantations in China, our use of advanced breeding, planting and silviculture techniques has enabled us to become a leading commercial forest plantation operator in the PRC. We believe that we are well positioned to maintain and expand our existing tree plantation resources under our existing long term master agreements and to grow our fibre base through other innovative strategies.
- **First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage our industry foresight.** We were one of the first foreign companies to do business in the PRC's forestry sector and have a strong track record of obtaining, developing and cultivating commercial tree plantations since 1995. We believe that our proven ability to develop fast growing commercial tree plantations in the PRC, our reputation as a reliable partner and supplier of wood fibre and our capital structure position us as a preferred partner for commercialization of forestry plantation management in the PRC. Over the last 14 years, we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships 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.
- **Future growth supported by long-term master agreements at agreed capped prices.** We have entered into long-term master agreements in the Hunan, Yunnan, Guangxi, Jiangxi and Fujian Provinces that give us the right to acquire up to approximately 1.1 million to 1.3 million hectares of tree plantations with predetermined maximum prices, to the extent permitted under the then applicable PRC laws and regulations, of which we have acquired approximately 348,000 hectares as of September 30, 2009. These agreements allow us to harvest the trees and provide us with the right to enter into long-term leases, typically up to fifty years, to replant the plantations with new improved seedlings. These long-term leases will enable us to benefit from several rotations of higher-yielding, faster growing plantations. We believe we will achieve significant growth by increasing the yields on our existing land leases, acquiring new tree plantations under our master agreements and by securing further master agreements.

- **Strong research and development capability, with extensive forestry management expertise in the PRC.** We believe our ability to genetically breed faster-growing plantations and apply advanced silviculture techniques will allow us to shorten the harvest rotation, increase the amount of wood we extract from each hectare of land and improve profitability. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, improve quality of harvested wood, maintain and enhance forest ecosystems and improve land productivity. Over the years, our research and development efforts have allowed us to improve our planting materials and our breeding and propagation methods, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing, and ecological and environmental technology. Our plantation planning and management team has an in-depth understanding of local forestry markets and regulations, with a significant number of our employees and scientists formerly serving with locally renowned universities, local forestry bureaus and/or state-owned plantation farms.
- **Expertise in sustainable plantation development.** Our sustainable plantation management practices in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. We employ advanced forest management practices and adopt prudent environmental management of our tree plantations. 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.
- **Diversified revenue and asset base.** Our asset base and revenue are broadly diversified by geographic region, mix of tree species, end-use market served and business segment. Our tree plantations are located in the provinces of Guangdong, Guangxi, Hunan, Yunnan, Heilongjiang, Guizhou, Fujian and Jiangxi. Our primary tree species include eucalyptus, pine and Chinese fir plantations, and our wood fibres are ultimately used for infrastructure and construction materials, residential and commercial building materials, furniture, interior decoration and pulp and paper products.
- **Robust capital structure with demonstrated market access.** Despite our significant revenue growth in recent years, we believe we have maintained a robust capital structure with a proven ability to support our financing needs in the capital markets. In July 2008, we completed a US\$345 million convertible note offering, and in June 2009, we completed a Cdn.\$379.5 million equity offering.

### **Our Business Opportunities**

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

- **Strong and growing demand for wood fibre from downstream producers.** We believe that, as an upstream provider of wood fibre for downstream producers, we are well-positioned to benefit from increased demand for, and a limited supply of, wood fibre in the PRC. Pöyry estimates that domestic furniture production will grow approximately 11% per year between 2002 and 2010 and that consumption of paper and paperboard will exceed 60 million tons by 2010. PRC's leading consumer markets for wood fibre products are generally located in southern, south-western and eastern regions of the PRC in close proximity to our tree plantations. This allows us to efficiently meet the growing demand from these markets while minimizing transportation costs and delivery times.
- **Growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries.** Wood shortage is a persistent phenomenon in the PRC. The shortfall between domestic wood consumption and supply in the PRC was historically met by imports, which comprised approximately 32 million cubic meters of logs in 2006, with approximately 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian

government raised round wood export duties from 6.5% to 25% as of April 2008. In light of the expected decrease in natural forest wood supply from within the PRC due to regulatory restrictions on harvesting and outside of the PRC due to rising export duties by the governments of round wood exporting countries and the expected increase in demand for wood, we believe that sustainable tree plantations will play an increasingly important role in satisfying domestic demand in the future.

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

### **Our Strategy**

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

- **Expand our geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufactured products.** We intend to increase our plantation area under management by investing in current geographic locations and by expanding into other geographic locations through acquisitions and sustainable replanting.
- **Improve the yields of our tree plantations through continued investment in research and development and application of advanced forestry management techniques.** We intend to further develop and improve our forestry breeding and silviculture through genetic improvement, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields and fibre quality. To support these efforts, we intend to continue our investment in our research and development resources, and collaborate with PRC and overseas academic institutions.
- **Practice sustainable and environmentally responsible forestry and manufacturing.** Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our tree plantations.
- **Build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams.** Our downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify our revenue streams.
- **Strengthen management processes and information systems to support the growth of our multi-faceted businesses.** We plan to invest in additional personnel, managers 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, which will, in turn, allow us to better analyze planting statistics, including growth conditions and the quality of our tree plantations. These will also allow us to maintain more stringent controls over our tree plantation management processes.

- **Maintain Strategic Alignment with PRC government's plans.** We align our strategies with the PRC government's published plans to increase forest coverage and productivity, and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets. With respect to the forestry industry, the State Forestry Administration has announced plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. The Chinese government indicated at the UN climate change summit held on September 22, 2009 that China is targeting to increase the country's forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic meters by 2020 to absorb carbon emissions, and increase the proportion of energy generated from bio-fuels. We anticipate the government will further advance the reform of the collectively-owned plantation rights system and commercialize the management of its state-owned forest plantations. Under our long-term master agreements, we will use the integrated plantation model to focus on replanting and converting plantation lands into fast-growing and high-yielding plantations.

## **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. The 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 Room 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.

## **Recent Developments**

### ***Current Cash Commitments***

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

### ***The Concurrent Equity Offering***

We are conducting an offering of Common Shares to raise gross proceeds of approximately US\$302,415,917 (or US\$347,778,312 if the over-allotment option is exercised in full) in an underwritten



offering pursuant to a Canadian short form prospectus and an international offering memorandum (the “Equity Offering”) concurrently with this offering of Notes. The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00. We expect that the Equity Offering will be completed on or about the same date as this offering of Notes. We intend to use the aggregate net proceeds from this offering of the Notes and the Equity Offering as described under “Use of Proceeds”.

However, the number of Common Shares and the actual price at which we are able to sell the Common Shares in the Equity Offering will be determined through a book building process. There can be no assurance that we will be able to complete the Equity Offering at a price per Common Share that is acceptable to us, or at all. The completion of this offering of Notes is not conditioned upon the completion of the Equity Offering. As a result, if the Equity Offering is not completed, we may nevertheless complete the offering of Notes and use the net proceeds as described under “Use of Proceeds”.

The Common Shares being offered and sold in the Equity Offering have not been and will not be registered under the Securities Act. This Offering Memorandum does not constitute an offer of such Common Shares in the United States. We do not intend to register any of such Common Shares in the United States.

#### ***Mandra Acquisition and Issuance of New 2014 Senior Notes***

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

We also currently have an agreement in principle, subject to definitive documentation and satisfaction of certain conditions, with Mandra Resources Limited and Morgan Stanley Dean Witter Equity Funding, Inc. (“Morgan Stanley”) to acquire all of the outstanding common shares of Mandra not already owned by us for nominal consideration. We currently anticipate that pursuant to the terms of the indenture governing the Mandra Notes, if we acquire the common shares of Mandra, we will become a guarantor with respect to any Mandra Notes which we do not receive in the exchange that remain outstanding. If we are not able to acquire all of the outstanding Mandra Warrants contemporaneously with the acquisition of the share capital of Mandra, we may seek to acquire such remaining Mandra Warrants pursuant to a purchase option under the Mandra Shareholders Agreement (as defined herein). See “Business—Other

Tree Plantation Contractual Arrangements—Mandra Forestry.” In connection with the acquisition of the share capital of Mandra, and as partial contingent payment thereof, we also have an agreement in principle to make additional payments in the form of our Common Shares based on achievement of specific milestones.

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

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

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

We are currently exploring opportunities to fund investments in the PRC in cooperation with state-owned plantation entities (“SOPs”). We anticipate making such investments into newly formed entities owned by us and the SOPs (the “Co-op Entities”). The purpose of these investments would be to develop the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management. We have currently allocated a significant portion of the proceeds of this offering of Notes and the Equity Offering to fund any investments we make in such entities. See “Use of Proceeds.”

## 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\$400.0 million aggregate principal amount (or US\$460.0 million aggregate principal amount if the Initial Purchasers exercise their over-allotment option to purchase additional Notes in full) of 4.25% convertible senior notes due 2016.

Maturity Date . . . . . December 15, 2016.

Interest and Payment Dates . . . . . 4.25% per year, payable semi-annually in arrears in cash on June 15 and December 15 of each year, beginning on June 15, 2010.

Ranking of the Notes . . . . . The Notes will:

- be our general senior unsubordinated obligations;
- rank senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes;
- be effectively subordinated to our secured obligations, to the extent of the assets serving as security therefor;
- rank 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);
- be guaranteed by the Subsidiary Guarantors (as described below) 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
- be 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 our US\$300.0 million 9.125% guaranteed senior notes due 2011 (of which US\$87.7 million is currently outstanding) (the “2011 Senior Notes”), the 2014 Senior Notes and the Syndicated Term Loan (as defined below), but we will not pledge such capital stock to secure the Notes. See “Description of Other Indebtedness” and “Risk Factors—Risks Related to the Notes and the Common Shares—The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors or the Initial Non-Guarantor Subsidiary 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, interest on and all other amounts payable under, the Notes and the indenture governing the Notes (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 initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will 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), Sino-Panel (Fujian) Limited (BVI), Grandeur Winway Ltd. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Investments Limited (BVI), Sino-Wood (Fujian) Limited (HK), Sino-Panel (North Sea) Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Amplemax Worldwide Limited (BVI), Ace Supreme International Limited (BVI), Express Point Holdings Limited (BVI), Glory Billion International Limited (BVI), Smart Sure Enterprises Limited (BVI), Expert Bonus Investment Limited (BVI) and Dynamic Profit Holdings Limited (BVI).

Not all of the Company’s subsidiaries will guarantee the Notes. Sino-Capital Global Inc. (BVI) (the “Initial Non-Guarantor Subsidiary”), which is a subsidiary that has guaranteed the 2011 Senior Notes and the Syndicated Term Loan, will not be a Subsidiary Guarantor at the date of issuance of the Notes. See “Risk Factors—Risks Related to the Notes and the 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 Subsidiary 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 or another jurisdiction that prohibits such subsidiaries from guaranteeing payment under the Notes) 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;
- be effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;
- rank senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- rank at least *pari passu* with all other unsecured, unsubordinated indebtedness of such Subsidiary Guarantor.

The Subsidiary Guarantors have also guaranteed the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Notes and the Syndicated Term Loan. The capital stock of the Subsidiary Guarantors has been pledged to secure the 2011 Senior Notes, the 2014 Senior Notes and the Syndicated Term Loan, but will not be pledged to secure the Notes. See “Description of Other Indebtedness” and “Risk Factors—Risks Related to the Notes and the Common Shares—The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors or the Initial Non-Guarantor Subsidiary 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 the Common Shares at an initial conversion rate of 47.2619 Common Shares per US\$1,000 principal amount of Notes, which represents an initial conversion price of approximately Cdn.\$22.26 per Common Share based on a fixed exchange rate applicable on conversion of the Notes of US\$1.00 = Cdn.\$1.05205. 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 but unpaid interest, except in limited circumstances. Instead, accrued but unpaid interest will be deemed to be paid by the Common Shares (or any cash in lieu of all or a portion thereof) received by the holder on conversion.

The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest.

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 fundamental change purchase date. See “Description of the Notes—Offer to Purchase at Option of the Holder Upon a Fundamental Change.”

Make-Whole Premium  
Upon a Make-Whole  
Fundamental Change . . . . .

If a “make-whole fundamental change” (as defined under “Description of the Notes—Make-Whole Premium Upon a Make-Whole 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 such transaction 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 make-whole fundamental change and the effective date of the make-whole 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 Share prices and make-whole fundamental change effective dates are set forth under “Description of the Notes—Make-Whole Premium Upon a Make-Whole Fundamental Change.”

Use of Proceeds . . . . .

We estimate that the net proceeds from this offering of Notes will be approximately US\$388,300,000 (or approximately US\$446,740,000 if the Initial Purchasers’ over-allotment option is exercised in full) after giving effect to the Initial Purchasers’ discount and offering expenses payable by us. See “Plan of Distribution.” We are also conducting the Equity Offering to raise gross proceeds of approximately US\$302,415,917 (or US\$347,778,312 if the over-allotment option is exercised in full) concurrently with this offering of Notes. The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00. We expect that the Equity Offering will be completed on or about the same date as this offering of Notes. We intend to use the net proceeds of this offering of Notes and the Equity Offering for the following purposes:

1. approximately US\$150.0 million to prepay the full amount of borrowings outstanding under the Syndicated Term Loan, including accrued but unpaid interest and related fees and expenses thereunder;
2. approximately US\$250.0 million as initial capital for the acquisition of commercial plantation forests in the Guizhou Province, PRC. We are currently negotiating, and expect to enter into shortly after the completion of this offering of Notes, through one of our PRC subsidiaries, the Guizhou Master Agreement to acquire between approximately 10.5 million and 16.5 million cubic meters of plantation wood fibre, within an area of approximately 150,000 hectares of plantation trees that has an average yield of 70 to 110 cubic meters per hectare in Guizhou Province. The term of the agreement is three years, and the purchase price for the timber shall not exceed RMB 300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Pursuant to the terms of the contemplated master agreement, we will not be obligated to acquire any of these plantation trees which do not meet our specific requirements. Subject to reaching a definitive purchase agreement with the vendor on the final terms of the master agreement, we expect to have pre-emptive rights to lease the underlying plantation land at a price, if permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years. The expected term of the land lease can be for up to 50 years from the harvest date as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of the definitive purchase or lease agreement between one of our PRC subsidiaries and the vendor upon the authorization of the original plantation rights holders, and



subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. There can be no assurance that we will be able to enter into the Guizhou Master Agreement;

3. approximately US\$200.0 million to fund forestry investments in cooperation with state-owned plantation entities (“SOPs”) in the PRC. It is intended that we and the SOPs will form Co-op Entities, in accordance with relevant PRC laws and regulations and subject to receipt of the requisite government approvals, with the goal of developing the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management; and

4. any remainder, for any payments required to be made in connection with consummating the exchange for Mandra Notes and Mandra Warrants and the acquisition of common shares of Mandra, for investments in Mandra Forestry as we may determine to make after we have consummated such exchange and acquisition, and for general corporate purposes.

For further details, see “Use of Proceeds” and “Recent Developments.”

Additional Amounts . . . . .

All payments made by us, the Surviving Person (as defined under “Description of the Notes—Consolidation, Mergers or 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 (as defined under “Description of the Notes—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 cash at 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 defined under “Description of the Notes—Redemption for Tax Reasons”) 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 . . . . .	The Notes will not be listed on any securities exchange or included in any automated quotation system. The Notes will be new securities for which there is currently no public market.
Governing Law . . . . .	Our Common Shares are listed on the TSX under the symbol “TRE”. The Indenture and the Notes, and any claim, controversy or dispute arising under or related to the Indenture or the Notes, will be governed by, and construed in accordance with, the law of the State of New York.
Concurrent Equity Offering . . . . .	Concurrently with this offering of Notes, we are conducting the Equity Offering. This offering of Notes is not contingent upon the consummation of the Equity Offering, and the Equity Offering is not contingent upon the consummation of this offering of Notes. See “Recent Developments—The Concurrent Equity Offering.”
Risk Factors . . . . .	See “Risk Factors” beginning on page 18 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, 2006, 2007 and 2008 and our unaudited consolidated financial statements as of and for the nine-month periods ended September 30, 2008 and 2009 incorporated by reference herein. The unaudited interim financial statements incorporated by reference herein 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 “Certain Financial Information” and the audited and unaudited consolidated financial statements and the related notes thereto incorporated by reference herein and other information included elsewhere in this Offering Memorandum. The results in the nine-month periods ended September 30, 2008 and 2009 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 Nine-Month Period Ended September 30,	
	2006 <sup>(1),(2),(3)</sup>	2007 <sup>(2),(3)</sup>	2008 <sup>(2),(3)</sup>	2008 <sup>(3)</sup>	2009
	(Restated)				
	(US\$ thousands, except per share amounts and margins)				
<b>Consolidated Income Statement Data:</b>					
Revenue . . . . .	555,480	713,866	901,295	614,172	768,615
Cost of sales . . . . .	(380,508)	(470,825)	(536,557)	(370,188)	(475,034)
Selling, general and administrative expenses . . . . .	(35,852)	(40,209)	(56,729)	(33,236)	(46,021)
Depreciation and amortization . . . . .	(3,975)	(5,364)	(4,627)	(2,250)	(3,450)
Income from operations before other items <sup>(4)</sup> . . . . .	135,145	197,468	303,382	208,498	244,110
Net income from continuing operations <sup>(2)</sup> . . . . .	92,212	142,431	216,393	159,056	181,438
Net income/(loss) from discontinued operations <sup>(2)</sup> . . . . .	21,268	9,842	12,200	(25,953)	(7,767)
Net income for the year/period . . . . .	<u>113,480</u>	<u>152,273</u>	<u>228,593</u>	<u>133,103</u>	<u>173,671</u>
Basic earnings per share . . . . .	0.82	0.91	1.25	0.73	0.87
Diluted earnings per share . . . . .	0.81	0.90	1.24	0.72	0.86
<b>Other Consolidated Financial Data:</b>					
Gross profit <sup>(5)</sup> . . . . .	174,972	243,041	364,738	243,984	293,581
Gross profit margin <sup>(6)</sup> . . . . .	31.5%	34.0%	40.5%	39.7%	38.2%
EBITDA <sup>(7)</sup> . . . . .	316,850	487,640	592,541	403,049	542,276
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and short-term deposits . . . . .	171,437	350,853	486,955	527,874	616,523
Current assets . . . . .	333,609	527,028	783,869	831,474	889,270
Non-current assets . . . . .	873,646	1,310,469	1,820,055	1,645,404	2,241,616
Total assets . . . . .	<u>1,207,255</u>	<u>1,837,497</u>	<u>2,603,924</u>	<u>2,476,878</u>	<u>3,130,886</u>
Current liabilities (including current portion of long-term debt) . . . . .	179,048	197,003	285,478	256,934	322,372
Long-term debt (net of current portion) . . . . .	450,000	441,985	714,468	711,029	674,383
Total liabilities . . . . .	629,048	650,199	1,005,160	972,433	996,755
Total shareholders' equity . . . . .	578,207	1,187,298	1,598,764	1,504,445	2,134,131

	As of and for the Year Ended December 31,			As of and for the Nine-Month Period Ended September 30,	
	2006 <sup>(1),(2),(3)</sup>	2007 <sup>(2),(3)</sup>	2008 <sup>(2),(3)</sup>	2008 <sup>(3)</sup>	2009
	(Restated)				
	(US\$ thousands, except per share amounts and margins)				
<b>Cash Flow Statement Data:</b>					
Cash flows from operating activities of continuing operations . . . . .	264,203	482,501	483,125	272,189	558,497
Cash flows used in investing activities . . . . .	(423,036)	(692,322)	(704,009)	(442,541)	(765,262)
Cash flows from financing activities . . . . .	176,200	376,912	331,807	342,334	309,088
Net increase in cash and cash equivalents . . . . .	44,469	175,803	112,481	170,320	124,029

Notes:

- (1) Results for the year ended December 31, 2006 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 revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the year ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the year ended December 31, 2008. See “Certain Financial Information—Components of Income Statement Items” for a detailed description of our revenue components.
- (2) Our Gaoyao facility was disposed of in the nine-month period ended September 30, 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the nine-month periods ended September 30, 2008 and 2009. The annual consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 were issued prior to such disposition and have not been restated to reflect the Gaoyao facility as a discontinued operation. An impairment charge of our capital assets of US\$15.4 million and US\$18.2 million for the years ended December 31, 2007 and 2008, respectively, will be reclassified as discontinued operations in our 2009 year-end financials. The remaining results of operations of the Gaoyao facility are not significant to the Company’s consolidated results. The selected data in this table for the years ended December 31, 2006, 2007 and 2008 have not been restated to reflect the Gaoyao facility as a discontinued operation. See “Certain Financial Information—Overview.”
- (3) The following financial data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet as of September 30, 2008 have not been reclassified to reflect the Gaoyao facility as discontinued. See note 2 above.
- (4) Income from operations before other items excludes interest income and expense, exchange gains/(losses), gain/(loss) on changes in fair value of financial instruments and other income, impairment of capital assets, and amortization of deferred financing costs.
- (5) 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.
- (6) 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.
- (7) EBITDA for any period is defined as income from operations before other items for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, 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.

A reconciliation from income from operations before other items to EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Nine-month Period Ended September 30,	
	<u>2006<sup>(1),(2)</sup></u> (Restated)	<u>2007<sup>(2)</sup></u>	<u>2008<sup>(2)</sup></u>	<u>2008</u>	<u>2009</u>
	(US\$ thousands)				
Income from operations before other items . . . . .	135,145	197,468	303,382	208,498	244,110
Add:					
Depreciation and amortization . . . . .	3,975	5,364	4,627	2,250	3,450
Depletion of timber holdings included in cost of sales . . . . .	<u>177,730</u>	<u>284,808</u>	<u>284,532</u>	<u>192,301</u>	<u>294,716</u>
EBITDA <sup>(3)</sup> . . . . .	<u>316,850</u>	<u>487,640</u>	<u>592,541</u>	<u>403,049</u>	<u>542,276</u>

Notes:

- (1) See note (1) above.
- (2) See note (3) above.
- (3) See note (7) 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. These activities are, in turn, subject to fluctuations due to, among other factors:

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

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

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

Expanding our tree plantations and manufacturing operations requires intensive capital investment. During the years ended December 31, 2006, 2007, 2008 and the nine-month period ended September 30, 2009, we incurred approximately US\$407.2 million, US\$647.0 million, US\$672.5 million and



US\$706.0 million in capital expenditures to acquire tree plantations. In recent years, we have expanded our manufacturing operations through investments in an engineered wood flooring plant in Jiangsu, a blockboard facility in Hunan, a plywood and veneer facility in Guangxi and sawn timber facilities in Yunnan and Heilongjiang. We have financed our expansion of tree plantations and manufacturing operations primarily from internal cash flows and debt and equity financing and, if we require additional debt or equity financing for future capital expenditures, we can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, we currently have substantial indebtedness, including the following principal amounts of indebtedness outstanding: US\$87.7 million of 2011 Senior Notes, US\$212.3 million of 2014 Senior Notes, a US\$150 million loan facility with several financial institutions (the “Syndicated Term Loan”) and US\$345 million of 2013 Convertible Senior Notes, the terms of which restrict our ability to raise additional debt financing. Such restrictions could affect our ability to raise financing in the future. In addition to the Notes, we may also issue an additional US\$187.7 million in principal amount of New 2014 Senior Notes. See “Recent Developments—Mandra Acquisition and Issuance of New 2014 Senior Notes.” We may incur additional indebtedness from domestic PRC lenders to supplement the funding of our proposed investments with SOPs. See “Recent Developments—Opportunities to Invest in the PRC with State-Owned Plantation Entities.” 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. See “Description of Other Indebtedness.”

***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 the purchase agreements for most of our purchased plantations, we have a pre-emptive right to lease the underlying plantation land for a maximum period of up to 30 to 50 years, subject to negotiation of the definitive land use right transfer agreement, obtaining the requisite governmental approval and completing the requisite registration procedures. Our decision and ability to purchase the trees and exercise our contractual rights with respect to our tree plantations will depend on, among other factors, our business strategy and the availability of future financing, our ability to negotiate a final price, whether the area is desirable for tree plantations and the availability of tree plantations for expansion.

Should we be unable to purchase the trees, exercise our right to acquire the underlying plantation land use rights 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 integrated plantation model has a short operating history and may not be successful***

We commenced set-up and operations of our integrated plantation model in the fourth quarter of 2006, which consists of selling trees from our plantations as logs or using the wood fibre for producing value-added wood products at our own manufacturing facilities. The integrated plantation model is in an early business stage and has a short operating history. We may be unable to continue to acquire standing timber under the long-term acquisition agreements due to factors such as (i) risks of disagreement with counterparties and/or original plantation rights holders in the provinces regarding entering into specific agreements for the implementation of our plantation acquisition plan, (ii) the failure of any such counterparty to obtain any requisite consents from the original plantation rights holders, and (iii) risks of the counterparties failing to coordinate with us to obtain the requisite governmental approvals and

complete the related registration procedures. In addition, we may not have the ability to allocate proper management resources and attention to the implementation of the integrated plantation model as well as coordinate the integration of our tree plantations with our downstream manufacturing activities. Furthermore, although results of operations and gross profit margins generated by sales of logs pursuant to the integrated plantation model in the year ended December 31, 2008 exceeded management's guidance, such results are not necessarily indicative of results that may be achievable in the future. We may be subject to operational and execution risks of integrating our upstream plantation activities to our downstream manufacturing operations, among other things.

***Our expansion in new regions may pose certain implementation risks***

We commenced 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 are similar to the risks we face with respect to our integrated plantation model. See “—Our integrated plantation model has a short operating history and may not be successful.”

***We are subject to risks presented by fluctuations in exchange rates***

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

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

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

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

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

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

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

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

In recent years, certain areas of the PRC have been adversely affected by severe flooding. In addition, the southern coastal areas of the PRC suffer a number of typhoons each season, which lasts from June to September and occasionally results in significant damage. 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. Tree plantation yields depend on a number of factors, many of which may be beyond our control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that we may obtain in the future.

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

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

As of September 30, 2009, we had 2,795 permanent employees based in Canada, Hong Kong and the PRC to manage our operations. We also engage third parties to perform the day-to-day operations of our tree plantations. However, as we expand the area of our tree plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our tree plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary to strengthen our internal control 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. See “Certain Financial Information—Disclosure Controls and Procedures and Internal Controls over Financial Reporting.”

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

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

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

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

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

In addition, we rely on our relationships with local plantation landowners and/or plantation land use rights holders to enter into any plantation land use agreements on commercially acceptable terms for our purchased plantations. We cannot give any assurance that we will be able to enter into any such agreements on commercially acceptable terms.

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

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

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

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

***We depend on services provided by third party service providers***

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

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

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

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

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

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



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

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

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

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

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

We are currently exploring opportunities to fund forestry investments in the PRC in cooperation with SOPs. We anticipate making such investments into Co-op Entities. The purpose of these investments would be to develop the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management. We have currently allocated a significant portion of the proceeds of this offering of Notes and the Equity Offering to fund any investments we make in such entities.

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

***Our insurance coverage may be insufficient to cover losses***

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

We insure our planted and purchased plantations in various locations in the PRC against certain accident and disaster related losses such as fires, lightning, explosion, flooding and windstorm. We do not, however, insure our plantations against losses from all natural and other disasters, such as pest and disease, and we do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on our tree plantations. If we were to suffer an uninsured loss or a loss in excess of our insurance coverage to the tree plantations, our business, financial condition and results of operations could be materially and adversely affected. We also maintain property all risk and public liability insurance policies for our manufacturing facilities. We maintain a level of fire insurance in



amounts that we consider to be appropriate for such risks. Such insurance is subject to deductibles that we consider reasonable and not excessive given the current insurance market environment. The occurrence of a loss at our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet our indemnification obligations, could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgments made by management. A change in the facts and these estimates and judgment could have a material impact on our tax expense. We have operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which 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 up to a period from three to five years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated

at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

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

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

The Russian government significantly increased the export tariffs on logs from 6.5% in early 2007 to 20% and 25% in July 2007 and April 2008, respectively. The increases had an impact on our revenue from sales of imported wood products, which decreased by 7.3% in the year ended December 31, 2008 compared to the year ended December 31, 2007. If the Russian government continues to increase export tariffs, taxes levied will be passed on to our customers, and we anticipate that demand for logs that 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 from our imported logs business.

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

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

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

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

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

For further details on these regulations and risks relating to them, see “—Risks Related to the PRC.”

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

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

***We may not complete the concurrent Equity Offering, which may require us to obtain alternative sources of funding in the future and may increase our indebtedness levels relative to our equity***

We are conducting the Equity Offering to raise gross proceeds of approximately US\$302,415,917 (or US\$347,778,312 if the over-allotment option is exercised in full) concurrently with this offering of Notes. The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00. We expect that the Equity Offering will be completed on or about the same date as this offering of Notes. We intend to use the aggregate net proceeds of this offering of the Notes and the Equity Offering as described under “Use of Proceeds.”

The completion of this offering of Notes is not conditioned upon the completion of the Equity Offering. As a result, if the Equity Offering is not completed, we may complete the offering of Notes and use the net proceeds as described under “Use of Proceeds.” However, if the Equity Offering is not completed, we may need to obtain alternative sources of funding in the future. There can be no assurance that we will be able to obtain such financing on terms acceptable to us, or at all. If we are not able to obtain such financing, it may have an adverse effect on our future growth plans and prospects.

In addition, if we complete this offering of Notes without completing the Equity Offering, it would cause the level of our indebtedness to be greater, relative to our outstanding equity, than if we had completed our Equity Offering. This increase in our relative level of leverage could have an adverse effect on our financial health. See “—We have substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.”

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

We engaged Pöyry to prepare a report and provide its opinion on the value of our plantation forest crop assets as at December 31, 2007 and December 31, 2008, and the Pöyry Reports are incorporated by reference in this Offering Memorandum. The Pöyry Reports contain a discussion of the principal assumptions, limitations and other considerations utilized in their preparation, which prospective investors should review carefully, including, without limitation, that Pöyry assumes that the forests visited by Pöyry in the field inspection represent the full range of conditions that exist for the species seen, that for species not assessed as part of the valuation, Pöyry has applied yield estimates that it has previously derived and that Pöyry made assumptions with respect to future costs and market prices.

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

## **Risks Related to the PRC**

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

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

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

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

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

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

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

While various governments, including that of the PRC, have announced efforts to increase liquidity in the financial markets and stimulus packages to slow or reverse the economic downturn, there can be no

assurance that these measures will be successful. If the PRC economy continues to grow at a slower rate, or experiences a recession, and growth in demand for forestry products also continues to slow down or decrease, our business, financial condition and results of operations would 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 it of these policies or rules until some time after such violation. In addition, litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This may result in the outcome of dispute resolutions not being as consistent or predictable 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 and rural collective organizations are currently permitted to transfer their plantation rights to third parties pursuant to existing PRC laws and regulations by means of bidding, public auction or competitive negotiation, as recognized by certain local practices. We cannot assure that the PRC government will not promulgate new rules and regulations that may be more detailed and complex than existing ones for regulating the transfer of plantation rights. Such rules may restrict or delay the acquisition of any new plantation rights from original plantation rights holders. Moreover, we cannot assure that the enforcement of such rules and regulations will not have a material adverse effect on our business, financial condition and results of operations.



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

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

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

Our subsidiaries 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 labour services, and the declaration of and payment of dividends out of after tax retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions must be processed through banks in the PRC licensed to engage in foreign exchange.

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

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi, including the Notes, the 2011 Senior Notes, the 2014 Senior Notes and the 2013 Convertible Senior Notes, or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay us dividends, repay intercompany loans or to satisfy their other foreign currency requirements. Our capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at September 30, 2009, we had retained earnings of US\$943.2 million in the PRC which may be restricted. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from SAFE, this could affect 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 every five years. This annual logging quota is allocated by the local forestry bureaus within their administrative regions. For foreign invested plantations, the logging quota is allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. There is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation activities, or that the PRC government will not enact laws and regulations that would add requirements for tree plantation companies to conduct these activities in the PRC.

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

### ***Environmental regulations***

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

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

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership and use rights and of issuing certificates to the persons



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

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

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

Prior to February 2006, agricultural taxes on forestry companies were levied by the PRC government and generally amounted to approximately 8% of the selling prices or government standardized prices, depending upon the entity and the province in which it operates. The agricultural taxes and other forestry-related fees are levied at the time trees are harvested or sold. In certain provinces where our tree plantations are located, the agricultural taxes have been exempted or reduced. On February 17, 2006, the agricultural taxes were abolished by the PRC State Council. The forestry-related fees include the reforestation fund and maintenance fees, which are generally charged at 10% to 20% of sales and, under a new rule effective from July 1, 2009, the reforestation fund shall be charged at no more than 10% of sales, but the fees actually charged vary from place to place. There is also a forest protection fee of RMB5 per cubic meter of wood harvested. No assurance can be given that other forestry-related 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.

#### **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 issuance date by the Initial Non-Guarantor Subsidiary, specifically Sino-Capital Global Inc. (BVI), which is a subsidiary that has guaranteed the 2011 Senior Notes with an aggregate outstanding principal amount of US\$87.7 million and the Syndicated Term Loan with an aggregate outstanding principal amount of US\$150 million. See “Description of Other Indebtedness.” The Initial Non-Guarantor Subsidiary has 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”) and future subsidiaries organized under the laws of other jurisdictions that would not allow them to provide such guarantee, 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 Subsidiary and our current or future PRC Subsidiaries and our future subsidiaries organized under the laws of other jurisdictions that would not allow them to provide such guarantee (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 or the Initial Non-Guarantor Subsidiary 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 September 30, 2009, our PRC Subsidiaries had total borrowings of approximately US\$46.5 million and capital commitments of approximately US\$10.4 million with third parties.

***The Notes are not secured by pledges of the capital stock of the Subsidiary Guarantors or the Initial Non-Guarantor Subsidiary while certain of our other significant obligations are so secured***

All the capital stock of the Subsidiary Guarantors has been pledged to secure the 2011 Senior Notes, the 2014 Senior Notes and the Syndicated Term Loan, and in the case of the 2011 Senior Notes and the Syndicated Term Loan, the capital stock of the Initial Non-Guarantor Subsidiary has been pledged as well. Accordingly, these other obligations will rank ahead of the Notes with respect to the capital stock of the Subsidiary Guarantors and the Initial Non-Guarantor Subsidiary pledged, as the case may be. The Subsidiary Guarantors have also provided guarantees for the Notes, the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Senior Notes and the Syndicated Term Loan on a pari passu basis and, therefore, each of the holders of the Notes, the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible 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 2011 Senior Notes, the 2014 Senior Notes, or the Syndicated Term Loan. However, there is no assurance that the 2011 Senior Notes, the 2014 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 the Initial Non-Guarantor Subsidiary, 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 judicial 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, and these limited covenants may not protect your investment***

The Indenture 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 that 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 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 its Notes at its 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 ability to pay dividends to our shareholders is subject to restrictive covenants under the 2011 Indenture, the 2014 Indenture and the Syndicated Term Loan***

The indentures pertaining to the 2011 Senior Notes and the 2014 Senior Notes contain restrictive covenants limiting our ability and the ability of our subsidiaries to make certain restricted payments, including dividends. Such covenants in the indentures relating to the 2011 Senior Notes and 2014 Senior Notes prevent us and our subsidiaries from making dividend payments, except under certain circumstances, unless our restricted payments under the indentures (including such dividends) shall not exceed a certain threshold based on financial aggregates such as our consolidated net income, net cash proceeds from asset sales or issuance or sale of equity securities, and net reductions in our consolidated investments due, 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. 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 may adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations” and “Description of Other Indebtedness.”

***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 of our direct and indirect subsidiaries limit their ability to pay dividends. See “—We have substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect 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 and is the beneficial owner of the dividend, such withholding tax rate may be lowered to 5% pursuant to a double tax treaty between Hong Kong and the PRC.

In practice, our PRC Subsidiaries may declare dividends once a year at the end of each financial year. Certain of our operations in the PRC are conducted through WFOEs. Under their articles of association adopted in accordance with PRC regulations, the WFOEs are only allowed to declare dividends once a year although such dividends may be distributed multiple times each year. As a result of such limitations, there could be timing limitations on payments from our PRC Subsidiaries to meet our payment 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 if it is the beneficial owner of the interest) withholding tax as well as a 5% business tax on our behalf on the interest paid under any shareholders' loans. Prior to payment of interest and principal on such shareholder loan, the PRC Subsidiaries must present evidence of payment of the required withholding tax on the interest payable under any such shareholder loan and evidence of registration with 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, if any, on the Conversion Shares.

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

We have 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 prepayment of the Syndicated Term Loan, as of September 30, 2009 our total debt was approximately US\$1,028.3 million. We may also issue an additional US\$187.7 million in principal amount of New 2014 Senior Notes. See "Recent Developments—Mandra Acquisition and Issuance of New 2014 Senior Notes."

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; or
- increase the cost of additional financing.

In particular, the Syndicated Term Loan, the 2011 Indenture (as defined below) and the 2014 Indenture (as defined below) include restrictive covenants limiting our ability to incur additional debt. Such debt covenants in the Syndicated Term Loan, the 2011 Indenture and the 2014 Indenture proscribe us from incurring new debt, except under certain circumstances, unless we meet a specified financial ratio. Further, the 2013 Indenture (as defined below) provides, in certain cases, restrictions against some of our subsidiaries providing additional guarantees. 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, an indebtedness to total asset ratio, a gearing ratio, an interest coverage ratio, a debt to EBITDA ratio, a capital asset coverage ratio, an EBIT to interest expense ratio, a current ratio, and a debt to timber holdings ratio, above certain specified levels. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure 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 under the Indenture (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 Canada, 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 a make-whole fundamental change may not adequately compensate you for the lost option time value of your Notes that results from the relevant make-whole fundamental change***

If a make-whole 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 make-whole fundamental change becomes effective and the stock price paid, or deemed to be paid, per Common Share in the relevant make-whole fundamental change, as described in this Offering Memorandum. See "Description of the Notes—Make-Whole Premium Upon a Make-Whole 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 relevant make-whole 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 stock price is greater than US\$60.00 per Common Share or less than US\$15.97 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 equitable remedies.



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

The Notes initially bear interest semi-annually at a rate of 4.25% per annum. 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 2013 Convertible Senior Notes and the 2011 Senior Notes under circumstances similar to those constituting a fundamental change. For instance, the indenture for the 2013 Convertible Senior Notes contains a purchase right for holders of such notes under circumstances and conditions substantially similar to the purchase right described under "Description of the Notes—Offer to Purchase at Option of the Holder Upon a Fundamental Change." In addition, under the 2011 Indenture and the 2014 Indenture, in case of the occurrence of certain changes of control, we are required to commence an offer to purchase all of the 2011 Senior Notes and 2014 Senior Notes, respectively, then outstanding and failure by us to do so within 30 days of the occurrence of any such change of control is an event of default under the 2011 Indenture and 2014 Indenture, respectively. 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 under the Indenture, we will be in default thereunder.

***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, 2009 to December 10, 2009, the trading price of our Common Shares on the TSX has ranged from a low of Cdn.\$6.52 per share to a high of Cdn.\$20.01 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
- 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 are subject to the risk that the Canadian dollar will depreciate against the U.S. dollar***

The conversion rate for the Notes is not subject to adjustment for fluctuations in the rate of exchange between the U.S. dollar and the Canadian dollar. Accordingly, any increase in the market value of our Common Shares may be more than offset by a decline in the value of the Canadian dollar versus the U.S. dollar. Any such decline in the relative value of the Canadian dollar could therefore reduce the value of the Notes.

***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 of Notes could dilute the interests of our existing shareholders and could substantially decrease the trading price of our Common Shares. We are concurrently conducting the Equity Offering which is expected to close on or about the closing date of this offering of Notes. For a description of the Equity Offering, see “Recent Developments.” In addition, 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, options or other convertible securities or for other reasons. Sales of a substantial number of Common Shares or other equity-related securities in the public market (or the perception that such sales may occur) could depress the market price of our Common Shares, and impair our ability to raise capital through the sale of additional equity securities. Our Company has agreed in connection with this offering of Notes, that it shall not, and shall cause any of its subsidiaries not to, subject to certain exceptions, sell or issue (in the case of our Company) securities of our Company for a period of 120 days from the date of the first issuance of the Notes. Except for such restrictions and similar lock-up restrictions in connection with the Equity Offering, 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 any 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***

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 paid for our Common Shares in the transaction consists of common shares, shares of common stock, depositary receipts or other certificates representing common equity interests that are listed or quoted on any of the TSX, The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market. Our obligation to purchase the Notes upon a fundamental change may not preserve the value of the Notes in the event of a highly leveraged transaction, merger or similar transaction. See “Description of the Notes—Offer to Purchase at 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) prior to the conversion date relating to such Notes (if we do not elect cash settlement or combination settlement and instead satisfy our conversion obligation through physical settlement) or the last trading day of the relevant cash settlement averaging period (if we elect to satisfy our conversion obligation through cash settlement or combination settlement), but you are subject to all changes affecting the Common Shares. 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 the conversion date relating to a holder’s conversion of Notes (if we do not elect cash settlement or combination settlement and instead satisfy our conversion obligation through physical settlement) or the last trading day of the relevant cash settlement averaging period (if we elect to satisfy our conversion obligation through cash settlement or combination settlement), 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 an expected BB+ rating by Fitch Ratings Ltd. and a proposed BB rating by Standard & Poor’s Ratings Services. 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. 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 U.S. 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 that 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 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 and requires that the commissioner be notified of proposed transactions that exceed certain statutory

thresholds in advance of closing. Pre-merger notifiable transactions may not proceed until the applicable statutory waiting period is waived, terminated or expired. 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. Additionally, any investment (whether or not an acquisition of control) cannot be implemented where the relevant minister gives notice that an order for a national security review of the investment may be made, unless the investor subsequently receives (i) a notice from the minister indicating that no order for the review of the investment will be made, (ii) a notice from the minister after an order for national security review of the investment has been made indicating that no further action will be taken in respect of the investment, or (iii) a copy of an order of the Governor in Council (federal cabinet) authorizing the investment to be implemented. An order for a national security review may only be made where the minister, after consulting with the Minister of Public Safety and Emergency Preparedness, considers the investment could be injurious to national security. The review of an investment on the grounds of national security may occur whether or not an investment is subject to review on the basis of net benefit to Canada.

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—Certain U.S. Federal Income Tax Considerations.”

***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 2011 Senior Notes, the Syndicated Term Loan, the 2013 Convertible Senior Notes, and the 2014 Senior Notes. Certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. 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 to 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;
- was insolvent at such time and was influenced by a desire to put the beneficiary of the guarantee in a position which would be better than the position the beneficiary would have been in, in the event of a winding-up of the relevant guarantor, 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 that 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.

However, certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. We cannot provide any assurance that the guarantee of a Subsidiary Guarantor would not be voided or subject to review under applicable insolvency or fraudulent transfer laws, or subject to a lawsuit by or on behalf of creditors of such Subsidiary Guarantor.

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 of Notes will be approximately US\$388,300,000 (or approximately US\$446,740,000 if the Initial Purchasers' over-allotment option is exercised in full) after giving effect to the Initial Purchasers' discount and offering expenses payable by us. See "Plan of Distribution." We are also conducting the Equity Offering to raise gross proceeds of approximately US\$302,415,917 (or US\$347,778,312 if the over-allotment option is exercised in full) concurrently with this offering of Notes. The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00. We expect that the Equity Offering will be completed on or about the same date as this offering of Notes. We intend to use the net proceeds of this offering of Notes and the Equity Offering for the following purposes:

1. approximately US\$150.0 million to prepay the full amount of borrowings outstanding under the Syndicated Term Loan, including accrued but unpaid interest and related fees and expenses thereunder;
2. approximately US\$250.0 million as initial capital for the acquisition of commercial plantation forests in the Guizhou Province, PRC. We are currently negotiating, and expect to enter into shortly after the completion of this offering of Notes, through one of our PRC subsidiaries, the Guizhou Master Agreement to acquire between approximately 10.5 million and 16.5 million cubic meters of plantation wood fibre, within an area of approximately 150,000 hectares of plantations trees that has an average yield of 70 to 110 cubic meters per hectare in Guizhou Province. The term of the agreement is three years and the purchase price for the timber shall not exceed RMB 300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Pursuant to the terms of the contemplated master agreement, we will not be obligated to acquire any of these plantation trees which do not meet our specific requirements. Subject to reaching a definitive purchase agreement with the vendor on the final terms of the master agreement, we expect to have pre-emptive rights to lease the underlying plantation land at a price, if permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years. The expected term of the land lease can be for up to 50 years from the harvest date as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of the definitive purchase or lease agreement between one of our PRC subsidiaries and the vendor upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. There can be no assurance that we will be able to enter into the Guizhou Master Agreement;
3. approximately US\$200.0 million to fund forestry investments in cooperation with SOPs in the PRC. It is intended that we and the SOPs will form Co-op Entities in accordance with relevant PRC laws and regulations and subject to receipt of the requisite government approvals, with the goal of developing the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management; and
4. any remainder, for any payments required to be made in connection with consummating the exchange for the Mandra Notes and Mandra Warrants and the acquisition of common shares of Mandra, for investments in Mandra Forestry as we may determine to make after we have consummated such exchange and acquisition, and for general corporate purposes.

For further details, see "Recent Developments."

The foregoing discussion represents an estimate of our net proceeds from this offering of Notes and the Equity 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.

Although we are conducting this offering of Notes concurrently with the Equity Offering, the number of Common Shares and the actual price at which we are able to sell the Common Shares in the Equity Offering will be determined through a book building process. There can be no assurance that we will be able to complete the Equity Offering at a price per Common Share that is acceptable to us, or at all. The completion of this offering of Notes is not conditioned upon the completion of the Equity Offering. As a result, if the Equity Offering is not completed, we may nevertheless complete the offering of Notes and use the net proceeds of this offering of Notes to prepay the Syndicated Term Loan and acquire the plantation forests in Guizhou Province and use any remainder for general corporate purposes.

## MARKET PRICE INFORMATION FOR THE COMMON SHARES

Our Common Shares have been listed on the TSX since 1995, and trade under the stock symbol “TRE”. 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 December 10, 2009, the closing price of our Common Shares on the TSX was Cdn.\$16.80 per Common Share.

<u>Year Ended December 31,</u>	<u>Actual Closing Price per Common Share</u>		<u>Average Daily Trading Volume</u>  (Shares)
	<u>Period High</u>	<u>Period Low</u>	
	(Cdn.\$)	(Cdn.\$)	
2004 <sup>(1)(2)</sup> . . . . .	6.98	2.32	552,764
2005 <sup>(3)</sup> . . . . .	5.40	2.54	453,503
2006 . . . . .	7.83	3.70	499,049
2007			
First quarter . . . . .	13.42	7.46	917,468
Second quarter <sup>(4)</sup> . . . . .	17.19	12.49	891,301
Third quarter . . . . .	22.86	13.97	1,321,913
Fourth quarter . . . . .	25.12	18.30	1,746,311
2008			
First quarter . . . . .	21.92	14.92	1,132,399
Second Quarter . . . . .	26.80	15.10	1,035,255
Third Quarter . . . . .	20.00	13.00	808,179
Fourth Quarter . . . . .	13.05	5.53	1,364,270
2009			
First Quarter . . . . .	11.14	6.99	441,908
Second Quarter <sup>(5)</sup> . . . . .	14.86	8.84	831,217
Third Quarter . . . . .	18.45	11.40	754,817
From October 1 to December 10 . . . . .	19.84	15.10	692,294

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 Canadian public offering and international private placement, 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).
- (5) In June 2009, we issued 34,500,000 million Common Shares in a Canadian public offering and international private placement, which increased the number of outstanding Common Shares to 220,279,062.

In July 2008, we issued US\$345.0 million in principal amount of convertible notes due 2013 (the “2013 Convertible Senior Notes”), none of which has been converted as of the date of this Offering Memorandum. As of the date of this Offering Memorandum, we had 220,279,062 Common Shares outstanding. If the US\$345.0 million in principal amount of 2013 Convertible Senior Notes were converted in full at the initial conversion price, it would result in the issuance of an additional 17,007,603 Common Shares.

We are also conducting an offering of up to 19,000,000 Common Shares (or 21,850,000 Common Shares if the over-allotment option is exercised in full) in the Equity Offering concurrently with this offering of Notes.

There is no public market for our Common Shares other than the TSX. The TSX has conditionally approved the listing of the Common Shares issuable upon conversion of the Notes.

## 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 7, 2009, the value of the Renminbi appreciated by more than 21% 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:

Period	Noon Buying Rate			
	Period End	Average <sup>(1)</sup>	High	Low
		(RMB per US\$1.00)		
2002	8.2800	8.2771	8.2800	8.2700
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1936	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009				
January 2009	6.8392	6.8360	6.8403	6.8225
February 2009	6.8395	6.8363	6.8470	6.8241
March 2009	6.8329	6.8360	6.8438	6.8240
April 2009	6.8180	6.8306	6.8361	6.8180
May 2009	6.8278	6.8235	6.8326	6.8176
June 2009	6.8302	6.8334	6.8371	6.8264
July 2009	6.8319	6.8317	6.8342	6.8300
August 2009	6.8299	6.8323	6.8358	6.8299
September 2009	6.8262	6.8277	6.8303	6.8247
October 2009	6.8264	6.8267	6.8292	6.8248
November 2009	6.8265	6.8271	6.8300	6.8255
December 2009 (through December 7)	6.8292	6.8270	6.8292	6.8260

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

Note:

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

On December 7, 2009, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US\$1.00 = RMB6.8292 as quoted by Bloomberg L.P.

### **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 US 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:

<u>Period</u>	<u>Period End</u>	<u>Noon Buying Rate</u>		
		<u>Average<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>
		<u>(HK\$ per US\$1.00)</u>		
2002.....	7.7988	7.7996	7.8095	7.7970
2003.....	7.7640	7.7875	7.8001	7.7085
2004.....	7.7723	7.7891	7.8010	7.7632
2005.....	7.7533	7.7775	7.7999	7.7514
2006.....	7.7771	7.7681	7.7928	7.7506
2007.....	7.7984	7.8016	7.8289	7.7497
2008.....	7.7499	7.7862	7.8159	7.7497
2009				
January 2009.....	7.7544	7.7563	7.7618	7.7504
February 2009.....	7.7551	7.7534	7.7551	7.7511
March 2009.....	7.7500	7.7530	7.7593	7.7497
April 2009.....	7.7500	7.7501	7.7508	7.7495
May 2009.....	7.7519	7.7510	7.7526	7.7500
June 2009.....	7.7500	7.7505	7.7516	7.7499
July 2009.....	7.7500	7.7500	7.7505	7.7495
August 2009.....	7.7505	7.7506	7.7516	7.7500
September 2009.....	7.7500	7.7503	7.7514	7.7498
October 2009.....	7.7497	7.7497	7.7502	7.7495
November 2009.....	7.7500	7.7497	7.7501	7.7495
December 2009 (through December 7).....	7.7499	7.7497	7.7500	7.7495

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

Note:

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

On December 7, 2009, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was HK\$7.7499 per U.S. dollar as quoted by Bloomberg L.P.



## 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.

Period	Noon Buying Rate			
	Period End	Average <sup>(1)</sup>	High	Low
	(Cdn.\$ per US\$1.00)			
2002.....	1.5800	1.5704	1.6128	1.5108
2003.....	1.2923	1.4008	1.5750	1.2923
2004.....	1.2034	1.3017	1.3970	1.1775
2005.....	1.1656	1.2115	1.2703	1.1507
2006.....	1.1652	1.1340	1.1726	1.0989
2007.....	0.9881	1.0734	1.1852	0.9168
2008.....	1.2240	1.0660	1.2971	0.9717
2009				
January 2009.....	1.2365	1.2248	1.2749	1.1822
February 2009.....	1.2710	1.2452	1.2710	1.2190
March 2009.....	1.2606	1.2645	1.2995	1.2245
April 2009.....	1.1939	1.2242	1.2640	1.1939
May 2009.....	1.0957	1.1528	1.1868	1.0957
June 2009.....	1.1626	1.1264	1.1626	1.0828
July 2009.....	1.0791	1.1229	1.1650	1.0791
August 2009.....	1.0967	1.0872	1.1097	1.0650
September 2009.....	1.0719	1.0816	1.1060	1.0615
October 2009.....	1.0767	1.0547	1.0843	1.0289
November 2009.....	1.0570	1.0593	1.0742	1.0458
December 2009 (through December 7).....	1.0555	1.0501	1.0555	1.0430

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

Note:

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

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 September 30, 2009 on (i) an actual basis, (ii) an as-adjusted basis after giving effect to this offering of Notes and the prepayment in full of outstanding borrowings under the Syndicated Term Loan, including accrued but unpaid interest and related fees and expenses thereunder, and (iii) an as-adjusted basis after giving cumulative effect to this offering of Notes, the prepayment in full of outstanding borrowings under the Syndicated Term Loan, including accrued but unpaid interest and related fees and expenses thereunder and the sale of 21,850,000 Common Shares in the Equity Offering (assuming the exercise in full of the over-allotment option) at a price of Cdn.\$16.80 per Common Share. The number of Common Shares and the actual price per Common Share in the Equity Offering will be determined through book-building, and there can be no assurance that we will be able to complete the Equity Offering at a price per Common Share that is acceptable to us, or at all. See “Use of Proceeds,” “Certain Financial Information—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 incorporated by reference herein.

	As of September 30, 2009		
	Actual	As Adjusted for this Offering of Notes and prepayment of the Syndicated Term Loan	As Further Adjusted for the Equity Offering <sup>(10)</sup>
	(US\$ thousands)		
<b>Short-term debt:</b>			
Bank indebtedness <sup>(1)</sup> . . . . .	77,273	77,273	77,273
Current portion of long-term debt . . . . .	37,500	—	—
Total short-term debt . . . . .	<u>114,773</u>	<u>77,273</u>	<u>77,273</u>
<b>Long-term debt:</b>			
2013 Convertible Senior Notes <sup>(2)</sup> . . . . .	286,375	286,375	286,375
2011 Senior Notes <sup>(3)</sup> . . . . .	87,670	87,670	87,670
2014 Senior Notes <sup>(3)</sup> . . . . .	212,330	212,330	212,330
Syndicated Term Loan <sup>(3)</sup> . . . . .	112,500	—	—
Bank Loans . . . . .	—	—	—
The Notes <sup>(4)(5)</sup> . . . . .	—	400,000	400,000
Unamortized deferred financing costs <sup>(6)</sup> . . . . .	(24,492)	(35,323)	(35,323)
Total long-term debt <sup>(7)</sup> . . . . .	<u>674,383</u>	<u>951,052</u>	<u>951,052</u>
<b>Shareholders' equity:</b>			
Equity portion of 2013 Convertible Senior Notes <sup>(2)</sup> . .	70,462	70,462	70,462
Common Shares, no par value, unlimited shares authorized <sup>(8)</sup> . . . . .	884,968	884,968	1,172,733
Contributed surplus . . . . .	11,097	11,097	11,097
Accumulated other comprehensive income . . . . .	224,376	224,376	224,376
Retained earnings . . . . .	943,228	943,228	943,228
Total shareholders' equity . . . . .	<u>2,134,131</u>	<u>2,134,131</u>	<u>2,421,896</u>
Total capitalization <sup>(9)</sup> . . . . .	<u>2,808,514</u>	<u>3,085,183</u>	<u>3,372,948</u>

Notes:

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

- (2) In accordance with the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855 Financial Instruments, a convertible note should be split into an equity and a liability component. The 2013 Convertible Senior Notes are guaranteed by the Subsidiary Guarantors (as defined in the indenture prepared in connection with the offering of the 2013 Convertible Senior Notes).
- (3) The 2011 Senior Notes, 2014 Senior Notes and the Syndicated Term Loan are secured by pledges of the capital stock of the Subsidiary Guarantors and, in the case of the 2011 Senior Notes and the Syndicated Term Loan, the capital stock of the Initial Non-Guarantor Subsidiary. 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 Subsidiary while certain of our other significant obligations are so secured.”
- (4) In accordance with the CICA Handbook Section 3855 Financial Instruments, a convertible note should be split into an equity and a liability component. For illustrative purposes only, the aggregate principal amount of the Notes to be issued has been presented as a liability in the above table.
- (5) Assuming the Initial Purchasers do not exercise the over-allotment option.
- (6) Estimated costs and expenses relating to this offering of Notes have been included in the above capitalization table.
- (7) “Long-term debt” includes all long-term debt but excludes the current portion of long-term debt.
- (8) As of September 30, 2009, we had 220,279,062 Common Shares issued and outstanding. As of September 30, 2009, we had outstanding options to acquire an aggregate of 4,118,626 Common Shares pursuant to our stock option plan at prices ranging between Cdn.\$2.72 and Cdn.\$19.00 per Common Share with expiry dates to March 31, 2014. As of September 30, 2009, and at their initial conversion price, our outstanding 2013 Convertible Senior Notes are convertible into a maximum of 17,007,603 Common Shares. If US\$460.0 million aggregate principal amount of the Notes issued in this Offering (assuming the exercise in full of the over-allotment option) were converted in full at their initial conversion rate of 47.2619 Common Shares per US\$1,000 principal amount of Notes), it would result in the issuance of 21,740,474 additional Common Shares. If the Equity Offering was completed in full (assuming the exercise in full of the over-allotment option), it would result in the issuance of 21,850,000 additional Common Shares.
- (9) “Total capitalization” includes long-term debt plus shareholders’ equity.
- (10) The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00.

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

## **DIVIDENDS AND DIVIDEND POLICY**

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

## 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, 2006, 2007 and 2008 and our unaudited consolidated financial statements as of and for the nine-month periods ended September 30, 2008 and 2009 incorporated by reference herein. 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 selected financial data should be read in conjunction with “Certain Financial Information” and the audited and unaudited consolidated financial statements and the related notes thereto incorporated by reference herein and other information included elsewhere in this Offering Memorandum. The results in the nine-month periods ended September 30, 2008 and 2009 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 Nine-Month Period Ended September 30,	
	2006 <sup>(1),(2),(3)</sup>	2007 <sup>(2),(3)</sup>	2008 <sup>(2),(3)</sup>	2008 <sup>(3)</sup>	2009
	(Restated)				
	(US\$ thousands, except per share amounts and margins)				
<b>Consolidated Income Statement</b>					
<b>Data:</b>					
Revenue . . . . .	555,480	713,866	901,295	614,172	768,615
Cost of sales . . . . .	(380,508)	(470,825)	(536,557)	(370,188)	(475,034)
Selling, general and administrative expenses . . . . .	(35,852)	(40,209)	(56,729)	(33,236)	(46,021)
Depreciation and amortization . . . . .	(3,975)	(5,364)	(4,627)	(2,250)	(3,450)
Income from operations before other items <sup>(4)</sup> . . . . .	135,145	197,468	303,382	208,498	244,110
Net income from continuing operations <sup>(2)</sup> . . . . .	92,212	142,431	216,393	159,056	181,438
Net income/(loss) from discontinued operations <sup>(2)</sup> . . . . .	21,268	9,842	12,200	(25,953)	(7,767)
Net income for the year/period . . . . .	<u>113,480</u>	<u>152,273</u>	<u>228,593</u>	<u>133,103</u>	<u>173,671</u>
Basic earnings per share . . . . .	0.82	0.91	1.25	0.73	0.87
Diluted earnings per share . . . . .	0.81	0.90	1.24	0.72	0.86
<b>Other Consolidated Financial Data:</b>					
Gross profit <sup>(5)</sup> . . . . .	174,972	243,041	364,738	243,984	293,581
Gross profit margin <sup>(6)</sup> . . . . .	31.5%	34.0%	40.5%	39.7%	38.2%
EBITDA <sup>(7)</sup> . . . . .	316,850	487,640	592,541	403,049	542,276

	As of and for the Year Ended December 31,			As of and for the Nine-Month Period Ended September 30,	
	2006 <sup>(1),(2),(3)</sup>	2007 <sup>(2),(3)</sup>	2008 <sup>(2),(3)</sup>	2008 <sup>(3)</sup>	2009
	(Restated)				
	(US\$ thousands, except per share amounts and margins)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and short-term deposits . . . . .	171,437	350,853	486,955	527,874	616,523
Current assets . . . . .	333,609	527,028	783,869	831,474	889,270
Non-current assets . . . . .	873,646	1,310,469	1,820,055	1,645,404	2,241,616
Total assets . . . . .	1,207,255	1,837,497	2,603,924	2,476,878	3,130,886
Current liabilities (including current portion of long-term debt) . . . . .	179,048	197,003	285,478	256,934	322,372
Long-term debt (net of current portion) . . . . .	450,000	441,985	714,468	711,029	674,383
Total liabilities . . . . .	629,048	650,199	1,005,160	972,433	996,755
Total shareholders' equity . . . . .	578,207	1,187,298	1,598,764	1,504,445	2,134,131
<b>Cash Flow Statement Data:</b>					
Cash flows from operating activities of continuing operations . . . . .	264,203	482,501	483,125	272,189	558,497
Cash flows used in investing activities . . . . .	(423,036)	(692,322)	(704,009)	(442,541)	(765,262)
Cash flows from financing activities . . . . .	176,200	376,912	331,807	342,334	309,088
Net increase in cash and cash equivalents . . . . .	44,469	175,803	112,481	170,320	124,029

Notes:

- (1) Results for the year ended December 31, 2006, 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 revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the year ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the year ended December 31, 2008 incorporated by reference herein. See "Certain Financial Information—Components of Income Statement Items" for a detailed description of our revenue components.
- (2) Our Gaoyao facility was disposed in the nine-month period ended September 30, 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the nine-month periods ended September 30, 2008 and 2009. The annual consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 were issued prior to such disposition and have not been restated to reflect the Gaoyao facility as a discontinued operation. An impairment charge of our capital assets of US\$15.4 million and US\$18.2 million for the years ended December 31, 2007 and 2008, respectively, will be reclassified as discontinued operations in our 2009 year-end financials. The remaining results of operations of the Gaoyao facility are not significant to the Company's consolidated results. The selected data in this table for the years ended December 31, 2006, 2007 and 2008 have not been restated to reflect the Gaoyao facility as a discontinued operation. See "Certain Financial Information—Overview."
- (3) The following financial data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet as of September 30, 2008 have not been reclassified to reflect the Gaoyao facility as discontinued. See note 2 above.
- (4) Income from operations before other items excludes interest income and expense, exchange gains/(losses), gain/(loss) on changes in fair value of financial instruments and other income, impairment of capital assets, and amortization of deferred financing costs.
- (5) 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.



- (6) 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.
- (7) EBITDA for any period is defined as income from operations before other items for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, 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.

A reconciliation from income from operations before other items to EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Nine-month Period Ended September 30,	
	2006 <sup>(1),(2)</sup>	2007 <sup>(2)</sup>	2008 <sup>(2)</sup>	2008	2009
	(US\$ thousands)				
Income from operations before other items . . . . .	135,145	197,468	303,382	208,498	244,110
Add:					
Depreciation and amortization . . . . .	3,975	5,364	4,627	2,250	3,450
Depletion of timber holdings included in cost of sales . . . . .	177,730	284,808	284,532	192,301	294,716
EBITDA <sup>(3)</sup> . . . . .	<u>316,850</u>	<u>487,640</u>	<u>592,541</u>	<u>403,049</u>	<u>542,276</u>

Notes:

- (1) See note (1) above.  
(2) See note (3) above.  
(3) See note (7) above.

## RECENT DEVELOPMENTS

### Current Cash Commitments

We have allocated approximately US\$460.0 million, equal to approximately 74.6% of the US\$616.5 million of cash, cash equivalents and short-term deposits held by us as of September 30, 2009, for future acquisitions of commercial plantation forests under master agreements primarily in Fujian and Jiangxi. Under the applicable master agreements, we have the right to acquire 200,000 hectares in Fujian and between 15 and 18 million cubic meters of fibre in Jiangxi over a period of time ranging from three to ten years. As of September 30, 2009, we have not purchased any hectares in Fujian and have purchased approximately 8,000 hectares at a cost of US\$21.1 million in Jiangxi. For a description of the applicable master agreements, see “Business—Tree Plantations Under Management.”

### The Concurrent Equity Offering

We are conducting the Equity Offering to raise gross proceeds of approximately US\$302,415,917 (or US\$347,778,312 if the over-allotment option is exercised in full) concurrently with this offering of Notes. The Canadian dollar proceeds of the Equity Offering have been translated into U.S. dollars solely for the convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on December 7, 2009 of Cdn.\$1.0555 to US\$1.00. We expect that the Equity Offering will be completed on or about the same date as this offering of Notes. We intend to use the aggregate net proceeds from this offering of the Notes and the Equity Offering as described under “Use of Proceeds”.

However, the number of Common Shares and the actual price at which we are able to sell the Common Shares in the Equity Offering will be determined through a book building process. There can be no assurance that we will be able to complete the Equity Offering at a price per Common Share that is acceptable to us, or at all. The completion of this offering of Notes is not conditioned upon the completion of the Equity Offering. As a result, if the Equity Offering is not completed, we may nevertheless complete the offering of Notes and use the net proceeds as described under “Use of Proceeds”.

The Common Shares being offered and sold in the Equity Offering have not been and will not be registered under the Securities Act. This Offering Memorandum does not constitute an offer of such Common Shares in the United States. We do not intend to register any of such Common Shares in the United States.

### Mandra Acquisition and Issuance of New 2014 Senior Notes

On December 1, 2009, we entered into a memorandum of understanding with Mandra Forestry, Mandra and certain holders of the Mandra Notes and Mandra Warrants (the “Mandra Holders”), regarding an exchange by the Mandra Holders of Mandra Notes in the aggregate principal amount of US\$192.7 million, and all of the Mandra Warrants held by them, for the New 2014 Senior Notes. As part of the exchange, we will pay each Mandra Holder a cash payment representing interest on its Mandra Notes, less interest on the New 2014 Senior Notes to be issued to such Mandra Holder, in each case that has accrued and is unpaid through (but excluding) the settlement date of the exchange, and less deductions of certain expenses of the Mandra Holders. The New 2014 Senior Notes will have substantially the same terms and 2014 Senior Notes and, solely upon satisfaction of certain conditions under the memorandum of understanding, the New 2014 Senior Notes will be consolidated and form a single series with the outstanding 2014 Senior Notes. If such conditions are not satisfied, the New 2014 Senior Notes will not be consolidated with the 2014 Senior Notes. Consummation of the exchange is conditioned on, among other things, the Mandra Holders’ waiver of any and all defaults or events of default, if any, with respect to the Mandra Notes and, if requested, their consent to certain amendments to the indenture governing the Mandra Notes. For additional information on the terms and conditions of the 2014 Senior Notes, see “Description of Other Indebtedness—Outstanding 2014 Senior Notes.”

We also currently have an agreement in principle, subject to definitive documentation and satisfaction of certain conditions, with Mandra Resources Limited and Morgan Stanley to acquire all of the outstanding common shares of Mandra not already owned by us for nominal consideration. We currently anticipate that pursuant to the terms of the indenture governing the Mandra Notes, if we acquire the common shares of Mandra, we will become a guarantor with respect to any Mandra Notes which we do not receive in the exchange that remain outstanding. If we are not able to acquire all of the outstanding Mandra Warrants contemporaneously with the acquisition of the share capital of Mandra, we may seek to acquire such remaining Mandra Warrants pursuant to a purchase option under the Mandra Shareholders Agreement (as defined herein). See “Business—Other Tree Plantation Contractual Arrangements—Mandra Forestry.” In connection with the acquisition of the share capital of Mandra, and as partial contingent payment thereof, we also have an agreement in principle to make additional payments in the form of our Common Shares based on achievement of specific milestones.

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

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

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

We are currently exploring opportunities to fund investments in the PRC in cooperation with SOPs. We anticipate making such investments into Co-op Entities. The purpose of these investments would be to develop the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities. The Co-op Entities are expected to have approximately 120,000 hectares of plantation trees under management. We have currently allocated a significant portion of the proceeds of this offering of Notes and the Equity Offering to fund any investments we make in such entities. See “Use of Proceeds.”

## CERTAIN FINANCIAL INFORMATION

*The following discussion presents certain information regarding our financial condition and results of operations. The following discussion reflects information extracted from our Management's Discussion and Analysis, dated November 12, 2009, for the three- and nine-month periods ended September 30, 2009, that we filed with the securities regulatory authorities in each of the provinces in Canada, a copy of which is available at [www.sedar.com](http://www.sedar.com), with the addition of certain supplemental information for purposes of the offering of Notes. The following discussion should be read in conjunction with our consolidated financial statements and the related notes thereto incorporated by reference herein and other financial information included elsewhere in this Offering Memorandum. Our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and our unaudited consolidated financial statements for the nine month periods ended September 30, 2008 and 2009 have been prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from US 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 a leading commercial forest plantation operator in the PRC, with approximately 474,000 hectares of tree plantations under management located in eight provinces of the PRC as of September 30, 2009. In addition, we have entered into long-term master agreements in the provinces of Hunan, Yunnan, Guangxi, Jiangxi and Fujian that give us the right to acquire up to approximately 1.1 million to 1.3 million hectares of tree plantations. As of September 30, 2009, we have acquired approximately 348,000 hectares under these agreements. Our principal businesses include ownership and management of forest plantation trees, the sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2008 and for the nine-month period ended September 30, 2009, our total revenue was US\$901.3 million and US\$768.6 million, respectively.

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

Our business operations are comprised of two core business segments. Our wood fibre operations are our main revenue contributor, while our manufacturing and other operations enable us to enhance the value of our fibre operations by producing downstream products.

### Wood Fibre Operations Segment

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

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture value through wood fibre growth during the course of our ownership. Under our planted plantation model, we assess the suitability of land where

the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate the trees using improved breeding, planting and silviculture techniques and sell the trees as standing timber. Under our integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods and we have the option to enter into long-term leases, typically for up to 50 years, under which we can plant and subsequently harvest several rotations of trees.

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

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

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

#### Manufacturing and Other Operations Segment

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

#### **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 standing timber, wood logs and wood products 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 ratio, however, does not constitute a projection of future revenue for any specific financial year or period, including the current financial year. This amount 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. These factors include damage by disease, pests and other natural disasters, and weather, climate and soil conditions. 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\$352.6 million, US\$521.5 million, US\$685.4 million and US\$582.7 million in the years ended December 31, 2006, 2007 and 2008 and the nine-month period ended September 30, 2009, respectively, which represented approximately 63.5%, 73.1%, 76.0% and 75.8%



of our total revenue in the years ended December 31, 2006, 2007 and 2008 and the nine-month period ended September 30, 2009, 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 Estimates**

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 66.0% of our consolidated total assets as of September 30, 2009. 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 risks 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, 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.

A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which revenue is recognized.

#### ***Provision for Tax-Related Liabilities***

Our BVI Subsidiaries are engaged in Authorized Sales Activities in the PRC through AIs that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

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

Included in accounts payable and accrued liabilities including discontinued operations as of December 31, 2006, 2007 and 2008, and as of September 30, 2009, are the balances of the provisions for these tax-related liabilities amounting to US\$66.6 million, US\$80.2 million, US\$89.9 million and US\$113.0 million, respectively. Provision for tax-related liabilities for the nine-month period ended September 30, 2009 was based on the profits/income of the Authorized Sales Activities earned by the BVI Subsidiaries in the nine-month period ended September 30, 2009 and the years ended December 31, 2005, 2006, 2007 and 2008.

#### ***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 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**

### ***Future Adoption of International Financial Reporting Standards***

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards (“IFRS”) effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

We commenced our IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. We will invest in training and resources throughout the transition period to facilitate a timely conversion.

The diagnostic phase was completed during the latter part of 2008. This work involved a high-level review of the major differences between current Canadian GAAP and IFRS. While a number of differences have been identified, the areas of highest potential impact are as follows: timber holdings; property, plant and equipment; impairment of assets; income taxes; and foreign exchange accounting. We expect the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

We are in the solution development phase and have established issue-specific work teams to focus on generating options and making recommendations in the identified risk areas. During this phase, we will establish a staff communications plan, begin to develop staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

We will update our IFRS conversion project to reflect new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the impact of IFRS on our consolidated financial statements cannot reasonably be determined as of the date of this Offering Memorandum.

### ***Goodwill, intangible assets and fair value of financial assets***

As of January 1, 2009, we adopted the following CICA accounting standard and Emerging Issues Committee (“EIC”) abstract. New Section 3064 Goodwill and Intangible Assets 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 our interim and annual financial statements beginning on January 1, 2009. This standard has not had any impact on our consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities is a guidance requiring that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to our 2009 fiscal year retrospectively without restatement of prior periods. Adoption of this guidance has not had any impact on our consolidated financial statements.

### ***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 2011 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.

In June 2009, the CICA revised section 3862 to include a hierarchy concept in measuring financial instruments, a requirement to provide disclosure concerning the fair value measurements of assets and liabilities for each hierarchy level and amendments to the liquidity disclosure requirements. The recommendations are effective for our 2009 annual reporting. We are in the process of evaluating the impact of the revision to this standard.

### ***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.

See note 2 in the consolidated financial statements for the year ended December 31, 2007 incorporated by reference herein 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.

### **Future Accounting Standards**

The CICA has issued the following Handbook Sections which apply commencing with the Company’s fiscal years noted below.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. We are in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. We are in the process of evaluating the impact of this standard.

In June 2009, the CICA amended Section 3855 to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are applicable for our interim and annual financial statements for our fiscal year beginning January 1, 2011. Earlier adoption is permitted.

### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Our Chief Executive Officer (“CEO”) and Senior Vice President and Chief Financial Officer (“CFO”) are responsible for designing disclosure controls and procedures (“DC&P”) and internal controls over financial reporting (“ICFR”) as defined in National Instrument 52-109—Certification of Disclosure in Issuers’ Annual and Interim Filings. The control framework used in the design of both DC&P and ICFR is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The design and effectiveness of internal controls over financial reporting was assessed as of December 31, 2008. Based on that evaluation, we concluded that the design and effectiveness of our DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

The success of our vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting.

During the third quarter of 2009, improvements were made to our internal control system as follows:

- implemented compensating review and monitoring controls by corporate accounting staff; and
- implemented changes in roles and responsibilities within the senior finance group.

The implementation plan has been communicated to all of our key operational and finance personnel. Corrective measures are in progress and it is expected that all documentation to support these procedures will be available in the subsequent quarters. Our management will continue to monitor and take measures to mitigate this deficiency.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### **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 fibre operations which generate revenue from sales of plantation fibre and other fibre (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 engineered wood flooring 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 and the relative contribution of such business segment's revenue to our total revenue:

	Year Ended December 31,						Nine-Month Period Ended September 30,			
	2006 <sup>(1)</sup>		2007 <sup>(1)</sup>		2008 <sup>(1)</sup>		2008		2009	
	(Restated)									
(US\$ millions, except percentages)										
Wood Fibre Operations, including										
Plantation Fibre . . . . .	352.6	63.5%	521.5	73.1%	685.4	76.0%	473.5	77.1%	582.7	75.8%
Other Fibre . . . . .	178.9	32.2%	154.0	21.5%	153.5	17.0%	101.6	16.5%	154.9	20.2%
<i>Sub-total Wood Fibre Operations . . .</i>	<u>531.5</u>	<u>95.7%</u>	<u>675.5</u>	<u>94.6%</u>	<u>838.9</u>	<u>93.0%</u>	<u>575.1</u>	<u>93.6</u>	<u>737.6</u>	<u>96.0%</u>
Manufacturing and Other Operations	24.0	4.3%	38.4	5.4%	62.4	7.0%	39.1	6.4%	31.0	4.0%
Total Revenue . . . . .	<u>555.5</u>	<u>100%</u>	<u>713.9</u>	<u>100%</u>	<u>901.3</u>	<u>100%</u>	<u>614.2</u>	<u>100.0%</u>	<u>768.6</u>	<u>100.0%</u>

Note:

(1) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 55 of this Offering Memorandum.

### **Cost of Sales**

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

Timber holdings include acquisition costs for standing timber (young and mature trees) and planting and maintenance costs, which are capitalized at cost in our financial statements until the trees are sold. Planting and maintenance costs include the following: planning, operations design, site preparation, terracing, fertilization, planting, thinning, tending, protection, forestry administrative 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.

Our cost of sales also varies from period to period due to the effect of several factors, including yield, volume of timber sold, depletion of timber holdings, cost of imported logs and wood-based products, cost of logs acquired in the domestic PRC market, with respect to our integrated plantations, harvesting costs and government levies, and costs incurred at our manufacturing plants. Depletion will depend on original acquisition costs, species and age of the trees.

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

	Year Ended December 31,			Nine-Month Period Ended September 30,	
	2006 <sup>(1)</sup> (Restated)	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2008	2009
	(US\$ millions)				
Wood Fibre Operations, including					
Plantation Fibre . . . . .	184.4	284.8	329.4	235.4	300.9
Other Fibre . . . . .	173.8	149.3	145.6	97.2	146.2
<i>Sub-total Wood Fibre Operations</i> . . . . .	<u>358.2</u>	<u>434.1</u>	<u>475.0</u>	<u>332.6</u>	<u>447.1</u>
Manufacturing and Other Operations . . . . .	22.3	36.7	61.6	37.6	27.9
Total Cost of Sales . . . . .	<u>380.5</u>	<u>470.8</u>	<u>536.6</u>	<u>370.2</u>	<u>475.0</u>

Note:

(1) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 55 of this Offering Memorandum.

***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 2011 Senior Notes, the 2013 Convertible Senior Notes, the Syndicated Term Loan, bank loans and other bank indebtedness. For additional information on the 2011 Senior Notes, the 2013 Convertible 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 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 AIs 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,						Nine-Month Period Ended September 30,			
	2006 <sup>(1),(3)</sup>		2007 <sup>(3)</sup>		2008 <sup>(3)</sup>		2008		2009	
	(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)									
Revenue . . . . .	555,480	100.0	713,866	100.0	901,295	100.0	614,172	100.0	768,615	100.0
Cost of sales . . . . .	(380,508)	68.5	(470,825)	66.0	(536,557)	59.5	(370,188)	60.3	(475,034)	61.8
Gross Profit <sup>(2)</sup> . . . . .	174,972	31.5	243,041	34.0	364,738	40.5	243,984	39.7	293,581	38.2
Selling, general and administration . . . . .	(35,852)	6.5	(40,209)	5.6	(56,729)	6.3	(33,236)	5.4	46,021	6.0
Depreciation and amortization . . . . .	(3,975)	0.7	(5,364)	0.8	(4,627)	0.5	(2,250)	0.4	3,450	0.4
Interest expense . . . . .	(37,340)	6.7	(43,960)	6.2	(52,321)	5.8	(35,307)	5.7	(51,154)	6.7
Interest income . . . . .	6,486	1.2	15,184	2.1	11,128	1.2	8,970	1.5	6,760	0.9
Exchange gains/(loss) . . . . .	3,676	0.7	12,409	1.7	(5,268)	0.6	(3,606)	0.6	(580)	0.1
Impairment of capital assets <sup>(4)</sup> . . . . .	(877)	0.2	(20,846)	2.9	(18,157)	2.0	—	—	—	—
Gain/(loss) on changes in fair value of financial instruments . . . . .	(1,179)	0.2	(2,996)	0.4	(1,839)	0.3	(1,112)	0.2	3,545	0.5
Other income . . . . .	1,312	0.2	3,206	0.4	3,573	0.4	1,485	0.2	1,272	0.2
Amortization of deferred financing costs . . . . .	(1,819)	0.3	—	—	—	—	—	—	—	—
Income before income taxes . . . . .	105,404	19.0	160,465	22.5	240,498	26.7	178,928	29.1	203,953	26.5
Provision for income taxes . . . . .	(13,192)	2.4	(18,034)	2.5	(24,105)	2.7	(19,872)	3.2	(22,515)	2.9
Net income from continuing operations <sup>(1),(4)</sup> . . . . .	92,212	16.6	142,431	20.0	216,393	24.0	159,056	25.9	181,438	23.6
Net income/(loss) from discontinued operations <sup>(1),(4)</sup> . . . . .	21,268	3.8	9,842	1.4	12,200	1.4	(25,953)	4.2	(7,767)	1.0
Net income for the year/period . . . . .	113,480	20.4	152,273	21.3	228,593	25.4	133,103	21.7	173,671	22.6

### Notes:

- Results for the year ended December 31, 2006 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 revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference herein. See “Certain Financial Information—Components of Income Statement Items” for a detailed description of our revenue components.
- 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.
- Our Gaoyao facility was disposed in the nine-month period ended September 30, 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the nine-month periods ended September 30, 2008 and 2009. The annual consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 were issued prior to such disposition and have not been restated to reflect the Gaoyao facility as a discontinued operation. An impairment charge of our capital assets of US\$15.4 million and US\$18.2 million for the years ended December 31, 2007 and 2008, respectively, will be reclassified as discontinued operations for the 2009 year-end financials. The remaining results of operations of the Gaoyao facility are not significant to the Company’s consolidated results. The selected data in this table and elsewhere in this section for the years ended December 31, 2006, 2007 and 2008 have not been restated to reflect the Gaoyao facility as a discontinued operation.
- The “impairment of capital assets” for the years ended December 31, 2007 and 2008 includes US\$15.4 million and US\$18.2 million, respectively, relating to the disposition of the Gaoyao facility during the nine-month period ended September 30, 2009. See note 3 above.

## Comparison for the Nine-Month Periods Ended September 30, 2008 and 2009

### Revenue

Our revenue increased 25.1%, from US\$614.2 million in the nine-month period ended September 30, 2008 to US\$768.6 million in the nine-month period ended September 30, 2009. This increase was primarily due to the increase in sales from the wood fibre operations, partially offset by a decrease in revenue from manufacturing and other operations.

### Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 28.3%, from US\$575.1 million in the nine-month period ended September 30, 2008 to US\$737.6 million in the nine-month period ended September 30, 2009. This increase was primarily due to increased sales volume of fibre sold in the nine-month period ended September 30, 2009.

*Revenue From Plantation Fibre.* Revenue from sales of plantation fibre increased 23.1%, from US\$473.5 million in the nine-month period ended September 30, 2008 to US\$582.7 million in the nine-month period ended September 30, 2009. This increase was primarily due to an increased volume of fibre sold in the nine-month period ended September 30, 2009. In the nine-month period ended September 30, 2008, we sold approximately 6.8 million cubic meters of fibre, with approximately 5.3 million cubic meters from our purchased and planted plantations and approximately 1.5 million cubic meters from our integrated plantations. In the nine-month period ended September 30, 2009, we sold approximately 9.0 million cubic meters of fibre, with approximately 7.5 million cubic meters from our purchased and planted plantations and approximately 1.5 million cubic meters from our integrated plantations. In the nine-month period ended September 30, 2009, the average yield of fibre sold under our purchased and planted plantations was approximately 143 cubic meters per hectare and fibre had an average selling price of approximately US\$62 per cubic meter (representing an average selling price increase of approximately 1.6% from the nine-month period ended September 30, 2008). In addition, in the nine-month period ended September 30, 2009, the average yield of harvested logs sold under our integrated plantations was 137 cubic meters per hectare and its average selling price was approximately US\$81 per cubic meter. In the nine-month period ended September 30, 2008, the average yield and average selling price of fibre sold under the purchased and planted plantations were approximately 101 cubic meters per hectare and approximately US\$61 per cubic meter, respectively. In addition, in the nine-month period ended September 30, 2008, the average yield of harvested logs sold under our integrated plantations was 111 cubic meters per hectare and its average selling price was approximately US\$102 per cubic meter.

Plantation fibre sales comprised 77.1% of total revenue in the nine-month period ended September 30, 2008, compared to 75.8% in the nine-month period ended September 30, 2009.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the periods indicated below:

	Nine-months ended September 30,					
	2009			2008		
	Hectares	Sales per hectare US\$	Total revenue US\$'000	Hectares	Sales per hectare US\$	Total revenue US\$'000
Purchased plantations . . . . .	49,001	9,367	458,982	50,271	6,277	315,541
Integrated plantations . . . . .	10,771	11,040	118,912	13,633	11,311	154,199
Planted plantations . . . . .	3,696	1,300	4,803	1,676	2,242	3,757
Total . . . . .	<u>63,468</u>	<u>9,181</u>	<u>582,697</u>	<u>65,580</u>	<u>7,220</u>	<u>473,497</u>

*Revenue From Other Fibre.* Revenue from other fibre increased 52.6%, from US\$101.6 million (representing 16.5% of our total revenue) in the nine-month period ended September 30, 2008 to US\$154.9 million (representing 20.2% of our total revenue) in the nine-month period ended September 30, 2009. This increase was due to an increase in the sales of imported wood products in the nine-month period ended September 30, 2009.

Revenue from sales of imported wood products increased 54.0%, from US\$98.8 million in the nine-month period ended September 30, 2008 to US\$152.2 million in the nine-month period ended September 30, 2009. This increase was primarily due to increased volumes of Russian logs sold.

Revenue from sales of domestic wood logs remained stable at approximately US\$2.7 million in the nine-month period ended September 30, 2009.

Other fibre sales comprised 16.5% of total revenue in the nine-month period ended September 30, 2008, compared to 20.2% in the nine-month period ended September 30, 2009.

#### Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations decreased 20.8% from US\$39.1 million in the nine-month period ended September 30, 2008 to US\$31.0 million in the nine-month period ended September 30, 2009. This decrease was mainly due to decreased sales volume from manufacturing and other operations in the nine-month period ended September 30, 2009.

Revenue from manufacturing and other operations comprised 6.4% of total revenue in the nine-month period ended September 30, 2008, compared to 4.0% in the nine-month period ended September 30, 2009.

#### *Cost of Sales*

Our cost of sales increased 28.3%, from US\$370.2 million in the nine-month period ended September 30, 2008 to US\$475.0 million in the nine-month period ended September 30, 2009. This increase in cost of sales was primarily due to increased sales volume of plantation fibre and imported wood products, partially offset by a decrease in sales volume from manufacturing and other operations.

#### Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 34.4%, from US\$332.6 million in the nine-month period ended September 30, 2008 to US\$447.1 million in the nine-month period ended September 30, 2009. This increase was primarily due to increased sales volume of plantation fibre and imported wood products.

*Cost of Sales of Plantation Fibre.* Plantation fibre cost of sales increased 27.8%, from US\$235.4 million in the nine-month period ended September 30, 2008 to US\$300.9 million in the nine-month period ended September 30, 2009. This increase was primarily due to increased sales volumes of plantation fibre.

*Cost of Sales of Other Fibre.* Cost of sales of other fibre increased 50.5%, from US\$97.2 million in the nine-month period ended September 30, 2008 to US\$146.2 million in the nine-month period ended September 30, 2009. This increase was due to the increase in the cost of sales of imported wood products, partially offset by a decrease in the cost of sales of domestic wood logs.

Imported wood products cost of sales increased 51.8%, from US\$94.9 million in the nine-month period ended September 30, 2008 to US\$144.0 million in the nine-month period ended September 30, 2009. This increase was primarily due to the increase in the sales volumes of our imported logs trading business.

Domestic wood logs cost of sales decreased 1.5%, from US\$2.3 million in the nine-month period ended September 30, 2008 to US\$2.2 million in the nine-month period ended September 30, 2009.

#### Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales decreased 25.8%, from US\$37.6 million in the nine-month period ended September 30, 2008 to US\$27.9 million in the nine-month period ended September 30, 2009. This decrease was primarily due to decreased sales volumes from manufacturing and other operations in the nine-month period ended September 30, 2009.

#### *Gross Profit*

Our gross profit increased 20.3%, from US\$244.0 million in the nine-month period ended September 30, 2008 to US\$293.6 million in the nine-month period ended September 30, 2009. Gross profit margin (gross profit as a percentage of total revenue) on average decreased from 39.7% in the nine-month period ended September 30, 2008 to 38.2% in the nine-month period ended September 30, 2009. This decrease in gross profit margin was primarily due to the reduced gross profit margin from plantation fibre operations.

#### Wood Fibre Operations Gross Profit

*Gross Profit Margin from Sales of Plantation Fibre.* Gross profit margin from sales of purchased and planted plantations decreased from 57.2% in the nine-month period ended September 30, 2008 to 50.9% in the nine-month period ended September 30, 2009, which was primarily due to sales from plantations with a higher fibre cost per cubic meter in the nine-month period ended September 30, 2009. Gross profit margin from sales of logs under our integrated plantations operations increased from 35.9% in the nine-month period ended September 30, 2008 to 38.3% in the three-month period ended September 30, 2009.

*Gross Profit Margin from Sales of Other Fibre.* Gross profit margin from sales of imported wood products increased from 3.9% in the nine-month period ended September 30, 2008 to 5.3% in the nine-month period ended September 30, 2009.

Gross profit margin from sales of domestic wood logs increased from 17.8% in the nine-month period ended September 30, 2008 to 19.0% in the nine-month period ended September 30, 2009.

#### Manufacturing and Other Operations Profit Margin

Gross profit margin from manufacturing and other operations increased from 3.9% in the nine-month period ended September 30, 2008 to 10.0% in the nine-month period ended September 30, 2009. This increase was primarily due to improvement in the flooring segments in the nine-month period ended September 30, 2009.

#### *Selling, General and Administrative Expenses*

Our selling, general and administrative expenses increased 38.5%, from US\$33.2 million in the nine-month period ended September 30, 2008 to US\$46.0 million in the nine-month period ended September 30, 2009. This increase was primarily due to increased staffing and increased accrued incentive compensation and increased research and development expenses in the nine-month period ended September 30, 2009.



### *Depreciation and Amortization*

Depreciation and amortization increased 53.3%, from US\$2.3 million in the nine-month period ended September 30, 2008 to US\$3.5 million in the nine-month period ended September 30, 2009. This increase was primarily due to increased capital assets.

### *Income from Operations before Other Items*

Our income from operations before other items increased 17.1%, from US\$208.5 million in the nine-month period ended September 30, 2008 to US\$244.1 million in the nine-month period ended September 30, 2009 due to the factors explained above. Income from operations before other items as a percentage of revenue decreased from 33.9% in the nine-month period ended September 30, 2008 to 31.8% in the nine-month period ended September 30, 2009.

### *Interest Expense*

Our interest expense increased 44.9%, from US\$35.3 million in the nine-month period ended September 30, 2008 to US\$51.2 million in the nine-month period ended September 30, 2009. This increase was primarily due to the interest paid on our 2013 Convertible Senior Notes, which were issued in the third quarter in 2008.

### *Interest Income*

Our interest income decreased 24.6%, from US\$9.0 million in the nine-month period ended September 30, 2008 to US\$6.8 million in the nine-month period ended September 30, 2009. This decrease was primarily due to the decrease in the interest rate earned on deposits in the nine-month period ended September 30, 2009, partially offset by the accretion of interest income on the convertible bonds of Omnicorp.

### *Exchange Losses*

Exchange losses totalled US\$0.6 million in the nine-month period ended September 30, 2009, compared to US\$3.6 million in the nine-month period ended September 30, 2008.

### *Gain/(Loss) on Changes in Fair Value of Financial Instruments*

The gain on changes in fair value of financial instruments increased US\$4.6 million from a loss of US\$1.1 million in the nine-month period ended September 30, 2008 to a gain of US\$3.5 million in the nine-month period ended September 30, 2009. The gain in the nine-month period ended September 30, 2009 included a gain of US\$4.1 million relating to the embedded conversion option of the convertible bonds issued by Omnicorp offset by a loss of US\$0.6 million on our foreign currency swap.

### *Other Income*

Other income decreased US\$0.2 million, from US\$1.5 million in the nine-month period ended September 30, 2008 to US\$1.3 million in the nine-month period ended September 30, 2009.

### *Provision for Income Taxes*

Provision for income taxes was US\$22.5 million in the nine-month period ended September 30, 2009 compared to US\$19.9 million in the nine-month period ended September 30, 2008. This increase was primarily due to the increased income during the nine-month period ended September 30, 2009.

### *Net Income for the period*

Net income for the period increased 30.5%, from US\$133.1 million in the nine-month period ended September 30, 2008 to US\$173.7 million in the nine-month period ended September 30, 2009. Net income for the period as a percentage of our total revenue increased from 21.7% in the nine-month period ended September 30, 2008 to 22.6% in the nine-month period ended September 30, 2009.

### ***Comparison of the Years Ended December 31, 2007 and 2008***

#### *Revenue*

Our revenue increased 26.3%, from US\$713.9 million in the year ended December 31, 2007 to US\$901.3 million in the year ended December 31, 2008. The increase was primarily due to increased revenue from sales of plantation fibre in the year ended December 31, 2008.

#### Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 24.2%, from US\$675.5 million in the year ended December 31, 2007 to US\$838.9 million in the year ended December 31, 2008. This increase was primarily due to increased revenue from plantation fibre in the year ended December 31, 2008.

*Revenue From Plantation Fibre.* Revenue from sales of plantation fibre increased 31.4%, from US\$521.5 million in the year ended December 31, 2007 to US\$685.4 million in the year ended December 31, 2008. This increase was primarily due to the sale of logs harvested from our integrated plantations in the year ended December 31, 2008, compared to none in the year ended December 31, 2007. In the year ended December 31, 2008, our total volume of fibre sold was approximately 10.2 million cubic meters of fibre, including approximately 8.6 million cubic meters of fibre harvested from approximately 89,874 hectares of trees from our purchased and planted plantations and approximately 1.6 million cubic meters of fibre harvested from approximately 14,071 hectares from our integrated plantations. In the year ended December 31, 2007, we sold approximately 9.9 million cubic meters of fibre harvested from approximately 146,037 hectares from our purchased and planted plantations. In the year ended December 31, 2008, the average yield of fibre sold under our purchased and planted plantations was approximately 96 cubic meters per hectare and fibre had an average selling price of approximately US\$61 per cubic meter (representing an averaged selling price increase of approximately 16.3% from the year ended December 31, 2007, including a 10.3% appreciation of the Renminbi against the U.S. dollar). In the year ended December 31, 2007, the average yield and average selling price of fibre sold under the purchased and planted plantations were approximately 68 cubic meters per hectare and approximately US\$53.0 per cubic meter, respectively. In addition, in the year ended December 31, 2008, the average yield of harvested logs sold under our integrated plantations was 111 cubic meters per hectare and its average selling price was approximately US\$102.0 per cubic meter.

Plantation fibre sales comprised 73.1% of total revenue in the year ended December 31, 2007, compared to 76.0% in the year ended December 31, 2008.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the periods indicated below:

	Years ended December 31,					
	2008			2007		
	Hectares	Sales per hectare	Total revenue	Hectares	Sales per hectare	Total revenue
	US\$	US\$'000		US\$	US\$'000	
Purchased plantations . . . . .	86,067	6,040	519,872	138,365	3,686	509,953
Integrated plantations . . . . .	14,071	11,313	159,185	—	—	—
Planted plantations . . . . .	3,807	1,667	6,347	7,672	1,504	11,536
Total . . . . .	103,945	6,594	685,404	146,037	3,571	521,489

*Revenue From Other Fibre.* Revenue from other fibre was US\$153.9 million (representing 21.5% of our total revenue) in the year ended December 31, 2007, compared to US\$153.5 million (representing 17.0% of our total revenue) in the year ended December 31, 2008. 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 7.3%, from US\$150.7 million in the year ended December 31, 2007 to US\$139.7 million in the year ended December 31, 2008. This decrease was primarily due to a lower average selling price due to a change in our product mix in the year ended December 31, 2008.

Revenue from sales of wood logs increased US\$10.6 million, from US\$3.2 million in the year ended December 31, 2007 to US\$13.8 million in the year ended December 31, 2008. The increase was primarily due to the increased sales volume of logs sourced from the PRC.

#### Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 62.4% from US\$38.4 million in the year ended December 31, 2007 to US\$62.4 million in the year ended December 31, 2008. This increase was primarily due to the increased revenue from sales of engineered wood flooring and the operations of relatively new processing facilities located in southern China. Revenue from manufacturing and other operations comprised 5.4% of total revenue in the year ended December 31, 2007, compared to 7.0% in the year ended December 31, 2008.

#### *Cost of Sales*

Our cost of sales increased 14.0%, from US\$470.8 million in the year ended December 31, 2007 to US\$536.6 million in the year ended December 31, 2008. This increase in cost of sales was primarily due to an increase in sales volumes of plantation fibre.

#### Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 9.4%, from US\$434.2 million in the year ended December 31, 2007 to US\$475.0 million in the year ended December 31, 2008. This increase was primarily due to increased sales of plantation fibre.

*Cost of Sales of Plantation Fibre.* Plantation fibre cost of sales increased 15.6%, from US\$284.8 million in the year ended December 31, 2007 to US\$329.4 million in the year ended December 31, 2008. This increase reflected primarily increased cost of sales per m<sup>3</sup> of plantation fibre.

*Cost of Sales of Other Fibre.* Cost of sales of other fibre decreased 2.5%, from US\$149.4 million in the year ended December 31, 2007 to US\$145.6 million in the year ended December 31, 2008. This

decrease was primarily due to the decrease in the cost of sales of imported wood products, partially offset by increased cost of sales of wood logs.

Imported wood products cost of sales decreased 8.2%, from US\$146.4 million in the year ended December 31, 2007 to US\$134.4 million in the year ended December 31, 2008. This decrease reflected primarily the decrease in the average cost of sales per m<sup>3</sup> of our imported log trading business.

Wood logs cost of sales substantially increased from US\$2.9 million in the year ended December 31, 2007 to US\$11.2 million in the year ended December 31, 2008. This increase was primarily due to increased sales volumes of wood logs.

#### Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 68.0%, from US\$36.7 million in the year ended December 31, 2007 to US\$61.6 million in the year ended December 31, 2008. This increase was primarily due to increased sales volumes.

#### *Gross Profit*

Our gross profit increased 50.1%, from US\$243.0 million in the year ended December 31, 2007 to US\$364.7 million in the year ended December 31, 2008. Our gross profit margin (gross profit as a percentage of total revenue) increased from 34.0% in the year ended December 31, 2007 to 40.5% in the year ended December 31, 2008. This increase was primarily due to the higher proportion of sales from our plantation fibre operations, which generally earn a higher gross profit margin than our other business segments.

#### Wood Fibre Operations Gross Profit

*Gross Profit Margin from Sales of Plantation Fibre.* Gross profit margin from sales of plantation fibre from our purchased and planted plantations increased from 45.4% in the year ended December 31, 2007 to 56.8% in the year ended December 31, 2008. This increase was primarily due to a higher selling price and an improved yield per hectare sold resulting in a lower cost per cubic meter of fibre sold in the year ended December 31, 2008. In addition, the gross profit margin from sales of logs harvested under our integrated plantation operations was 36.0% (or US\$37.0 per cubic meter) in the year ended December 31, 2008.

*Gross Profit Margin from Sales of Other Fibre.* Gross profit margin from sales of imported wood products increased from 2.9% in the year ended December 31, 2007 to 3.8% in the year ended December 31, 2008.

Gross profit margin from sales of wood logs increased from 8.8% in the year ended December 31, 2007 to 18.8% in the year ended December 31, 2008. This increase was primarily due to a change in the mix of species of wood logs sold in the year ended December 31, 2008.

#### Manufacturing and Other Operations Gross Profit

Gross profit margin from manufacturing and other operations decreased from 4.6% in the year ended December 31, 2007 to 1.3% in the year ended December 31, 2008. This decrease was primarily due to increased production costs of our manufacturing plants in the year ended December 31, 2008.

#### *Selling, General and Administrative Expenses*

Our selling, general and administrative expenses increased 41.1%, from US\$40.2 million in the year ended December 31, 2007 to US\$56.7 million in the year ended December 31, 2008, reflecting primarily expenses relating to an additional staff complement.

### *Depreciation and Amortization*

Depreciation and amortization decreased 13.7%, from US\$5.4 million in the year ended December 31, 2007 to US\$4.6 million in the year ended December 31, 2008, which reflected primarily increased impairment charges taken on certain manufacturing facilities, partially offset by increased capital assets in the year ended December 31, 2008.

### *Income from Operations before other Items*

Our income from operations before other items increased 53.6%, from US\$197.5 million in the year ended December 31, 2007 to US\$303.4 million in the year ended December 31, 2008, due to the factors discussed above. Our income from operations before other items as a percentage of revenue increased from 27.7% in the year ended December 31, 2007 to 33.7% in the year ended December 31, 2008.

### *Interest Expense*

Our interest expense increased 19.0%, from US\$44.0 million in the year ended December 31, 2007 to US\$52.3 million in the year ended December 31, 2008. This increase was primarily due to the interest served on our 5.0% convertible senior notes issued in the third quarter in 2008.

### *Interest Income*

Our interest income decreased 26.7%, from US\$15.2 million in the year ended December 31, 2007 to US\$11.1 million in the year ended December 31, 2008. This decrease was primarily due to a lower interest rate earned on deposits in the year ended December 31, 2008.

### *Exchange (Losses)/Gains*

Exchange losses were US\$5.3 million in the year ended December 31, 2008, compared to exchange gains of US\$12.4 million in the year ended December 31, 2007. These exchange losses were primarily due to the weakening of the U.S. dollar against the Hong Kong dollar and Renminbi in the year ended December 31, 2008.

### *Impairment of Capital Assets*

The impairment of capital assets in the year ended December 31, 2007 and 2008 were US\$20.8 million and US\$18.2 million, respectively, representing write-downs of certain manufacturing facilities to fair market value due to continued losses over the years.

### *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, 2008 decreased US\$1.2 million from US\$3.0 million in the year ended December 31, 2007 to US\$1.8 million in the year ended December 31, 2008. The loss in the year ended December 31, 2008 included a loss of US\$2.9 million on the embedded conversion option of the convertible bonds issued by Omnicorp, partially offset by a gain of US\$1.1 million on our foreign currency swap.

### *Other Income*

Other income increased 11.4% from US\$3.2 million in the year ended December 31, 2007 to US\$3.6 million in the year ended December 31, 2008.

### *Provision for Income Taxes*

Provision for income taxes was US\$18.0 million in the year ended December 31, 2007 compared to US\$24.1 million in the year ended December 31, 2008. The increase was primarily due increased income earned in the year ended December 31, 2008.

### *Net Income for the Year*

Net income for the year increased 50.1%, from US\$152.3 million in the year ended December 31, 2007 to US\$228.6 million in year ended December 31, 2008. Net income for the year as a percentage of our total revenue increased from 21.3% in the year ended December 31, 2007 to 25.4% in the year ended December 31, 2008.

### ***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 plantation fibre 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 Fibre Operations Revenue

Revenue from wood fibre 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 plantation fibre, partially offset by decreased sales of imported wood products and wood logs.

*Revenue From Plantation Fibre.* Revenue from sales of plantation fibre 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 plantation fibre 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 fibre 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 plantation fibre 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 plantation fibre in Hunan Province in the year ended December 31, 2006.



The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the years indicated below:

	Years ended December 31,					
	2007			2006		
	Hectares	Sales per hectare US\$	Total revenue US\$'000	Hectares	Sales per hectare US\$	Total revenue US\$'000
Purchased plantations <sup>(1)</sup> . . . . .	138,365	3,686	509,953	106,091	5,651	346,514
Integrated plantations . . . . .	—	—	—	—	—	—
Planted plantations . . . . .	7,672	1,504	11,536	5,276	1,149	6,060
Total . . . . .	<u>146,037</u>	<u>3,571</u>	<u>521,489</u>	<u>111,367</u>	<u>3,166</u>	<u>352,574</u>

Note:

- (1) Including the “Heyuan Pine Undertaking”. Under the “Heyuan Pine Undertaking”, we were granted a right to purchase mature trees in Heyuan, Guangdong Province by a PRC joint venture partner. This arrangement expired on February 12, 2006.

*Revenue From Other Fibre.* Revenue from other fibre 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 Fibre Operations Cost of Sales

Wood fibre 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 Fibre.* Plantation fibre 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 plantations to total sales of standing timber in the year ended December 31, 2007, as standing timber from our purchased plantations generally had a higher average cost per hectare compared to our other available sources of standing timber.

*Cost of Sales of Other Fibre.* Cost of sales of other fibre 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 plantation fibre, which generally earn a higher gross profit margin than our other business segments.

#### Wood Fibre Operations Gross Profit

Wood fibre 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 Fibre.* 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 Fibre.* Gross profit margin from sales of other fibre 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 before Other Items*

Our income from operations before other items 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 before other items 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.

### *Impairment of Capital Assets*

The impairment 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 higher income earned in the year ended December 31, 2007.

### *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.”

## **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 September 30, 2009, we had cash, cash equivalents and short-term deposits of US\$616.5 million. As of September 30, 2009, our total debt (including bank indebtedness, current portion of long-term debt and long term debt) was US\$789.2 million, compared with US\$787.6 million at December 31, 2008.

## Cash Flows

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

	Year Ended December 31,			Nine-Month Period Ended September 30,	
	2006 <sup>(1),(2)</sup> (Restated)	2007 <sup>(2)</sup>	2008 <sup>(2)</sup>	2008	2009
			(US\$ millions)		
Net cash provided by operations . . . . .	280.7	455.5	541.7	364.8	488.4
Net change in working capital . . . . .	(16.5)	27.0	(58.6)	(92.6)	70.1
Cash flows from operating activities of continuing operations . . . . .	264.2	482.5	483.1	272.2	558.5
Cash flows used in investing activities . . . . .	423.0	692.3	704.0	442.5	765.3
Cash flows from financing activities . . . . .	176.2	376.9	331.8	342.3	309.1
Net increase in cash and cash equivalents . . . . .	44.5	175.8	112.5	170.3	124.0

### Notes:

- (1) Results for the year ended December 31, 2006 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 revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference herein. See “—Components of Income Statement Items” for a detailed description of our revenue components.
- (2) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 55 of this Offering Memorandum.

### Cash Flows From Operating Activities of Continuing Operations

Cash flows from operating activities of continuing operations increased from US\$272.2 million in the nine-month period ended September 30, 2008 to US\$558.5 million in the nine-month period ended September 30, 2009. This increase primarily resulted from an increase in cash generated by our operations and an increase in cash provided by a reduction of working capital resulting mainly from a decrease in accounts receivable of our wood fibre operations.

Cash flows from operating activities of continuing operations increased from US\$482.5 million in the year ended December 31, 2007 to US\$483.1 million in the year ended December 31, 2008. This increase mainly resulted from an increase in cash generated by our operations, partially offset by a decrease in cash used for working capital items resulting from an increase in accounts receivable of our wood fibre operations.

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 Used in Investing Activities

Cash flows used in investing activities increased from US\$442.5 million in the nine-month period ended September 30, 2008 to US\$765.3 million in the nine-month period ended September 30, 2009. In the nine-months periods ended September 30, 2008 and 2009, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in

manufacturing facilities and other assets. Our cash outlays for our tree plantations amounted to US\$389.1 million and US\$729.7 million in the nine-month periods ended September 30, 2008 and 2009, respectively. Our cash outlays for our manufacturing facilities and other capital assets amounted to US\$24.6 million and US\$8.8 million in the nine-month periods ended September 30, 2008 and 2009, respectively. Our cash outlays for other assets amounted to US\$24.4 million and US\$20.1 million in the nine-month periods ended September 30, 2008 and 2009, respectively. The increase in non-pledged short-term deposits in the nine-month period ended September 30, 2008 amounted to US\$2.5 million compared to US\$6.6 million in the nine-month period ended September 30, 2009. In addition, we invested US\$1.9 million for business acquisitions in the nine-month period ended September 30, 2008, and US\$0.2 million in connection with our acquisition of convertible bonds issued by Omnicorp in the nine-month period ended September 30, 2009. We also received \$0.1 million from the proceeds of the disposal of capital assets in the nine-month period ended September 30, 2009.

Cash flows used in investing activities increased from US\$692.3 million in the year ended December 31, 2007 to US\$704.0 million in the year ended December 31, 2008. In the years ended December 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 and other assets. Our cash outlays for our tree plantations amounted to US\$640.3 million in the year ended December 31, 2007 and US\$656.7 million in the year ended December 31, 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to US\$12.6 million in the year ended December 31, 2007 and US\$30.2 million in the year ended December 31, 2008. Our cash outlays for other assets amounted to US\$31.2 million in the year ended December 31, 2007 and US\$9.6 million in the year ended December 31, 2008. The increase in non-pledged short-term deposits in the years ended December 31, 2007 and 2008 were US\$8.7 million and US\$5.6 million, respectively. In addition, in the years ended December 31, 2007 and 2008, we invested US\$0.8 million and US\$1.9 million, respectively, for business acquisitions.

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 From Financing Activities***

Cash flows from financing activities were US\$309.1 million in the nine-month period ended September 30, 2009, compared with a cash outflow used in financing activities of US\$342.3 million in the nine-month period ended September 30, 2008. In the nine-month period ended September 30, 2008, cash flows used in financing activities consisted of the net proceeds from the issuance of shares of US\$1.6 million, an increase in bank indebtedness of US\$12.2 million, proceeds from the issuance of US\$345.0 million in principal amount of 2013 Convertible Senior Notes, offset by an increase in pledged short-term deposits of US\$2.4 million, payment on derivative financial instrument of US\$4.9 million and payment on deferred financing costs from the issuance of the 2013 Convertible Senior Notes of US\$9.1 million. In the nine-month period ended September 30, 2009, cash flows used in financing activities



consisted of the net proceeds from the issuance of our Common Shares of US\$323.9 million, a decrease in pledged short-term deposits of US\$1.1 million and an increase in bank indebtedness of US\$3.9 million, offset by payments on derivative financial instruments of US\$5.8 millions and payment on deferred financing costs from the issuance of the 2014 Senior Notes of US\$14.0 million.

Cash flows from financing activities were US\$376.9 million in the year ended December 31, 2007, compared with US\$331.8 million in the year ended December 31, 2008. In the year ended December 31, 2007, cash flows from financing activities primarily consisted of US\$389.9 million in net proceeds from the issuance of shares and a decrease in pledged short-term deposits of US\$6.2 million, offset by a decrease in bank indebtedness of US\$17.0 million and payments on derivative financial instruments of US\$2.2 million. In the year ended December 31, 2008, cash flows from financing activities consisted of US\$335.9 million in net proceeds from the issuance of convertible senior notes, an increase in bank indebtedness of US\$15.6 million and US\$1.6 million in net proceeds from the issuance of shares, offset by payments on derivative financial instruments of US\$4.9 million and an increase in pledged short-term deposits of US\$16.3 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.

### **Financing Arrangements and Contractual Obligations**

As of September 30, 2009, we had secured and unsecured short-term liabilities of US\$77.3 million (including US\$6.0 million from discontinued operations), comprising US\$46.6 million of short-term bank loans and US\$30.7 million of trust receipt loans. We had long-term debt, including its current portion, of US\$711.9 million as of such date. Our borrowings were denominated in U.S. dollars and Renminbi.

#### ***Short-Term Borrowings***

As of September 30, 2009, we had US\$189.6 million of short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As of September 30, 2009, US\$46.6 million in respect of bank indebtedness and US\$37.5 million in respect of other bank instruments were utilized. Interest is payable on these short-term borrowings at a weighted average rate of 4.8% per annum, and the borrowings are either repayable on demand or due in less than one year. As of September 30, 2009, 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\$39.7 million and certain bank deposits of US\$15.2 million.

### ***Long-Term Debt***

As of September 30, 2009, our material long-term indebtedness (including its current portion) consisted of the following:

<u>Loan</u>	<u>September 30, 2009</u> <u>(US\$ thousands)</u>
2011 Senior Notes . . . . .	87,670
Syndicated Term Loan . . . . .	150,000
2013 Convertible Senior Notes <sup>(1)</sup> . . . . .	286,375
2014 Senior Notes . . . . .	212,330
Unamortized deferred financing costs . . . . .	<u>(24,492)</u>
Total . . . . .	<u>711,883</u>

Note:

(1) In accordance with the Canadian Institute of Chartered Accountants (“CICA”) Handbook, a convertible note should be split into an equity and a liability component. The 2013 Convertible Senior Notes are guaranteed by the Subsidiary Guarantors (as defined in the indenture governing the 2013 Convertible Senior Notes). As at September 30, 2009, the equity portion of the 2013 Convertible Senior Notes was US\$70,462,000.

*2011 Senior Notes.* On August 17, 2004, we issued an aggregate principal amount of US\$300 million 2011 Senior Notes. The 2011 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 2011 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 Subsidiary) 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 2011 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 Subsidiary. Total interest expense on the 2011 Senior Notes for the nine-month period ended September 30, 2009 was US\$16.4 million.

On August 16, 2004, we entered into a five-year currency swap contract to meet interest payments of the 2011 Senior Notes at US\$27.4 million per annum. Under the terms of the contract, we hedged RMB113,290,070 on each of August 17 and February 17 in exchange for US\$13,687,500. The contract matured on August 16, 2009. The change in fair value of US\$567,000 for the nine months ended September 30, 2009 has been recorded as gains (losses) on changes in fair value of financial instruments in the statements of income and retained earnings.

On July 27, 2009, we consummated an exchange offer, pursuant to which we exchanged US\$212.3 million principal amount of 2011 Senior Notes for an equivalent principal amount of newly issued 2014 Senior Notes. We cancelled such principal amount of 2011 Senior Notes, so that as of September 30, 2009, there was only US\$87.7 million in principal amount of 2011 Senior Notes outstanding. Concurrently with the exchange offer, we consummated a consent solicitation with respect to the 2011 Senior Notes, such that the amended 2011 Indenture has substantially the same terms as the 2014 Indenture, in particular with respect to restrictive covenants related to incurrence of indebtedness and the making of restricted payments. The amended 2011 Senior Notes as currently in effect, however, continue to have the same maturity date, principal amount, interest, security and redemption rights as they did prior to such amendments. For additional information on the 2011 Senior Notes, see “Description of Other Indebtedness—2011 Senior Notes.”

*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 Subsidiary) 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 in 2011. Total interest on the Syndicated Term Loan was US\$3.8 million for the nine-month period ended September 30, 2009.

We plan to fully prepay amounts outstanding under the Syndicated Term Loan with the proceeds of this offering of Notes. For additional information on the Syndicated Term Loan and the planned prepayment, see “Description of Other Indebtedness—Syndicated Term Loan” and “Use of Proceeds.”

*2013 Convertible Senior Notes.* On July 17, 2008 and August 5, 2008, we issued an aggregate principal amount of US\$345 million 2013 Convertible Senior Notes. The 2013 Convertible Senior Notes bear interest at a rate of 5.0% per annum, with interest payable in semi-annual installments. Their maturity date is August 1, 2013 and they are convertible into Common Shares, at the option of the holders, at any time prior to such maturity date at an initial conversion rate of 49.2974 Common Shares per US\$1,000 principal amount of convertible notes. If a Fundamental Change, as defined in the indenture under the 2013 Convertible Senior Notes (the “2013 Indenture”), occurs prior to the maturity date, we will be required to make an offer to each holder to purchase for cash all or a portion of the 2013 Convertible Senior Notes at the holder’s option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at our option, we may elect to deliver, in lieu of Common Shares, cash or a combination of cash and Common Shares. The 2013 Convertible Senior Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the Notes, 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 2013 Convertible Senior Notes and (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. Interest expenses on the 2013 Convertible Senior Notes was US\$22.6 million for the nine-month period ended September 30, 2009. For additional information on the 2013 Convertible Senior Notes, see “Description of Other Indebtedness—2013 Convertible Senior Notes.”

*2014 Senior Notes.* On July 27, 2009, we consummated an exchange offer, pursuant to which we issued US\$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes. The 2014 Senior Notes bear interest at a rate of 10.25% per annum, with interest payable in semi-annual installments. Their maturity date is July 28, 2014. The 2014 Senior Notes are (i) our general obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the Notes 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 2014 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. The first interest payment under the 2014 Senior Notes will be due on January 26, 2010. For additional information on the 2014 Senior Notes, see “Description of Other Indebtedness—2014 Senior Notes.”

We may also issue an additional US\$187.7 million in principal amount of New 2014 Senior Notes. See “Recent Developments—Mandra Acquisition and Issuance of New 2014 Senior Notes.”

### ***Other Contractual Obligations***

As of September 30, 2009, we had other contractual obligations relating to: (i) approximately US\$9.1 million in respect of capital contributions to our WFOEs; (ii) US\$10.4 million of capital commitments with respect to buildings, plant and machinery; (iii) US\$1.9 million of purchase commitments, mainly regarding logs; (iv) commitments under operating leases of approximately US\$74.7 million; and (v) US\$711.9 million relating to the 2011 Senior Notes, the Syndicated Term Loan, 2013 Convertible Senior Notes and the 2014 Senior Notes.

### ***Scheduled Maturities of Contractual Obligations***

The following table presents the scheduled maturities of our contractual obligations as of September 30, 2009:

	<b>Payment Due by Period As of September 30, 2009</b>				
	<b>Total</b>	<b>Due in less than one year</b>	<b>Due in two to three years</b>	<b>Due in four to five years</b>	<b>Due after five years</b>
		(US\$ thousands)			
Long-term debt <sup>(1)</sup> . . . . .	711,883	37,500	198,177	476,206	—
Capital contributions . . . . .	9,050	—	9,050	—	—
Capital commitments <sup>(2)</sup> . . . . .	10,407	10,407	—	—	—
Purchase commitments . . . . .	1,872	1,872	—	—	—
Operating leases <sup>(3)</sup> . . . . .	74,745	4,277	7,084	5,154	58,230
Total contractual cash obligations . . . . .	<u>807,957</u>	<u>54,056</u>	<u>214,311</u>	<u>481,360</u>	<u>58,230</u>

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 September 30, 2009, we had provided guarantees of approximately US\$121.4 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 and on a private placement basis in the United States, Asia and elsewhere.

On June 8, 2009, we issued 34.5 million Common Shares at Cdn.\$11.00 per share for gross proceeds of approximately Cdn.\$379.5 million in a public offering in Canada and on a private placement basis in the United States, Asia and elsewhere.

### Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the years ended December 31, 2006, 2007 and 2008 and the nine-month periods ended September 30, 2008 and 2009:

	Year Ended December 31,			Nine-Month Period Ended September 30,	
	2006	2007	2008	2008	2009
	(US\$ millions)				
Tree Acquisition: Purchased Plantations . . . . .	365.5	623.7	646.4	375.1	677.8
Tree Acquisition: Heyuan Pine Undertaking . . . . .	17.7	—	—	—	—
Replanting and Maintenance of Plantations . . . . .	24.0	23.3	26.1	15.4	28.2
Manufacturing and other operations . . . . .	9.6	12.6	30.1	25.1	10.8
Total . . . . .	<u>416.8</u>	<u>659.6</u>	<u>702.6</u>	<u>415.6</u>	<u>716.8</u>

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees and various plantation management costs, including land lease costs and the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. In the nine months ended September 30, 2009, we had replanted approximately 7,100 hectares of plantations. Capital expenditures in relation to the manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our tree plantations in the consolidated statements of cash flows included herein and the above capital expenditure on plantations was due to non-cash transactions such as the movements of accounts, payable and capitalizations of deposits paid for acquisitions of plantations from other assets to timber holdings.

For the year ending December 31, 2009, capital expenditures are expected to be approximately US\$900.0 million in connection with plantation acquisitions (including US\$100.0 million allocated for the plantation acquisition in Jiangxi from the equity offering in June 2009), replanting and maintenance, and approximately US\$30.0 million for the development of manufacturing facilities integrated with our plantation operations. These acquisition levels will be adjusted as necessary, based on several factors some of which are beyond our control, including changes in the macroeconomic environment in the PRC.

Under the master agreements entered into in July 2006 to secure at least 1.5 million cubic meters of wood fibre annually over a 12-year period in Inner Mongolia, we have acquired 17,000 cubic meters of wood fibre as at September 30, 2009.

Under the master agreements entered into in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, we have acquired 158,739 hectares of plantation trees for US\$616.8 million as at September 30, 2009.

Under the master agreement entered into in March 2007 to acquire 200,000 hectares of plantation trees over a ten-year period in Yunnan, we have acquired 84,629 hectares of plantation trees for US\$412.0 million as at September 30, 2009.

Under the master agreement entered into in December 2007 to acquire 150,000 hectares of plantation trees over a five-year period in Guangxi, we have acquired 96,875 hectares of plantation trees for US\$470.8 million as at September 30, 2009.

Under the master agreement entered into in August 2008 to acquire 200,000 hectares of plantation trees over a ten-year period in Fujian, we have not made any acquisition of plantation trees as at September 30, 2009.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, we have acquired 7,998 hectares of plantation trees for \$21.1 million as at September 30, 2009.

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—Tree Plantations Under Management—Access to Future Purchases of Tree Plantations.”

### **Off-Balance Sheet Arrangements**

We do not have any outstanding derivative financial instruments or off-balance sheet guarantees. We are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of September 30, 2009. 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 our Chairman and Chief Executive Officer and our President in the form of consultancy fees to companies controlled by these executive officers. The consultancy fees incurred in the years ended December 31, 2007 and 2008, and for the nine-month period ended September 30, 2009, amounted to US\$4.6 million, US\$6.0 million, and US\$459,000, respectively.

In addition, as at September 30, 2009, no balance was payable in consultancy fees related to these related parties.

On February 6, 2009, we entered into an agreement to acquire 55,000,000 ordinary shares and approximately US\$21,700,000 4% secured convertible bonds of Omnicorp from various vendors for a total consideration of approximately US\$25,775,000. Among the vendors were one of our directors and an entity controlled by such director, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

### **Aging of Accounts Receivable**

We recognize revenue from sales of plantation fibre when the buyer has signed the sales contract and the significant risks and rewards of ownership have been transferred to the buyer. 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 extended credit terms to log and haul the timber from the plantations. Based on a twelve-month period, on average, customers repay outstanding balances in approximately two months.

We recognize revenue from sales of logs and other products when the significant risks and rewards of ownership of the logs and other products have been transferred to the buyer, usually upon delivery of the goods. Revenue from wood product and nursery contracts are recognized based on a percentage-of-completion method.



The following table sets forth an aging analysis of our accounts receivable as of December 31, 2006, 2007 and 2008 and as of September 30, 2008 and 2009:

	Aging Analysis						
	Total Accounts Receivable	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, 2006 <sup>(1)</sup> . . . . .	124,784	84,216	33,651	5,118	1,610	189	—
At December 31, 2007 <sup>(1)</sup> . . . . .	105,329	81,980	6,006	13,360	3,704	279	—
At December 31, 2008 <sup>(1)</sup> . . . . .	226,456	96,529	83,373	19,110	22,464	2,372	2,608
At September 30, 2008 <sup>(1)</sup> . . . . .	223,096	142,426	46,772	20,918	8,176	4,351	453
At September 30, 2009 . . . . .	167,571	136,736	15,890	6,172	4,117	4,399	257

Note:

(1) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 55 of this Offering Memorandum.

## Taxation

Our PRC subsidiaries are governed by the Enterprise Income Tax Laws of the PRC (中華人民共和國企業所得稅法) 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, PRC companies are subject to enterprise income tax at an effective rate of 25% on taxable income reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing could be 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 is deemed to have begun on January 1, 2008. Pursuant to the New EIT Law and relevant regulations, the PRC subsidiaries engaged in tree plantation operations, if eligible, could apply for an exemption from PRC enterprise income tax.

Our tax charges for the years ended December 31, 2006, 2007 and 2008 were US\$13.2 million, US\$18.0 million, and US\$24.1 million, respectively, which represented effective tax rates of 12.5%, 11.2%, and 10.0%, 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, 2007 and 2008, and in the nine-month period ended September 30, 2009, 81.6%, 86.2% and 83.0% of our sales were received in Renminbi, respectively, and 18.4%, 13.8% and 17.0% of our sales were received in U.S. dollar and Euro, respectively. We translate our results of self-sustaining foreign operations into U.S. dollars using the current rate method. We expect in the future that substantially all of our sales will be received in Renminbi. The majority of our operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on our 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 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. A fluctuation of  $\pm 1\%$ , provided as an indicative range in currency movement, on financial instrument that are denominated in foreign currency other than U.S. dollars, would, everything being equal, have an effect on net income after tax and other comprehensive income for the nine-month period ended September 30, 2009 of approximately US\$3.7 million and US\$2.0 million, respectively.

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 September 30, 2009, we had Renminbi-denominated bank accounts of RMB538.6 million, U.S. dollar-denominated bank accounts of US\$536.5 million, Canadian dollar-denominated bank accounts of Cdn.\$0.3 million, Hong Kong dollar-denominated bank accounts of HK\$6.4 million, and Euro-denominated bank accounts of €18,000. We also had U.S. dollar- and Renminbi-denominated accounts receivable of US\$29.7 million and RMB953.4 million, respectively.

We incurred mainly U.S. dollar-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 fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

### ***Credit Risk***

We are exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at September 30, 2009 included US\$67.8 million due from three customers representing 40.4% 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 September 30, 2009, US\$8.8 million, or 5.2%, of accounts receivable were aged more than 90 days. We have no significant allowance for doubtful accounts for the nine-months ended September 30, 2009.

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. 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 September 30, 2009, we were holding cash and cash equivalents of US\$565.2 million. We believe that continued cash flow from operations in 2009 together with the cash and cash equivalents from previous

financings will be sufficient to fund our requirements for investments in working capital, timber holdings and capital assets in the year ending December 31, 2009.

	Payment Due by Period				Total
	Within one year	In the second and third year	In the fourth and fifth year	After the fifth year	
	(US\$ thousands)				
Bank indebtedness <sup>(1)</sup> . . . . .	77.3	—	—	—	77.3
Accounts payable and accrued liabilities <sup>(1),(2)</sup> . . .	75.8	—	—	—	75.8
Long-term debt <sup>(3)</sup> . . . . .	37.5	198.2	476.2	—	711.9
Total . . . . .	<u>190.6</u>	<u>198.2</u>	<u>476.2</u>	<u>—</u>	<u>864.9</u>

Notes:

- (1) Including continuing and discontinued operations.
- (2) Excluding the tax provision for tax related contingency.
- (3) Including current portion of long-term debt.

**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 September 30, 2009, US\$180.6 million or 22.9% 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\$1.4 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.

**Commodity Price Risk**

We are exposed to fluctuations in the prices of standing timber 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 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 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**

EBITDA, gross profit, sales per hectare, price per cubic meter and gross margin per cubic meter are measures we use that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. We consider these statistics to be key performance indicators that management uses to monitor the Company's performance. These data, however, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and 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 and gross profit are not measures of financial performance under either Canadian GAAP or US 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 EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Nine-month Period Ended September 30,	
	2006 <sup>(1),(3)</sup> (Restated)	2007 <sup>(3)</sup>	2008 <sup>(3)</sup>	2008	2009
	(US\$ thousands)				
Income from operations before other items . . . . .	135,145	197,468	303,382	208,498	244,110
Add:					
Depreciation and amortization . . . . .	3,975	5,364	4,627	2,250	3,450
Depletion of timber holdings included in cost of sales . . . . .	<u>177,730</u>	<u>284,808</u>	<u>284,532</u>	<u>192,301</u>	<u>294,716</u>
EBITDA <sup>(2)</sup> . . . . .	<u>316,850</u>	<u>487,640</u>	<u>592,541</u>	<u>403,049</u>	<u>542,276</u>

Notes:

- (1) Results for the year ended December 31, 2006 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 revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference herein. See “—Components of Income Statement Items” for a detailed description of our revenue components.
- (2) EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, 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.
- (3) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 55 of this Offering Memorandum.

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 US 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 table, which does not include certain non-material subsidiaries, shows our current corporate structure, indicates the place of incorporation/registration of the entities listed below and shows the percentage equity interest beneficially owned (directly or indirectly) by the Company in each such entity.

	<u>Place of Incorporation/ Registration</u>	<u>Percentage Equity Interest Held by the Corporation</u>
<b>Sino-Forest Corporation</b> . . . . .	<b>Canada</b>	
Sino Panel Holdings Limited . . . . .	British Virgin Islands	100
Sino Global Holdings Inc. . . . .	British Virgin Islands	100
Sino Forest Resources Inc. . . . .	British Virgin Islands	100
Sino Panel (Asia) Inc. . . . .	British Virgin Islands	100
Grandeur Winway Limited . . . . .	British Virgin Islands	100
Sinowin Investments Limited . . . . .	British Virgin Islands	100
Dynamic Profit Holdings Limited . . . . .	British Virgin Islands	100
Suri-Wood Inc. . . . .	British Virgin Islands	100
Sino Panel (Guangxi) Limited . . . . .	British Virgin Islands	100
Sino Panel (Yunnan) Limited . . . . .	British Virgin Islands	100
Sino Panel (North East China) Limited . . . . .	British Virgin Islands	100
Sino Panel [Hunan] Limited . . . . .	British Virgin Islands	100
SFR (China) Inc. . . . .	British Virgin Islands	100
Sino Panel (Gaoyao) Ltd. . . . .	British Virgin Islands	100
Sino Panel (North Sea) Limited . . . . .	British Virgin Islands	100
Sino Forest Investments Limited . . . . .	British Virgin Islands	100
Sino Panel [Xiangxi] Limited . . . . .	British Virgin Islands	100
Sino Panel [Suzhou] Limited . . . . .	British Virgin Islands	100
Sino-Panel (Guangzhou) Limited . . . . .	British Virgin Islands	100
Expert Bonus Investment Limited (BVI) . . . . .	British Virgin Islands	100
Glory Billion International Limited (BVI) . . . . .	British Virgin Islands	100
Amplemax Worldwide Limited (BVI) . . . . .	British Virgin Islands	100
Ace Supreme International Limited (BVI) . . . . .	British Virgin Islands	100
Express Point Holdings Limited (BVI) . . . . .	British Virgin Islands	100
Smart Sure Enterprises Limited (BVI) . . . . .	British Virgin Islands	100
Sino Wood Partners, Limited . . . . .	Hong Kong	100
Sino Plantation Limited . . . . .	Hong Kong	100
Sino Wood (Guangxi) Limited . . . . .	Hong Kong	100
Sino Wood (Jiangxi) Limited . . . . .	Hong Kong	100
Sino Wood (Guangdong) Limited . . . . .	Hong Kong	100
Sino Wood (Fujian) Limited . . . . .	Hong Kong	100
Sino Panel (China) Investments Limited . . . . .	PRC	100
Hunan Jiayu Wood Products (Hongjiang) Co., Ltd. . . . .	PRC	100
Sino Maple (Shanghai) Co., Ltd. . . . .	PRC	100
Sinowin Plantings (Suzhou) Co., Ltd. . . . .	PRC	100
Sino Panel (Gengma) Co., Ltd. . . . .	PRC	100
Heilongjiang Jiamu Panel Co., Ltd. . . . .	PRC	100
Shaoyang Jiading Wood Products Co., Ltd. . . . .	PRC	100
Jiafeng Wood (Suzhou) Co., Ltd. . . . .	PRC	100
Guangdong Jiayao Wood Products Development Co., Ltd. . . . .	PRC	100

	<u>Place of Incorporation/ Registration</u>	<u>Percentage Equity Interest Held by the Corporation</u>
Sino Panel (Beihai) Development Co., Ltd. . . . .	PRC	100
Sino Forest (China) Investments Limited . . . . .	PRC	100
Guangxi Guijia Forestry Co., Ltd. . . . .	PRC	100
Gaoyao Jiayao Forestry Development Co., Ltd. . . . .	PRC	100
Jiangxi Jiachang Forestry Development Co., Ltd. . . . .	PRC	100
Zhangzhou Jiamin Forestry Development Co., Ltd. . . . .	PRC	100
Sino Forest (Heyuan) Co., Ltd. . . . .	PRC	100
Sino Forest (Guangzhou) Co., Ltd. . . . .	PRC	100
Sino Forest (Suzhou) Trading Co., Ltd. . . . .	PRC	100
Sino Forest (Anhui) Co., Ltd. . . . .	PRC	100
Hunan Jiayu Wood Products Co., Ltd. . . . .	PRC	100
Xiangxi Autonomous State Jiayi Forestry Development Co., Ltd. . . . .	PRC	100
Zhangjiagang Free Trade Zone Jiashen International Trading Co., Ltd. . . . .	PRC	100
Sino Panel (Luzhai) Co., Ltd. . . . .	PRC	100
Jiangxi Jiawei Panel Co., Ltd. . . . .	PRC	100
Sino-Panel (Guangzhou) Trading Co., Ltd. . . . .	PRC	100
Mandra Forestry Holdings Limited . . . . .	British Virgin Islands	15
Greenheart Resources Holdings Limited (“Greenheart”) .	British Virgin Islands	17.26 <sup>(1),(2)</sup>
Omnicorp Limited (“Omnicorp”) . . . . .	Bermuda	20 <sup>(1)</sup>

Notes:

- (1) Ownership percentage is based on the outstanding ordinary shares as published respectively by Greenheart and Omnicorp as at September 30, 2009.
- (2) The equity interest is made up of 5.18% direct investment and 12.08% indirect investment through Omnicorp in Greenheart.
- (3) Our non-material active subsidiaries that were not included in the above table are:

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



## BUSINESS

### Overview

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

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

Our business operations are comprised of two core business segments. Our wood fibre operations are our main revenue contributor, while our manufacturing and other operations enable us to enhance the value of our fibre operations by producing downstream products.

### Wood Fibre Operations Segment

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

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture value through wood fibre growth during the course of our ownership. Under our planted plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate the trees using improved breeding, planting and silviculture techniques and sell the trees as standing timber. Under our integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods and we have the option to enter into long-term leases, typically for up to 50 years, under which we can plant and subsequently harvest several rotations of trees.

We expect our integrated plantation model to allow us to provide the market with a sustainable source of fibre under our existing long-term master agreements and to generate sustainable cash flow by purchasing mature trees instead of acquiring younger trees and holding them until maturity. We lease the land of harvested plantations on a long-term basis, replant it with higher yielding trees species and apply advanced breeding, planting and silviculture techniques. These advanced techniques are designed to

enable us to improve efficiency, grow more uniform trees, lower our operating and harvesting costs, and achieve higher fibre quality and output while minimizing the impact on the environment.

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

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

#### Manufacturing and Other Operations Segment

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

#### Growth opportunities in China

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

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

Our strategy is aligned with the objectives of the PRC government and State Forestry Administration to increase the country's forestry coverage, productivity and employment in rural areas. In 2006, we expanded our operations in inland regions such as the Hunan and Yunnan provinces, which aligned our expansion strategy with the PRC government's Eleventh Five-Year Plan (2006-2010) of rural and regional

economic development. Leveraging our first mover advantage in these regions, we were able to secure plantations in strategic locations for long-term sustainable re-plantation.

We believe we are well positioned to benefit from the country's forestry reform and three year Forestry Revitalization Plan (2010-2012) by collaborating with the Chinese forestry authorities and state-owned plantation entities to develop fast-growing high yielding ("FGHY") plantations to reduce the country's chronic wood deficit. We have gained recognition for our sustainable plantation development practices in the PRC, which we expect will help enable us to enter into additional long-term fibre agreements.

### **Our Competitive Strengths**

We believe that we have the following strengths:

#### ***Leading commercial forest plantation operator in the PRC with established track record***

We are a leading commercial forest plantation operator in the PRC with approximately 474,000 hectares of tree plantations under management as of September 30, 2009. With a 14 year track record of managing forestry plantations in China, our use of advanced breeding, planting and silviculture techniques has enabled us to become a leading commercial forest plantation operator in the PRC. We believe that we are well positioned to maintain and expand our existing tree plantation resources under our existing long term master agreements and to grow our fibre base through other innovative strategies.

#### ***First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage our industry foresight***

We were one of the first foreign companies to do business in the PRC's forestry sector and have a strong track record of obtaining, developing and cultivating commercial tree plantations since 1995. We believe that our proven ability to develop fast growing commercial tree plantations in the PRC, our reputation as a reliable partner and supplier of wood fibre and our capital structure position us as a preferred partner for commercialization of forestry plantation management in the PRC. Over the last 14 years, we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships 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.

#### ***Future growth supported by long-term master agreements at agreed capped prices***

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

#### ***Strong research and development capability, with extensive forestry management expertise in the PRC***

We believe our ability to genetically breed faster-growing plantations and apply advanced silviculture techniques will allow us to shorten the harvest rotation, increase the amount of wood we extract from each hectare of land and improve profitability. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, improve quality of harvested wood, maintain

and enhance forest ecosystems and improve land productivity. Over the years, our research and development efforts have allowed us to improve our planting materials and our breeding and propagation methods, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing, and ecological and environmental technology. Our plantation planning and management team has an in-depth understanding of local forestry markets and regulations, with a significant number of our employees and scientists formerly serving with locally renowned universities local forestry bureaus and/or state-owned plantation farms.

#### ***Expertise in sustainable plantation development***

Our sustainable plantation management practices in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. We employ advanced forest management practices and adopt prudent environmental management of our tree plantations. 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.

#### ***Diversified revenue and asset base***

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

#### ***Robust capital structure with demonstrated market access***

Despite our significant revenue growth in recent years, we believe we have maintained a robust capital structure with a proven ability to support our financing needs in the capital markets. In July 2008, we completed a US\$345 million convertible note offering, and in June 2009, we completed a Cdn.\$379.5 million equity offering.

#### **Our Business Opportunities**

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

#### ***Strong and growing demand for wood fibre from downstream producers***

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

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

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

***Recent changes in the forestry industry that favor sustainable plantations***

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

***Our Strategy***

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

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

We intend to increase our plantation area under management by investing in current geographic locations and by expanding into other geographic locations through acquisitions and sustainable replanting.

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

We intend to further develop and improve our forestry breeding and silviculture through genetic improvement, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields and fibre quality. To support these efforts, we intend to continue our investment in our research and development resources, and collaborate with PRC and overseas academic institutions.

***Practice sustainable and environmentally responsible forestry and manufacturing***

Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We will continue to implement and improve our

environmental management systems to help improve the ecological and social environment of our tree plantations.

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

Our downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify our revenue streams.

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

We plan to invest in additional personnel, managers 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, which will, in turn, allow us to better analyze planting statistics, including growth conditions and the quality of our tree plantations. These will also allow us to maintain more stringent controls over our tree plantation management processes.

***Maintain Strategic Alignment with PRC government's plans***

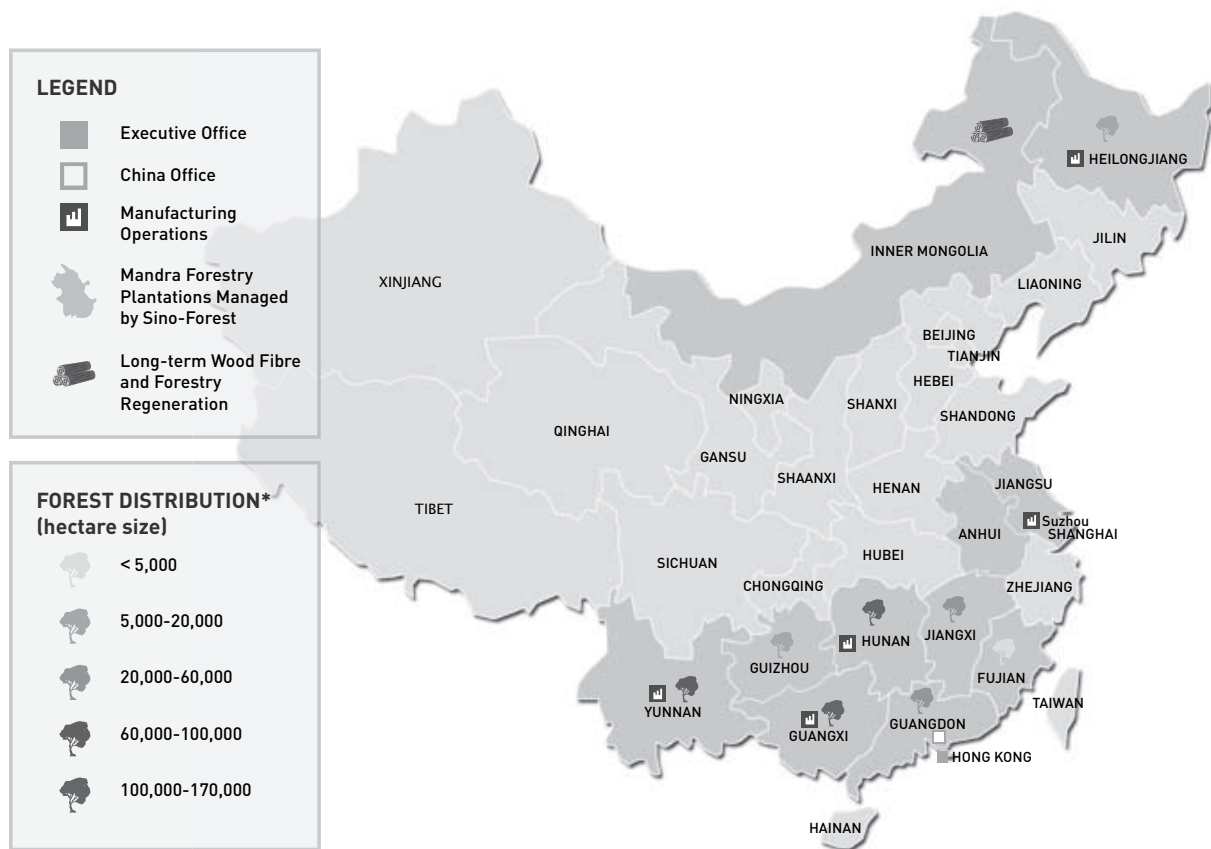
We align our strategies with the PRC government's published plans to increase forest coverage and productivity, and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets" With respect to the forestry industry, the State Forestry Administration has announced plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. The Chinese government indicated at the UN climate change summit held on September 22, 2009 that China is targeting to increase the country's forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic meters by 2020 to absorb carbon emissions, and increase the proportion of energy generated from bio-fuels. We anticipate the government will further advance the reform of the collectively-owned plantation rights system and commercialize the management of its state-owned forest plantations. Under our long-term master agreements, we will use the integrated plantation model to focus on replanting and converting plantation lands into fast-growing and high-yielding plantations.

**Our Wood Fibre Operations**

***Overview***

Our wood fibre operations generate the bulk of our revenue, accounting for 96.0% of our revenue in the nine-month period ended September 30, 2009. 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. Our tree plantations are located primarily in the southern and eastern regions of the PRC. The following map highlights the locations of our tree plantations in the PRC as of September 30, 2009.





### ***Tree Plantations and Plantation Business Models***

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

#### ***Purchased Plantation Model***

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

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

As of September 30, 2009, our purchased plantations represented approximately 405,000 hectares under management. Our purchased plantations are primarily located in Guangdong, Guangxi, Jiangxi, Hunan, Yunnan, Heilongjiang, Guizhou and Fujian Provinces. They consist of a diversified mix of tree species, predominantly pine, Chinese fir and eucalyptus. The advantages of purchasing trees include the

ability to achieve an expansion of plantation reserves within a shorter time scale than by planting, while at the same time better positioning us to ensure a sizeable harvesting profile.

#### *Planted Plantation Model*

In our planted plantation model, we assess the suitability of land where trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to our planted or re-planted trees as “planted plantations.” We choose to plant trees in strategically located areas and operate our commercial plantations using advanced environmentally prudent plantation management practices. We believe our 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. 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 September 30, 2009, our planted plantations operated through WFOEs comprised approximately 69,000 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.”

We started operating our first planted plantation on barren land in 1995. Our planted plantations now consist primarily of eucalyptus trees in Guangdong, Guangxi and Jiangxi Provinces. As of September 30, 2009, our planted plantations represented approximately 69,000 hectares under management.

#### *Integrated Plantation Model*

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

The following table sets forth the location and approximate total hectares of our tree plantations as of September 30, 2009:

### Tree Plantations Under Management

<u>Location</u>	<u>Planted plantations (in hectares)</u>	<u>Purchased plantations (in hectares)</u>	<u>Total Hectares (approximate)</u>
Guangxi . . . . .	16,000	155,000	171,000
Guangdong . . . . .	39,000	9,000	48,000
Hunan . . . . .	6,000	121,000	127,000
Yunnan . . . . .	0	84,000	84,000
Fujian . . . . .	1,000	0	1,000
Heilongjiang . . . . .	0	6,000	6,000
Guizhou . . . . .	0	7,000	7,000
Jiangxi . . . . .	<u>7,000</u>	<u>23,000</u>	<u>30,000</u>
Total . . . . .	<u>69,000</u>	<u>405,000</u>	<u>474,000</u>

As of September 30, 2009, our tree plantations under management represented approximately 474,000 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, Guangxi, Fujian and Jiangxi Provinces, giving us the right to acquire up to approximately 1.3 million hectares of trees, of which approximately 348,000 hectares have been acquired as of September 30, 2009. A description of our main long-term master agreements is provided below.

#### *Long-term Acquisition Agreement in Hunan*

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

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

Under the provisions of such master agreements, we have acquired approximately 158,000 hectares of standing timber for US\$616.8 million as of September 30, 2009.

#### *Long-term Acquisition Agreement in Yunnan*

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

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

Under the provisions of such master agreement, we have acquired approximately 85,000 hectares of plantation trees for US\$412.0 million as of September 30, 2009.

#### *Long-term Acquisition Agreement in Guangxi*

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

Under the provisions of such master agreement, Sino-Panel has pre-emptive rights to lease land at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB525 per hectare per annum for 30 years. The land lease can be for up to 50 years 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, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations.

Under the provisions of this master agreement, we have acquired approximately 97,000 hectares of plantation trees in Guangxi Province for US\$470.8 million as of September 30, 2009.

#### *Long-term Acquisition Agreement in Fujian*

On August 11, 2008, we entered into a master agreement with Zhangzhou Lv Sheng Forestry Development Company Limited (“Lv Sheng”) to acquire approximately 200,000 hectares of non-state-owned plantation trees in Fujian Province through Sino-Panel for approximately RMB7.0 billion for a price not to exceed RMB350 per cubic meter over a ten-year period. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The

permissible land lease term after harvesting is up to 50 years under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between our PRC subsidiaries and Lv Sheng upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The plantations under this agreement include mature trees with an estimated wood fibre yield of approximately 100 cubic meters per hectare, or an aggregate 20.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of this master agreement, we have not acquired any hectares of plantation trees in Fujian Province as of September 30, 2009.

#### *Long-term Acquisition Agreement in Jiangxi*

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

Under the provisions of this master agreement, we have acquired 8,000 hectares of plantation trees in Jiangxi Province for US\$21.1 million as of September 30, 2009.

#### *Plantation Management*

To optimize the yields on our planted plantations, we engage in intensive silviculture and a variety of advanced plantation management techniques. Our advanced management practices include detailed site assessments, site selection and preparation, terracing, use of improved planting materials, density and spacing control, fertilization 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, frost and fire, enhance environmental conservation and improve aesthetics. In addition, these practices result in more uniform tree plantations, which increase harvesting efficiency and reduce waste through peeling and sawing.

### ***Plantation Service Providers***

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

### ***Domestic Wood Logs***

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

We now source logs from PRC suppliers, including pursuant to the Inner Mongolia master agreement referred to below, and sell them in the domestic PRC market. Wood logs sales comprised 1.5% of total revenue in 2008, compared to 0.5% of total revenue in 2007.

### ***Imported Wood Products***

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

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

## **Our Manufacturing and Other Operations**

### ***Overview***

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

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



### ***Particleboard Operation***

The particleboard operation in Guangdong Province had 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.

In March 2009, one of our subsidiaries entered into an agreement to dispose the particleboard manufacturing equipment at its plant in Gaoyao for a total consideration of approximately US\$29.6 million. We retained the ownership of the manufacturing building and property. The purchaser is leasing these premises from us and is operating the equipment on the premises.

### ***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 32,000 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 300 outlets nationwide, including B&Q's large do-it-yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products, 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.

### ***Sawn Timber Facility***

Our Yunnan facility was established in the fourth quarter of 2008, producing sawn timber and flooring material with an estimated annual capacity of 18,000 cubic meters anticipated for full ramp up in 2009.

### ***Finger-Joint Board***

We have processing facilities in Hunan Province, producing finger-joint board and blockboard with a total annual capacity of 120,000 cubic meters. We ceased operations at the particleboard production facility in June 2009. Our strategy in Hunan is to maximize the value of our wood fibre through value-added processing.

### ***Plywood and Veneer Products***

Our Guangxi facility was established in the third quarter of 2007, producing plywood and veneer products with an anticipated start-up capacity of 50,000 cubic meters.

### ***Our Greenery and Nursery Operations***

According to the PRC State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the 10 most polluted cities in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape management and supply of tree nursery products, we decided to pursue opportunities in this forest product business segment. With our plantation resources and expertise, we established a greenery and nursery operations in Jiangsu Province 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 nine-month period ended September 30, 2009, sales to customers in the PRC were US\$764.3 million and sales to customers located in other countries were US\$5.4 million. In the years ended December 31, 2006, 2007 and 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 AIs in the PRC on a quarterly basis. Sales are usually denominated in Renminbi, with payments usually settled within 60 days of delivery.

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

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

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

## **Suppliers**

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

In the years ended December 31, 2006, 2007, 2008 and the nine-month ended September 30, 2009, our five largest suppliers accounted for approximately 44.2%, 54.8%, 45.5% and 61.0% of our total costs of sales, respectively. The largest supplier accounted for approximately 12.6%, 32.2%, 16.5% and 20.6% of our total costs of sales, respectively, during such periods. See “Risk Factors—Risks Related to Our Business.”

## **Transportation**

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

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

### **Customers**

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

In the years ended December 31, 2006, 2007, 2008 and the nine-month ended September 30, 2009, our five largest customers (including AIs) accounted for approximately 57.5%, 58.7%, 55.6% and 71.6% of our revenue, respectively. In the same periods, our largest customer (including AIs) accounted for approximately 12.9%, 15.8%, 13.9% and 16.5% of our revenue, respectively. See “Risk Factors—Risks Related to Our Business.”

### **Competition**

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

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

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

### **Environmental Matters**

Our tree plantation and manufacturing operations are subject to PRC laws and regulations relating to the protection of the environment. We believe that our operations are in substantial compliance with these laws and regulations. There are currently no significant environmental proceedings involving us.

#### *Tree Plantations*

We maintain an environmental management system designed to ensure sustainable and responsible resource management. It sets out policies on the social, ecological and environmental aspects of our tree plantation operations and detailed operating procedures on environmental compliance. Some of our plantation operations are managed in accordance with the environmental standards of two of the most recognized international forest certification systems. Besides the environmental requirements of International Organization for Standardization ISO14001, we have also been working since 2000 to integrate FSC principles and criteria into our tree plantation management and operations, which cover all

recognized environmental and relevant issues such as the control of soil and water erosion, the conservation of biodiversity and natural habitats, the improvement of environmental conditions, the maintenance of production continuity, health and protection of forests, local community development, etc. We obtained an ISO14001 certificate in 2002 for one of our plantation companies in Guangxi Province, and an FSC Forest Management (“FM”) certificate in 2004 for another in Gaoyao, Guangdong Province (SW-FM/COC-001146). We aim to expand our success in FSC to all of our plantation forests.

In the past five years, we have gone through stringent third-party annual assessments and re-assessments for our FSC and ISO operations, continuously improving our environmental performance through the recurrence of prescribed operation, monitoring and inspection, technological development and correction of plantation management. Our efforts in addressing all main environmental concerns or issues are well recognized by the independent assessors. For example, we strive to address: (i) soil erosion issues through sound site preparation, forest road construction, planting spacing, harvesting planning, and operation season control; (ii) the maintenance of long-term land productivity through soil erosion control, fertilizing, understory vegetation conservation, species rotation, etc.; and (iii) natural disasters such as forest fire, disease and pest, freezing and snowing through effective fire prevention and control systems, proper management of genetic diversity, development and deployment of resistant varieties etc. Our practice of identifying and conserving biodiversity and the potentially special habitats nested in our plantation forest ecosystems is also recognized.

Besides our commitment to managing our plantation forests in an environmentally-friendly manner, we are also actively involved in various activities relevant to environmental protection or enhancement. 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 bio-fuels and renewable energy through large-scale tree plantation in a sustainable manner, which will also mitigate greenhouse gas emissions. We are one of the founding members and the only member from the forestry sector. In 2008, we donated approximately US\$769,000 to the establishment of “Applied Research Centre for Pearl River Delta Environment” at Hong Kong Baptist University. A primary goal of the research centre is to develop a competent team to study the pollution problems and provide solutions for industries in the Pearl River Delta Region.

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

### *Manufacturing*

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

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

We have acquired advanced facilities and equipment that fully meet the demands of environmental protection, to keep hazardous substance emissions under acceptable levels. We have various procedures in

place for controlling environmental issues. Examples of such procedures include the following: (i) sawdust is properly collected and either recycled as product material or used to produce energy in our factories, thus reducing air and water pollution; (ii) polluted water is processed in special facilities for agricultural irrigation; (iii) wood products are always sampled and inspected in a standardized way to control the quality and toxic chemicals such as formaldehyde; and (iv) procedures for preventing and controlling fire and work accidents are implemented to avoid or reduce loss, damage and relevant environmental accidents. All environmental matters associated with our wood product manufacturing are regularly or periodically inspected and assessed by local authorities or relevant parties.

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

### *Environmental regulation*

As disclosed under “Risk Factors—Risks Related to the PRC”, our tree plantations and manufacturing plants are subject to certain environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. 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.

### **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 mass-propagation of cuttings;
- 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.

In the years ended December 31, 2006, 2007 and 2008, we spent approximately US\$371,000, US\$412,000 and US\$1,071,000, respectively, on research and development activities.

### **Other Tree Plantation Contractual Arrangements**

#### *Inner Mongolia Wood Fibre Supply*

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

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

Sino-forest (Guangzhou) Trading Co., Ltd., which entered into the Inner Mongolia master agreement, is in the process of deregistration. We intend to transfer its rights and obligations under the agreement to another PRC subsidiary before its deregistration. According to the terms of this agreement, such transfer does not need consents from the other parties.

#### *Mandra Forestry*

In 2005, we formed an alliance with Mandra and Mandra Forestry by investing US\$15.0 million in Mandra in the form of a subordinated loan and acquiring a 15% equity interest in Mandra, 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.

In July 2009, we received notices from Mandra Forestry purporting to terminate the agreements governing our plantation management services. We believe that such termination notices are without merit. No further action has been taken with respect to such termination notices as of the date of this Offering Memorandum.

We, through our wholly-owned subsidiary, Sino-Forest Investments Limited, entered into a shareholders agreement with Mandra, Morgan Stanley and Mandra Resources Limited 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 from the other



shareholders of Mandra and shares represented by warrants held by certain warrant holders at any time until one day prior to the fifth anniversary of the Mandra Shareholders Agreement (May 11, 2010); *provided that* the exercise of such option may only be completed if (1) either (a) the rating agencies that issued ratings on 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 and Mandra under the Mandra Notes and the indenture thereto.

The consideration payable by us for the equity securities of Mandra will be their fair market value in connection with the purchase of such securities and will be determined by an independent qualified investment bank or firm of certified public accountants appointed by the board of directors of Mandra. Subject to limited exceptions, termination of that certain operating management agreement dated as of May 11, 2005 between us and Mandra Forestry will result in the loss of our purchase option.

From May 11, 2010 to May 11, 2012, being the seventh anniversary of the shareholders agreement, we will have a final purchase option to purchase all of the outstanding equity securities of Mandra from each of the shareholders of Mandra for a period of 120 days following notice from Mandra that it intends to effect a public offering of shares or listing of Mandra; *provided that* if we decline to exercise the option and Mandra subsequently fails to effect a public offering of shares or listing within the following nine months, we 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.

We have recently entered into agreements with the Mandra Holders regarding the acquisition by us of their Mandra Notes and Mandra Warrants, and have an agreement in principle to acquire the equity of Mandra. See “Recent Developments—Mandra Acquisition and Issuance of New 2014 Senior Notes.”

#### *Investment in Greenheart and Omnicorp*

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 2009. In addition, we invested US\$6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to us consisting of 7,860,000 Omnicorp ordinary shares, 4% secured convertible bonds at a principal amount of US\$4.0 million issued by Omnicorp which mature on November 8, 2010, 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 ordinary share.

On February 6, 2009, we acquired 55,000,000 Omnicorp ordinary shares and 4% secured convertible bonds with an aggregate principal amount of approximately US\$21.7 million at an aggregate purchase price of approximately US\$4.3 million in cash and approximately 2.7 million common shares at a price of Cdn.\$10.00 per share. As a result of the completion of the transaction, our stake in Omnicorp has increased to approximately 20.0% of Omnicorp’s outstanding shares as well as 89.6% of the outstanding convertible bonds. Assuming the full conversion by us of the acquired convertible bonds, subject to certain terms and conditions of the convertible bonds, we would own approximately 40.2% of Omnicorp’s outstanding shares.

On October 3, 2009, Omnicorp issued a proposed supplemental deed poll pursuant to which the conditions of the Omnicorp convertible bonds have been modified to the effect that (i) the maturity date of

the convertible bonds will be extended from November 9, 2009 to November 8, 2010 and (ii) a control restriction will be removed allowing a holder of the convertible bonds to exercise the conversion rights attached to the convertible bonds even if such holder and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”)) with it would become obliged to make a mandatory offer under Rule 26 of the Takeovers Code as a result of such conversion. The extension of the maturity date of the convertible bonds may change the fair value of the embedded conversion option which is recorded in Omnicorp’s statement of income.

## Insurance

We maintain insurance policies against risks of loss of our tree plantations. These policies cover all our planted plantations and the indemnity will be on actual insured value of the hectares of damaged plantation after netting deductible. As for our purchased plantations, the coverage of our insurance policy is subject to an annual aggregate loss limit at 15% of the declared value of our total purchased plantation after netting deductible, with 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.

## 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 September 30, 2009, we had 2,795 full-time employees in Canada, Hong Kong and the PRC. The following table sets forth the number and location of our employees according to category as of September 30, 2009:

	<u>Canada</u>	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>
Executives and Senior Management . . . . .	2	8	38	48
General Staff . . . . .	<u>1</u>	<u>62</u>	<u>2,684</u>	<u>2,747</u>
Total . . . . .	<u>3</u>	<u>70</u>	<u>2,722</u>	<u>2,795</u>

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 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 PRC subsidiaries are located, including medical insurance, unemployment insurance, working injury insurance and maternity 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.

### ***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.

## PRC FORESTRY INDUSTRY OVERVIEW

*Information and data provided in this section, except as otherwise stated, are based on Appendix I of the 2008 Pöyry Report. See “— Industry and Market Data.”*

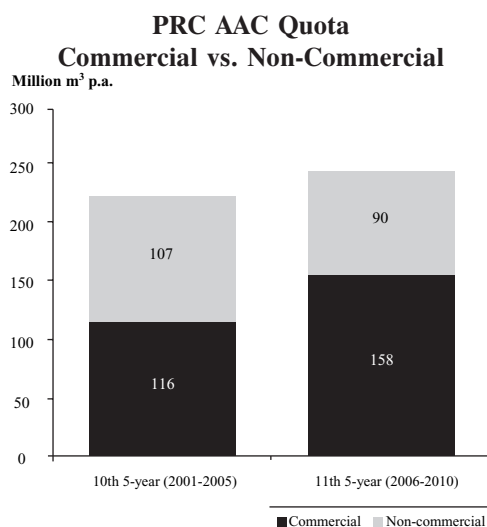
### Overview of Forest Resources in the PRC

According to the seventh enumeration of the nation’s forest resources conducted from 2004 to 2008, it is estimated that the PRC has 195 million hectares of forest with a forest coverage rate of 20.36%. Approximately 120 million hectares are considered to be natural forest and 62 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 14.91 billion cubic meters, and the stock volume of the forest was estimated at 13.72 billion cubic meters.

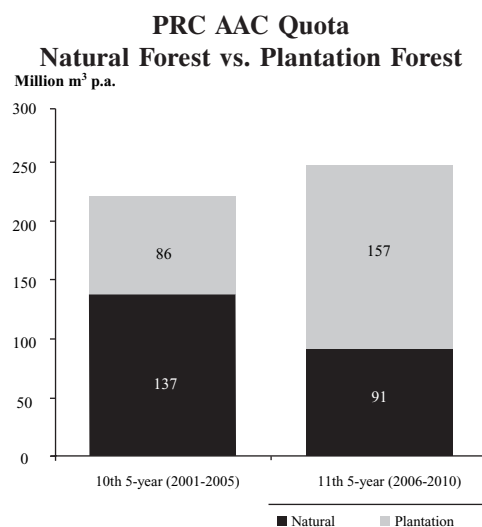
### Fiber Supply and Demand

#### 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 11<sup>th</sup> 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.



Source: State Forestry Administration

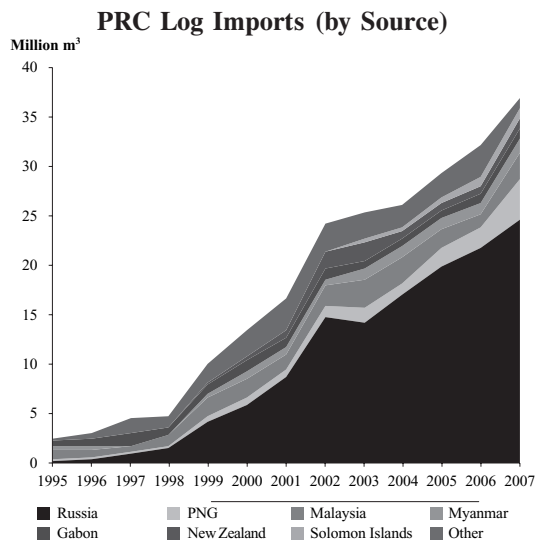


Source: State Forestry Administration

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 from 1996 to 2006, at an average growth rate of 26% per annum. The PRC is currently the world's largest log importer. In 2007, the PRC imported, on a roundwood equivalent basis, 86 million cubic meters of wood fibre.



Source: Pöyry Forest Industry

Imports of logs from Russia represented 68% of the PRC's total log imports in 2007. Papua New Guinea, Malaysia, New Zealand and Gabon were positioned second to fifth in terms of log imports into the PRC, respectively, in 2007, 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 from 2000 to 2005 at an average rate of 10% per annum. The lumber and reconstituted panel industries were the major contributors to this growth.

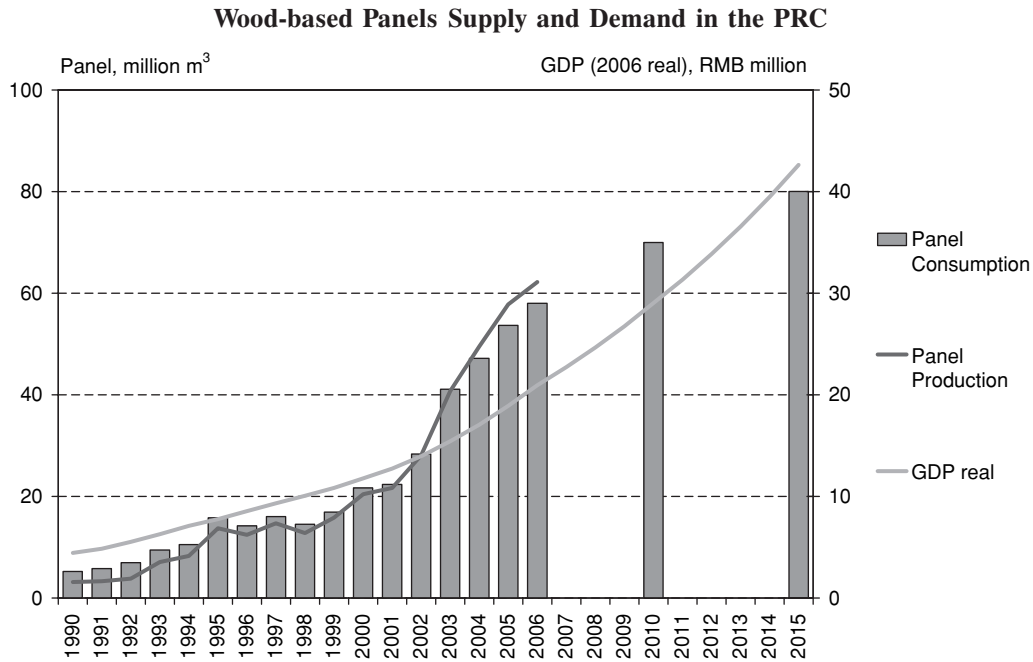
The demand for industrial wood products is forecasted to continue to grow at a slower rate in the future, with the bulk of this increase being expected to be generated from the development of domestic pulp and reconstituted panel manufacturing industries. According to Pöyry, the demand from the pulp 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.



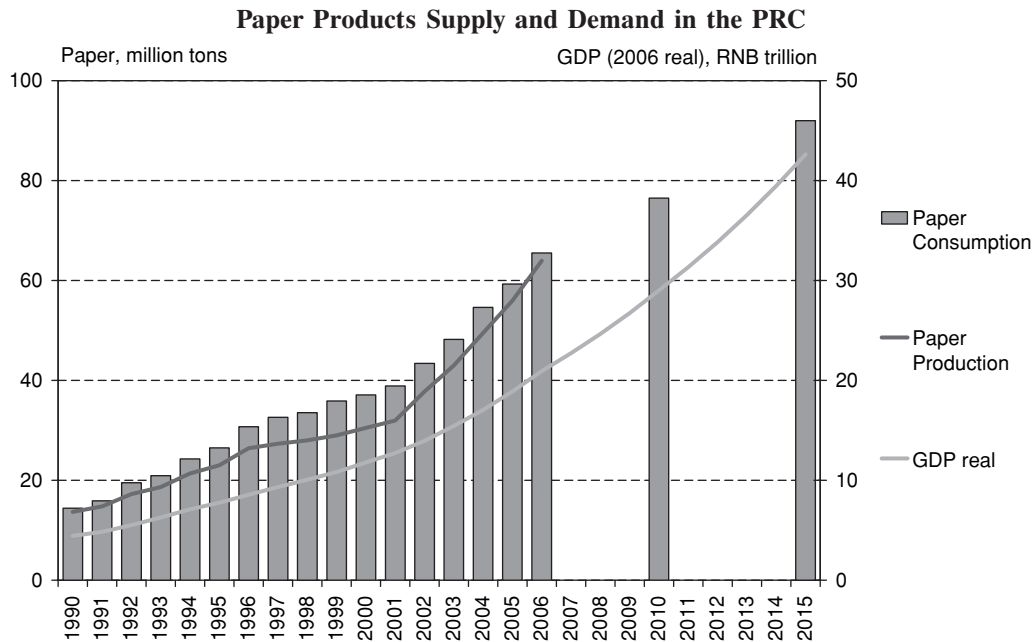
Source: Food and Agriculture Organization of the United Nations (Woodbased Panels data), Pöyry Forest Industry

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.



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

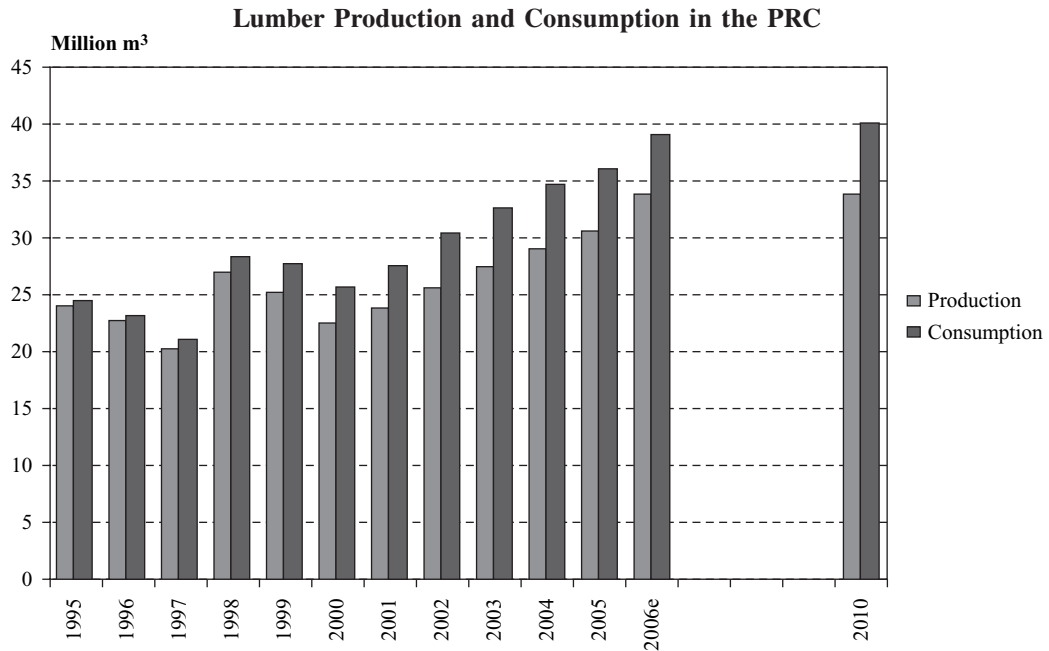
The PRC pulp and paper industry has historically suffered from a lack of wood resources. The utilization of wood in the production of pulp has remained low, with non-wood pulp playing a notable role in the industry. During the past decade, there has been a significant increase in wood pulp demand. The 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.



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

## GOVERNMENT REGULATION

### Plantation Industry

#### Development of the Plantation Industry

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

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

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

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

- to insist on the consistency of the foreign investment policy, *i.e.*, to favor allocation of foreign investments in areas identified in the Catalog of Foreign-invested Industry Guidance (外商投資產業指導目錄) and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region (中西部地區外商投資優勢產業目錄);
- to encourage and facilitate development and use of critical technologies, equipment and products that favor the upgrade of industrial structure of forestry;
- to gradually establish the Timber Industrial Zone composed of the Southeast Coastal Area, Southern Timberland and Huang-Huai-Hai Plain;
- to encourage the development of non-public-owned forestry, eliminate institutional obstacles to such development and introduce advanced international technologies and management experiences;

- to establish a sound product quality inspection and monitoring system and help forestry corporations obtain the ISO 9000 and ISO 14000 certifications;
- to strictly follow the released tax policy and provide insurance and financial services to companies and individuals in the forestry industry;
- to establish a platform for transactions of plantation land use rights;
- to improve forest harvesting management and facilitate harvesting of artificial commercial plantations, in particular at plantations supplying industrial raw materials, and to strengthen the operators' rights to cultivate the plantations; and
- to create a favorable environment for development of the forestry industry.

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

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

### **Permits and Approvals Necessary for the Operation of our Plantation Business**

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

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

### ***Plantation Rights Certificates for Our Planted Plantations***

The PRC Forestry Law(中華人民共和國森林法) and the Implementation Regulations of the PRC Forestry Law (中華人民共和國森林法實施條例) implement the system of plantation rights registration and issuance of certificates. Pursuant to the Implementation Regulations, all entities should apply to the forestry bureau of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above is responsible for issuing the plantation rights

certificates. Applicants for plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry bureau.

#### ***Plantation Rights Certificates for Our Purchased Plantations***

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

#### ***Timber Logging Permits and Logging Quotas***

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

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

#### ***Timber Transportation Permit***

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

### **Manufacturing**

#### ***Engaging in the Timber Business***

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

#### ***Regulations that Apply Nationwide***

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

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council (國務院辦公廳關於加強森林資源保護管理工作的通知) implemented on May 16, 1994, provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant

forestry bureaus, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and complying with the business objectives as stated on the license.

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

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

### ***Eleventh Five-Year Plan***

The Eleventh Five-Year Plan (2006-2010), implemented during the Tenth National People's Congress held in March 2006, stipulated plans to improve “three rural problems” in the agricultural sector in relation to agricultural, rural areas and farmers. Top priority 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.



## DESCRIPTION OF OTHER INDEBTEDNESS

Our material long-term indebtedness consists of the 2011 Senior Notes, the Syndicated Term Loan, the 2013 Convertible Senior Notes and the 2014 Senior Notes.

### **2011 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, as amended and supplemented from time to time (the “2011 Indenture”).

On July 27, 2009, we consummated an exchange offer, pursuant to which we issued US\$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes. We cancelled such principal amount of 2011 Senior Notes, so that as of September 30, 2009, there was only US\$87.7 million in principal amount of 2011 Senior Notes outstanding. Concurrently with the exchange offer, we consummated a consent solicitation with respect to the 2011 Senior Notes to amend the terms of such notes and the 2011 Indenture, such that the covenants in the 2011 Indenture are not substantially more restrictive than the restrictive covenants under the 2014 Senior Notes, including the limitation on incurrence of indebtedness and on restricted payments.

### ***Outstanding 2011 Senior Notes***

As of September 30, 2009, we had US\$87.7 million of 2011 Senior Notes outstanding. The 2011 Senior Notes were issued pursuant to the 2011 Indenture. The 2011 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 2011 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 2011 Senior Notes is August 17, 2011.

### ***Interest Rate***

The 2011 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 2011 Senior Notes are guaranteed on a senior basis, subject to certain limitations, by certain of our subsidiaries named in the 2011 Indenture, which are also (i) the subsidiary guarantors under the Syndicated Term Loan, (ii) Subsidiary Guarantors under the Notes (as well as the Initial Non-Guarantor Subsidiary) and (iii) the subsidiary guarantors and initial non-guarantor subsidiaries under each of the 2013 Convertible Senior Notes and the 2014 Senior Notes.

### ***Security***

The 2011 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 and the 2014 Senior Notes. Our payment obligations under the 2011 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 2011 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 2.5:1 at any date on which indebtedness is incurred or a restricted payment is made (each, a “Transaction Date”). Under the 2011 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 2011 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 2011 Indenture, in the case of the occurrence of certain changes of control, we must commence an offer to purchase all of the 2011 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 2011 Indenture.

## ***Events of Default***

The 2011 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 2011 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 2011 Senior Notes may immediately become payable to the holders of the 2011 Senior Notes.

The 2011 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, as amended, 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.

We plan to fully prepay amounts outstanding under the Syndicated Term Loan from the proceeds of this offering of Notes.

### ***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 (i) the subsidiary guarantors under the 2011 Senior Notes, (ii) the Subsidiary Guarantors under the Notes (and the Initial Non-Guarantor Subsidiary) and (iii) the subsidiary guarantors and initial non-guarantor subsidiary under each of the 2013 Convertible Senior Notes and 2014 Senior Notes.

### ***Security***

The Syndicated Term Loan facility is secured by a security interest in certain of our subsidiaries' shares ranking *pari passu* with the 2011 Senior Notes and the 2014 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 2011 Senior Notes, the 2013 Convertible Senior Notes and the 2014 Senior Notes.

### **2013 Convertible Senior Notes**

We entered into a trust indenture dated as of July 23, 2008 between us, The Bank of New York Mellon, as trustee, and certain of our subsidiaries, as amended and supplemented from time to time (the "2013 Indenture").

### ***Outstanding 2013 Convertible Senior Notes***

As of September 30, 2009, we had US\$345.0 million of 2013 Convertible Senior Notes outstanding. The 2013 Convertible Senior Notes were issued pursuant to the 2013 Indenture. The 2013 Convertible Senior Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the 2011 Senior Notes, the Syndicated Term Loan and the 2014 Senior Notes, except for certain of these 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 2013 Convertible 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) effectively subordinated to all existing and future obligations of the Subsidiaries not providing guarantees of the 2013 Convertible Senior Notes.

### ***Maturity***

The maturity date of the 2013 Convertible Senior Notes is August 1, 2013.

### ***Interest Rate***

The 2013 Convertible Senior Notes bear interest at a rate of 5.0% per annum on their principal amount outstanding, payable by two semi-annual installments on February 1 and August 1 of each year.

### ***Guarantee***

The 2013 Convertible Senior Notes are guaranteed on a senior basis, subject to certain limitations, by certain of our subsidiaries named in the 2013 Indenture, as amended and supplemented from time to time, which are also the Subsidiary Guarantors under the Notes and the subsidiary guarantors under the 2014 Senior Notes.

### ***Conversion***

The 2013 Convertible Senior Notes may be converted at the option of the holder into our Common Shares, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per US\$1,000 principal amount of 2013 Convertible Senior Notes (the conversion rate as at the date hereof remains the same as the initial conversion rate). If the entire US\$345.0 million principal amount was converted, it would result in the issuance of 17,007,603 Common Shares at the initial conversion price.

### ***Covenants***

The 2013 Indenture contains a limited number of covenants. Pursuant to one of these financial covenants, issuance of guarantees by certain of our subsidiaries is limited and merger, consolidation transactions and sales of assets also have to comply with certain requirements.

In addition, pursuant to the 2013 Indenture, in the case of the occurrence of certain changes of control or other Fundamental Changes (as defined in the 2013 Indenture), we are required to commence an offer to purchase all of the 2013 Convertible Senior Notes then outstanding and failure by us to do so not less than 30 days nor more than 45 days from notice of such change of control or Fundamental Change has been given to holders of the 2013 Convertible Senior Notes (as set forth in the 2013 Indenture) is an event of default under the 2013 Indenture.

### ***Events of Default***

The 2013 Indenture provides for events of default customary for indentures of this type, including nonpayment of principal, interest or other amounts; violations of covenants; failure to deliver Common

Shares upon conversion; 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 2013 Convertible Senior Notes. If such events of default were to occur, our payment obligations under the 2013 Convertible Senior Notes may immediately become payable to the holders of the 2013 Convertible Senior Notes.

The 2013 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.

## **2014 Senior Notes**

We entered into a trust indenture dated as of July 27, 2009 between us, Law Debenture Trust Company of New York, as trustee, and certain of our subsidiaries, as amended and supplemented from time to time (the “2014 Indenture”).

On July 27, 2009, we consummated an exchange offer, pursuant to which we issued US\$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes. The 2014 Senior Notes bear interest at a rate of 10.25% per annum, with interest payable in semi-annual installments.

We may also issue an additional US\$187.7 million in principal amount of New 2014 Senior Notes. See “Recent Developments—Mandra Acquisition and Issuance of New 2014 Senior Notes.”

### ***Outstanding 2014 Senior Notes***

As of September 30, 2009, we had US\$212.3 million of 2014 Senior Notes outstanding. The 2014 Senior Notes were issued pursuant to the 2014 Indenture. The 2014 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 2014 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 2014 Senior Notes is July 28, 2014.

### ***Interest Rate***

The 2014 Senior Notes bear interest at a rate of 10.25% per annum on their principal amount outstanding, payable by two semi-annual installments on January 26 and July 26 of each year.

### ***Guarantee***

The 2014 Senior Notes are guaranteed on a senior basis, subject to certain limitations, by certain of our subsidiaries named in the 2014 Indenture which are also the Subsidiary Guarantors under the Notes and the subsidiary guarantors under the 2013 Convertible Senior Notes.

### ***Security***

The 2014 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 and the 2011 Senior Notes. Our payment obligations under the 2014 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 2014 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 2.5:1 at any date on which indebtedness is incurred or a restricted payment is made (each, a “Transaction Date”). Under the 2014 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 2014 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 2014 Indenture, in the case of the occurrence of certain changes of control, we must commence an offer to purchase all of the 2014 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 2014 Indenture.

### ***Events of Default***

The 2014 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 2014 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 2014 Senior Notes may immediately become payable to the holders of the 2014 Senior Notes.

The 2014 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.

## MANAGEMENT

### Directors and Executive Officers

The management of our business and affairs is supervised by our board of directors. Our board of directors has six members, including five independent directors. They were elected at the meeting of shareholders held on May 25, 2009. 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.

<u>Name and Residence</u>	<u>Position</u>	<u>Age</u>
<b>Board of Directors</b>		
Allen T.Y. Chan . . . . . Hong Kong	Chairman and Director	57
James M.E. Hyde <sup>(1),(2),(3),(4)</sup> . . . . . Ontario, Canada	Director	55
Edmund Mak <sup>(1),(3),(4)</sup> . . . . . British Columbia, Canada	Director	61
Judson Martin <sup>(1),(2),(3),(4)</sup> . . . . . Ontario, Canada	Director	53
Simon Murray <sup>(2),(4)</sup> . . . . . Hong Kong	Director	69
Peter D.H. Wang <sup>(4)</sup> . . . . . Hong Kong	Director	56
<b>Executive Officers</b>		
Allen T.Y. Chan . . . . . Hong Kong	Chief Executive Officer	57
David J. Horsley . . . . . Ontario, Canada	Senior Vice President and Chief Financial Officer	50
George Ho . . . . . Hong Kong	Vice President, Finance, China; Vice President, Finance & CFO, Sino Panel (Asia) Inc.	48
Chen Hua . . . . . PRC	Senior Vice President, China Operations and Finance	48
Alfred Hung . . . . . Hong Kong	Vice President, Corporate Planning and Banking	42
Albert Ip . . . . . Hong Kong	Senior Vice President, Development and Operations, North East and South West China	49
Richard M. Kimel . . . . . Ontario, Canada	Corporate Secretary	43
Thomas M. Maradin . . . . . Ontario, Canada	Vice President, Risk Management	48

<u>Name and Residence</u>	<u>Position</u>	<u>Age</u>
Zhao Wei Mao . . . . . PRC	Senior Vice President, China Plantation	52
Xu Ni . . . . . Hong Kong	Vice President, Legal Affairs	39
Kai Kit Poon . . . . . Hong Kong	President	69

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** co-founded our Company in 1992 and has been the Chairman, Chief Executive Officer and a director of our Company since 1994. Mr. Chan is responsible for our overall strategic planning and management. Mr. Chan is a recognized leader in the field of sustainable development. Prior to co-founding our Company, he worked for 12 years as a management consultant and project manager in China. He has also worked for the Hong Kong government in new town development and management programs. He spearheaded the Sustainable Development Leadership Program jointly organized by the School of Forestry and Environmental Studies at Yale University and the Nanjing Forestry University in the PRC. Mr. Chan is a well known writer, under the name of “管仲連”, on culture, history and business issues and has published books in Hong Kong and the PRC. He regularly speaks at Hong Kong and Chinese universities. He graduated from the Sociology Department at the Hong Kong Baptist College (currently the Hong Kong Baptist University) in 1979. Mr. Chan was appointed as Executive Director of Renmin University of China, also known as the People’s University of China.

**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. From January 2007 to November 2008, Mr. Hyde was the 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. 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 over 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 an associate broker of Royal Pacific Realty Corporation 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 and lead director since 2007. Prior to joining our board of directors, Mr. Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. (“Alliance Atlantis”) from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the board of directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 until June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as

President and Chief Executive Officer. Mr. Martin is also 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, Orient Overseas (International) Limited, Arnold Holdings Limited, USI Holdings Limited, Compagnie Financière Richefont SA, and Vodafone Group Plc. Mr. Murray is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association. 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 of our Company since 1994. Mr. Poon was also a director of our Company from 1994 to May 2009. Mr. Poon is responsible for liaising and coordinating with various PRC provincial government authorities for us. Mr. Poon has more than 20 years of experience in the forestry industry. He is one of our founders and joined us in January 1994.

*Peter D.H. Wang* has been a director of our Company since 2007. Mr. Wang also serves as 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.

*Xu Ni* is currently the Vice President, Legal Affairs, of our Company. Prior to joining our Company, Ms. Xu was involved in PRC legal advising in connection with investments in the PRC market and worked for several international law firms based in Singapore.

## Directors' Interests

The directors' total direct and indirect holdings of our Common Shares as of December 10, 2009 are as follows:

<u>Name</u>	<u>Number of Common Shares Owned</u>	<u>Percentage of Common Shares Owned<sup>(1)</sup></u>
		(%)
Allen T.Y. Chan . . . . .	6,012,753	2.7%
Edmund Mak . . . . .	50,000	0.02%
Simon Murray . . . . .	152,686	0.07%
James M.E. Hyde . . . . .	10,000	—
Judson Martin . . . . .	10,000	—
Peter Wang . . . . .	Nil	—

Note:

(1) On a non-diluted basis.

## 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 National 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, 2008, a copy of which is available electronically at [www.sedar.com](http://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 National 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. James M.E. Hyde (Chairman), Mr. Edmund Mak and Mr. Judson Martin.



### ***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 and Banking; the Senior Manager—Investor Communication & Relations; the Vice President, Finance, China and Vice President, Finance and CFO, Sino-Panel (Asia) Inc.; the Vice President—Legal Affairs PRC; the Senior Manager—Legal Affairs; the Manager—Company Secretary and Compliance; and the Assistant Vice President, Finance (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, 2008, 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\$8.3 million. In the year ended December 31, 2008, such officers were not granted any stock options. The aggregate value of unexercised in-the-money options held by such officers was valued at Cdn.\$10.03 million (or approximately US\$8.2 million, based on an exchange rate of Cdn.\$1.2240 to US\$1.00, being the applicable exchange rate for December 31, 2008) as at December 31, 2008, based on the difference between the closing price of Cdn.\$9.87 for our Common Shares on the TSX on December 31, 2008 and the exercise price of such options, multiplied by the number of unexercised options held by each such officers.

In addition, the total retainer and meeting fees paid during the year ended December 31, 2008 to our directors for attending Board and Committee meetings were as follows:

<u>Name</u>	<u>Fees (annual)</u> <u>(Cdn.\$)</u>
Peter Wang .....	29,000
Edmund Mak .....	52,292
Simon Murray .....	27,000
Judson Martin .....	107,000
James M.E. Hyde .....	57,000

### **Deferred Stock Unit Plan**

On March 10, 2009, we approved a non-executive directors' Deferred Stock Unit Plan ("DSU Plan"), which became effective on March 31, 2009. Under the DSU Plan, non-executive directors of our Company receive an amount equal to their annual retainer (but not in substitution for) in the form of deferred stock unit awards ("DSUs") and may elect to receive all or a part of their annual retainer in the form of DSUs. On the last business day of each quarter of our fiscal year, such number of DSUs that is equal to: (a) 25% of the aggregate of: (i) the annual awarded amount as determined by the Compensation and Nominating Committee (which shall initially be equal to the amount of annual retainer fees earned by the respective non-executive director); and (ii) the amount of annual retainer fees, if any, that such non-executive director has elected to receive in the form of DSUs; divided by (b) the Fair Market Value (as defined in the DSU Plan as the closing price of the Common Shares on the TSX), are credited to the participants' DSU account. The DSUs can be redeemed for cash or, at the election of the non-executive director, in the form of Common Shares acquired by us on the open market on such director's behalf through an independent broker, when the holder ceases to be a director of our Company.

### **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 cause, 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 two months' prior notice is required by either party in order to terminate Mr. Ip's employment. Mr. Ip's employment was transferred to one of our other subsidiaries, Sino-Panel (Asia) Inc., on December 1, 1999. His employment terms and conditions remained unchanged.

Except as described under "Consulting Agreements" below, no other executive officer or director is a party to a contract providing for benefits upon termination of employment.

### **Consulting Agreements**

Allen Chan, our Chairman and Chief Executive Office is a director of Win Fair Holdings Group Limited. Pursuant to the terms of a consulting agreement between one of our subsidiaries and Win Fair Holdings Group Limited, we may terminate this consulting agreement upon 12-months' prior notice or upon payment of the applicable monthly fees (HK\$250,000 per month for the year ended December 31, 2008) for the 12 months following the effective date of written notice. Win Fair Holdings Group Limited may terminate this consulting agreement upon six-months' prior notice.

Kai Kit Poon, our President, is a director of Telstar Enterprises Limited. Pursuant to the terms of a consulting agreement between one of our subsidiaries and Telstar Enterprises Limited, we may terminate this consulting agreement upon 12-months' prior notice or upon payment of the applicable monthly fees (HK\$145,000 per month for the year ended December 31, 2008) for the 12 months following the effective date of written notice. Telstar Enterprises Limited may terminate this consultancy agreement upon six-months' prior notice.

For further details on these consulting agreements, see "Related Party Transactions."

### **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 December 10, 2009, 4,118,626 Common Shares, being approximately 1.9% 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 1,007,041 Common Shares, being approximately 0.5% of the currently issued Common Shares, remained available for grant under the Plan as of such date. During the year ended December 31, 2008 and the nine-month period ended September 30, 2009, options to acquire 75,000 and 654,618 Common Shares, respectively, were granted to officers and employees at exercise prices ranging from Cdn\$8.01 to Cdn.\$17.70.

## 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, as of December 10, 2009, by: (i) our directors and executive officers and (ii) each person known by us to own beneficially 10% or more of our Common Shares. As of December 10, 2009, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control over, 6,992,744 Common Shares, representing approximately 3.17% of the issued and outstanding Common Shares.

Shareholder	Number of Common Shares Owned	Percentage of Common Shares Owned (%)
<b>Directors and Executive Officers:</b>		
Allen T.Y. Chan . . . . .	6,012,753	2.7
Kai Kit Poon . . . . .	177,505	0.08
Simon Murray . . . . .	152,686	0.07
Edmund Mak . . . . .	50,000	0.02
James M.E. Hyde . . . . .	10,000	—
Judson Martin . . . . .	10,000	—
David J. Horsley . . . . .	10,000	—
Chen Hua . . . . .	72,900	0.03
Alfred Hung . . . . .	169,000	0.08
Albert Ip . . . . .	122,900	0.06
Zhao Wei Mao . . . . .	55,000	0.02
Xu Ni . . . . .	150,000	0.07
<b>Principal Shareholders:</b>		
Paulson & Co. Inc. . . . .	40,741,600 <sup>(1)</sup>	18.5
Davis Selected Advisors, L.P. . . . .	30,910,590 <sup>(1)</sup>	14.03

Note:

(1) The above 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 consulting services provided by our Chairman and Chief Executive Officer and our President to us were determined pursuant to agreements entered into between us and companies controlled by such persons. These consultancy fees for the nine-month period ended September 30, 2009 amounted to an aggregate of US\$459,000. In 2006, 2007 and 2008, we incurred US\$4.1 million, US\$4.6 million and US\$6.0 million, respectively, in consultancy fees to companies controlled by these persons. These arrangements are reviewed annually by the Compensation and Nominating Committee.

We had other payables and accruals of US\$4.0 million and US\$4.9 million owed to the companies controlled by these persons in 2007 and 2008. In the nine-month period ended September 30, 2009, we had no other payables and accruals owed to the companies controlled by these persons. For further details on these consulting agreements, see “Management—Consulting Agreements.”

In addition, among the vendors of the Omnicorp ordinary shares and convertible bonds we purchased in February 2009 were Mr. Murray (one of our directors) and an entity controlled by him, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction (or approximately US\$1.2 million). See “Business—Other Tree Plantation Contractual Arrangements.”

## DESCRIPTION OF THE NOTES

We will issue the Notes under an indenture (the “Indenture”) to be dated as of the issuance date of the Notes, between Sino-Forest Corporation, as Issuer, certain of our subsidiaries, as Subsidiary Guarantors, and The Bank of New York Mellon, 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;
- rank senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes;
- be effectively subordinated to our secured obligations, to the extent of the assets serving as security therefor;
- rank 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);
- be 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
- be 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 2011 Senior Notes, the 2014 Senior Notes and the Syndicated Term Loan, but we will not pledge such capital stock to secure the Notes. We intend to prepay the Syndicated Term Loan with the proceeds of the issuance of the Notes. See “Use of Proceeds,” “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 Subsidiary while certain of our other significant obligations are so secured.”

The Notes are limited to US\$400.0 million aggregate principal amount (US\$460.0 million aggregate principal amount if the Initial Purchasers exercise their over-allotment option in full). The Notes will mature on December 15, 2016. The Notes will be issued in denominations of US\$1,000 and 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 4.25% per year on the principal amount from the issuance 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 June 15 and December 15 of each year, beginning on June 15, 2010, to holders of record at the close of business on June 1 or December 1, as the case may be, immediately preceding the relevant 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 (or the date of initial issuance in the case of the June 15, 2010 interest payment date). 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 in respect of the delay. 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 that 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 Make-Whole 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 47.2619 Common Shares per US\$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately Cdn.\$22.26 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.

Subject to the second immediately succeeding sentence, 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 of the Notes. Such additional Notes may have the same CUSIP or other identifying numbers as the Notes offered hereby; *provided* that such additional Notes are issued with no more than a de minimis amount of original issue discount or are part of a qualified reopening of the Notes for U.S. federal income tax purposes. Our right to issue such additional Notes will terminate when such additional Notes would mature sooner than 5 years and 1 day from the date of issuance thereof. 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;
- be effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;
- rank senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- rank at least *pari passu* in right of payment 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 2011 Senior Notes, the 2014 Senior Notes and the Syndicated Term Loan, but we will not pledge such capital stock to secure the Notes. 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 Subsidiary 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-Wood (Fujian) 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), Sino-Panel (Fujian) Limited (BVI), Grandeur Winway Ltd. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Investments Limited (BVI), Sino-Panel (North Sea) Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Amplemax Worldwide Limited (BVI), Ace Supreme International Limited (BVI), Express Point Holdings

Limited (BVI), Glory Billion International Limited (BVI), Smart Sure Enterprises Limited (BVI), Expert Bonus Investment Limited (BVI) and Dynamic Profit Holdings Limited (BVI). These Subsidiary Guarantors have also guaranteed the 2013 Convertible Senior Notes, the 2011 Senior Notes, the 2014 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 or any other jurisdiction that prohibits such subsidiaries from guaranteeing payments under the Notes), 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) (the “Initial Non-Guarantor Subsidiary”), which is a subsidiary that has guaranteed the 2011 Senior Notes and the Syndicated Term Loan, will not be a Subsidiary Guarantor at the date of issuance of the Notes. In addition, none of our over 25 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 Subsidiary, is referred to as a “Non-Guarantor Subsidiary.” In addition, no future subsidiaries that may be organized under the laws of the PRC, or any other jurisdiction that prohibits such subsidiaries from guaranteeing payments under the Notes, 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 the 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 the Initial Non-Guarantor Subsidiary and consolidated financial statements of our 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 the Initial Non-Guarantor Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which the Initial Non-Guarantor Subsidiary will guarantee the payment of the Notes.

In addition, if the Non-consolidated Cash of the Initial Non-Guarantor Subsidiary accounts for more than 10% of the Consolidated Cash of our Company, based on the most recently available non-consolidated financial statements of the Initial Non-Guarantor Subsidiary and consolidated financial statements of our Company which have been provided to the Trustee (or if not timely provided, required to be provided) pursuant to the Indenture, we 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 the Initial Non-Guarantor Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which the Initial Non-Guarantor Subsidiary will guarantee the payment of the Notes, to ensure that after giving effect to such new Subsidiary Guarantee, the foregoing condition with respect to the Consolidated Cash of our Company will cease to exist.

For the purposes of the foregoing paragraph:

“Non-consolidated Cash” of the 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 our Company means cash and cash equivalents of our 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 or 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 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 to our 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 that 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 it is 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 the 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 the 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 the Initial Non-Guarantor Subsidiary as the case may be.

The foregoing reporting obligations shall terminate with respect to the 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 a fixed exchange rate of US\$1.00 = Cdn.\$1.05205 (the “fixed exchange rate”)) by the applicable conversion price on the conversion date. The initial conversion rate is 47.2619 Common Shares per US\$1,000 principal



amount of Notes, which represents an initial conversion price of Cdn.\$22.26 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 conversion rate will not be adjusted for any fluctuations in the rate of exchange between the U.S. dollar and the Canadian dollar. 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 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 certify in such conversion notice that (i) the converting holder is a “qualified institutional buyer” as defined in Rule 144A under the Securities Act (a “QIB”) that is (x) converting such Note for its own account, or for the accounts of one or more QIBs with respect to which account or accounts it exercises sole investment discretion and (y) acknowledging that the delivery of our Common Shares, if any, upon conversion of the Note is being made in reliance on Section 4(2) of the Securities Act or (ii) the converting holder is not a U.S. person (as defined in Regulation S under the Securities Act) and that the delivery of our Common Shares, if any, upon conversion of the Note is being made outside the United States in an offshore transaction in accordance with Rule 903 of Regulation S;
- deliver the conversion notice to the Conversion Agent, except that in the case of a converting holder that is making the certification in clause (ii) of the immediately preceding bullet, such conversion notice must be delivered to the office of the Conversion Agent in Hong Kong or Toronto, Ontario, Canada;
- 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 of all or a portion 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 accrued and unpaid interest, if any.



As a result, accrued and unpaid interest is deemed to be paid in full rather than cancelled, extinguished or forfeited. If Notes are 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, holders of such Notes on such regular record date will receive the interest payable on such Notes on the corresponding interest payment date notwithstanding the conversion, and such Notes surrendered for conversion 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 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 (“physical settlement”), we may elect to pay or deliver, as the case may be, cash (“cash settlement”) or a combination of cash and Common Shares (“combination settlement”). We refer to each of these elections and physical settlement as a “settlement method.” Except as described below, we may select the settlement method in our sole discretion and without obtaining the consent of any holder of the Notes.

All conversions occurring on or after the 25th scheduled trading day (as such term is defined below) prior to the scheduled maturity date will be settled using the same settlement method. Prior to the 25th scheduled trading day prior to the scheduled maturity date, we will treat all holders converting on the same trading day in the same manner. However, except for conversions that occur on or after the 25th scheduled trading day prior to the scheduled maturity date, we will not have any obligation to use the same settlement method to settle our conversion obligations arising on different trading days. If we elect cash settlement or combination settlement, we will notify converting holders (i) in the case of any conversions occurring before the 25th scheduled trading day prior to the scheduled maturity date, no later than the second trading day immediately following the related conversion date and (ii) in the case of any conversions occurring on or after the 25th scheduled trading day prior to the scheduled maturity date, no later than the 25th scheduled trading day prior to the scheduled maturity date. In either case, if we choose combination settlement, we will specify the amount to be satisfied in cash as a fixed dollar amount. If we do not provide such notice, we will be deemed to have elected physical settlement.

The term “scheduled trading day” means a day that is scheduled to be a trading day on the principal securities exchange on which our Common Shares are listed or quoted for trading. If our Common Shares are not so listed or quoted for trading, “scheduled trading day” means a business day.

If we do not elect cash settlement or combination settlement and instead satisfy our conversion obligation through physical settlement, settlement of our conversion obligation will occur on the third trading day following the conversion date. In the case of cash settlement or combination settlement, however, settlement of our conversion obligation 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 do not elect cash settlement or combination settlement and instead satisfy our conversion obligation through physical settlement, 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 (except that we will deliver cash in lieu of fractional Common Shares).
- (2) If we elect to satisfy our conversion obligation through cash settlement, we will pay 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 our conversion obligation through combination settlement, we will pay or deliver, as the case may be, 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 (except that we will deliver cash in lieu of fractional Common Shares).

The “cash settlement averaging period” means, in respect of a conversion date, the 25 consecutive trading days beginning on, and including, the third trading day after such conversion date; provided, however, that with respect to any conversion date occurring during the period beginning on, and including, the 25th scheduled trading day prior to the scheduled maturity date and ending at the close of business on the business day immediately preceding the stated maturity date, the “cash settlement averaging period” means the 25 consecutive trading day period beginning on, and including, the 27th scheduled trading day prior to the stated maturity 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 such term is 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 daily VWAP (as such term is defined below) of our Common Shares on such trading day, multiplied by the applicable conversion rate on such trading day, divided by 25.

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 using the following formula:

$$\frac{(\text{daily VWAP on such trading day} \times \text{applicable conversion rate}) - \text{US\$1,000}}{\text{daily VWAP on such trading day} \times 25}$$

Any determination of the daily common share amount by us will be conclusive absent manifest error. See “—Calculations in Respect of Notes” below.

If an event requiring an adjustment to the conversion rate occurs subsequent to any trading day in the relevant cash settlement averaging period and prior to the settlement date for Notes surrendered for conversion, appropriate adjustments will be made to the daily common share amounts for each trading day following such event.

The term “trading day” means a day during which trading in securities generally occurs on the TSX or if our Common Shares are not listed on the TSX, such principal other securities exchange on which our Common Shares are listed or quoted for trading; provided that 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 TSX or any other stock exchange, “trading day” will mean any business day.

The “daily VWAP” of our Common Shares for any trading day means the per share volume-weighted average price as displayed under the heading “Bloomberg VWAP” on Bloomberg page “TRE.CN <equity>AQR” (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading on the principal trading market for our Common Shares until the scheduled close of trading of the primary trading session on such market on such trading day (or if such volume-weighted average price is unavailable, the market value of one Common Share on such trading day determined, using a volume-weighted average method, by a nationally recognized independent banking firm retained for this purpose by us), translated, if necessary, into U.S. dollars at the prevailing exchange rate on such trading day. The daily VWAP will be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours on the principal trading market for our Common Shares.

The “prevailing exchange rate” means, for translation of any Canadian dollar-denominated amount (or any other currency-denominated amount) into U.S. dollars with respect to any particular day, the mid-market Reuters WMCO closing spot rate for conversion of Canadian dollars (or such other currency-denominated amount) into U.S. dollars as reported on Bloomberg page “WMCO” at approximately 4:00 p.m., London time, on that day, or if such 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 such Note, if any, to be delivered. In the case of physical settlement or combination settlement, a physical share certificate will be issued and registered to the name of the holder (or registered as designated by such holder), unless the holder in the conversion notice indicates that it wishes the Common Shares issuable upon the conversion of the Notes, if any, to be registered in the name of a participant in CDS Depository and Clearing Services Inc. (“CDS”) or in the name of the depository as “CDS & Co.” and provides the necessary information to so register such Common Shares, in which case no such physical share certificate will be issued and delivery will be made instead through the book-based facilities of CDS. The holder may retain any physical share certificate issued to it if it chooses to do so. However, in order to settle trades on the TSX, the Common Shares represented by the physical share certificate will need to be made eligible for settlement through the book-based facilities of CDS, and the holder will need to liaise and consult with its broker or other CDS participant to complete the appropriate registration information in its conversion notice to deposit the certificate into the book-based facilities of CDS. Based on the information provided by the holder of a Note or Notes in its 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-based settlement through the book-based facilities of CDS. Any certificate representing Common Shares that are to be delivered to a converting holder who makes the certification in clause (i) of the first bullet under “—Conversion Rights—Conversion Procedures” will contain a legend on the face thereof regarding transfer restrictions under U.S. securities laws, and may also contain a legend on the face thereof regarding transfer restrictions under other securities laws. See “Transfer Restrictions.”

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 daily VWAP at the close of business on the trading day 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.

Each conversion will be deemed to have been effected as to any Notes surrendered for conversion on the conversion date; *provided, however*, that the person in whose name any Common Shares shall be issuable upon such conversion will become the holder of record of such Common Shares for purposes of any distribution or event that would otherwise require an adjustment to the conversion rate as of the close of business on the conversion date (in the case of physical settlement) or the last trading day of the relevant cash settlement averaging period (in the case of combination settlement).

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 exclusively 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:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where

$CR_0$  = the conversion rate in effect immediately prior to the adjustment relating to such event;

$CR_1$  = the new conversion rate taking such event into account;

$OS_0$  = the number of our Common Shares outstanding immediately prior to the open of business on the ex-dividend date (as such term is defined below) of such dividend or distribution or the effective date of such share split or share combination, as the case may be; and

$OS_1$  = the number of our Common Shares outstanding immediately after giving effect to such event.

Any adjustment made under this clause (i) shall become effective immediately after the open of business on the ex-dividend date for such dividend or distribution, or immediately after the open of business on the effective date for such share split or share combination, as the case may be. If any dividend or distribution of the type described in this clause (i) is declared but not so paid or made, then the conversion rate shall be immediately readjusted, effective as of the date our board of directors determines not to pay such dividend or distribution, 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 or options 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 at an exercise price per Common Share that is less than the average of the daily VWAP of our Common Shares for the 10 consecutive trading days prior to the business day immediately preceding the date of public announcement of such issuance, the conversion rate will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

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 the open of business on the ex-dividend date for such issuance;

X = the total number of our Common Shares issuable pursuant to such rights, warrants or options; and

Y = the number of Common Shares equal to the quotient of (A) the aggregate price payable to exercise such rights, warrants or options, divided by (B) the average of the daily VWAP of our Common Shares for the 10 consecutive trading days prior to the business day immediately preceding the date of public announcement for the issuance of such rights, warrants or options.

For purposes of this paragraph (ii), in determining whether any rights, warrants or options entitle the holders to subscribe for or purchase our Common Shares at less than the average of the daily VWAP of our Common Shares for the 10 consecutive trading days prior to the business day immediately preceding the date of public announcement of such issuance and in determining the aggregate exercise price payable for such Common Shares, there shall be taken into account any consideration we receive for such rights, warrants or options and any amount payable on exercise 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 immediately after the open of business on the ex-dividend date for such issuance. If any right, warrant or option described in this paragraph (ii) is not exercised prior to the expiration of the exercisability thereof, the new conversion rate shall be readjusted to the conversion rate that would then be in effect if such right, warrant or option had not been issued.

(iii) If we distribute capital stock, rights to acquire capital stock or other securities, 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 or options as to which an adjustment was effected pursuant 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:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

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 the daily VWAP of our Common Shares over the 10 consecutive trading days ending on the trading day immediately preceding the ex-dividend date for such distribution; and

FMV = the fair market value (as determined in good faith by our board of directors) of the capital stock, rights to acquire capital stock or other securities, evidences of indebtedness, assets or property distributed with respect to each outstanding Common Share 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 immediately after the open of business on the ex-dividend date for such distribution. If such distribution is not so made, the conversion rate shall be decreased to be the conversion rate that would then be in effect if such distribution had not been declared.

If “FMV” (as defined above) is equal to or greater than the “SP<sub>0</sub>” (as defined above), in lieu of the foregoing increase, each holder of a Note shall receive, in respect of each US\$1,000 principal amount thereof, at the same time and upon the same terms as holders of our Common Shares, the amount and kind of our capital stock, rights to acquire our capital stock or other securities, evidences of our indebtedness, other assets or property of ours that such holder would have received if such holder owned a number of our Common Shares equal to the conversion rate in effect on the ex-dividend date for such distribution.

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 will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where

CR<sub>0</sub> = the conversion rate in effect immediately prior to the adjustment relating to such event;

CR<sub>1</sub> = the new conversion rate taking such event into account;

FMV<sub>0</sub> = the average of daily volume weighted average trading prices (as such term is defined below) of the capital stock or similar equity interest distributed to holders of our Common Shares applicable to one Common Share over the first 10 consecutive trading days after, and including, the effective date of the Spin-Off (the “valuation period”); and

MP<sub>0</sub> = the daily VWAP of our Common Shares over the valuation period.

An adjustment to the conversion rate made pursuant to this paragraph will occur on the last day of the valuation period; *provided that* in respect of any conversion during the valuation period, references in the immediately preceding paragraph with respect to 10 consecutive trading days shall be deemed replaced with such lesser number of consecutive trading days as have elapsed between the effective date of such Spin-Off and the conversion date in determining the applicable conversion rate. 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.

The “daily volume weighted average trading price” means, with respect to any such capital stock or similar equity interest for each day over the valuation period, the per share volume-weighted average price as displayed under the heading “Bloomberg VWAP” on the relevant Bloomberg page for such capital stock or similar equity interest (or if such volume-weighted average price is not available, the quotient obtained by dividing (1) the aggregate sale price of all such capital stock or similar equity interest sold on such stock exchange or quotation service during that day by (2) the total number of shares of such capital stock or similar equity interest 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 for this purpose), translated, if necessary, into U.S. dollars at the prevailing exchange rate on such trading day.



- (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:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - C}$$

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 VWAP of our Common Shares over the 10 consecutive trading days ending on, and including, the trading day immediately preceding the ex-dividend date for such distribution; and

$C$  = 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.

If “C” (as defined above) is equal to or greater than “ $SP_0$ ” (as defined above), in lieu of the foregoing increase, each holder of a Note shall receive, for each US\$1,000 principal amount of Notes, at the same time and upon the same terms as holders of our Common Shares, the amount of cash that such holder would have received if such holder owned a number of Common Shares equal to the conversion rate in effect on the ex-dividend date for such cash dividend or distribution.

- (v) If we or any of our subsidiaries make a payment in respect of a tender offer or exchange offer for our Common Shares, then, to the extent that the cash and value of any other consideration included in the payment per Common Share exceeds the average of the daily VWAP of our Common Shares for the 10 consecutive trading days commencing on, and including, the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer (such last date, the “Expiration Date”), the conversion rate will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{AC + (SP_1 \times OS_1)}{OS_0 \times SP_1}$$

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 Expiration Date (prior to giving effect to the purchase or exchange of shares pursuant to such tender or exchange offer);

$OS_1$  = the number of our Common Shares outstanding immediately after the Expiration Date (after giving effect to the purchase or exchange of shares pursuant to such tender or exchange offer); and

$SP_1$  = the average of the daily VWAP of our Common Share for the 10 consecutive trading days commencing on, and including, the trading day next succeeding the Expiration Date.

If the application of the foregoing formula would result in a decrease in the conversion rate (except in the case of readjustment pursuant to the last sentence of this paragraph), no adjustment to the conversion rate will be made. Any adjustment to the conversion rate made pursuant to this paragraph (v) shall become effective at the open of business on the date immediately following the determination of the average of the daily VWAP of our Common Shares for purposes of  $SP_1$  above; *provided that* in respect of any conversion within the 10 consecutive trading days commencing on, and including, the trading day next succeeding the Expiration Date, references with respect to “10 consecutive trading days” shall be deemed replaced with such lesser number of consecutive trading days as have elapsed between the Expiration Date and the conversion date in determining the applicable conversion rate. 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 “ex-dividend date” is the first date upon which a sale of a Common Share does not automatically transfer the right to receive the relevant distribution from the seller of the Common Share to its buyer.

Notwithstanding the foregoing, if a conversion rate adjustment becomes effective on any ex-dividend date as described above, and a holder that has converted its Notes on or after such ex-dividend date and on or prior to the related record date would be treated as the record holder of our Common Shares as of the related conversion date as described under “—Settlement Upon Conversion” based on an adjusted conversion rate for such ex-dividend date, then, notwithstanding the foregoing conversion rate adjustment provisions, the conversion rate adjustment relating to such ex-dividend date will not be made for such converting holder. Instead, such holder will be treated as if such holder were the record owner of the Common Shares on an unadjusted basis and participate in the related dividend, distribution or other event giving rise to such adjustment.

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 TSX. 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.

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, rights to acquire capital stock or other securities, 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.

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 carried-forward amount upon conversion regardless of the 1% threshold. We will not make any adjustments in the conversion rate for the transactions described above in paragraphs (i) through (v) and in the immediately preceding paragraph that would otherwise require adjustment of the conversion rate if holders of Notes participate, at the same time and upon the same terms as holders of our Common Shares and solely as a result of holding the Notes, without having to convert their Notes as if they held a number of Common Shares equal to the applicable conversion rate, multiplied by the principal amount (expressed in thousands) of Notes held by such holder.

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;
- for a change in the par value of our Common Shares; 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) that 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 (the "reference property"), except that (A) such holders will not receive a make-whole premium if such holder does not convert its Notes "in connection with" a

make-whole fundamental change and (B) at and after the effective time of such business combination (i) we will continue to have the right to determine the form of consideration to be paid or delivered, as the case may be, upon conversion of Notes, as set forth under “—Settlement Upon Conversion” and (ii)(x) the amount otherwise payable in cash upon conversion of the Notes as set forth under “—Settlement Upon Conversion” will continue to be payable in cash and (y) any Common Shares that we would have been required to deliver upon conversion of the Notes as set forth under “—Settlement Upon Conversion” will instead be deliverable in the amount and type of reference property that a holder of that number of Common Shares would have received in such business combination and (z) the daily VWAP will be calculated based on the value of a unit of reference property that a holder of one Common Share would have received in such transaction. 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 reference property into which the Notes will be convertible will be deemed to be 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 will notify holders of the weighted average as soon as practicable after such determination is made.

If any such business combination also constitutes a fundamental change, a holder may require us to purchase its Notes as described under “—Offer to Purchase at Option of the Holder Upon a Fundamental Change.” However, see “Risk Factors—Risks Related to the Notes and Our Common Shares—Certain significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to purchase the Notes.”

We may not become a party to any business combination 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.

#### **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 regular record date but on or prior to the related interest payment date, however, then the interest payable on such date will be paid to the holder of record of the Notes on such regular 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 on the later of (i) the fundamental change purchase date and (ii) the time of delivery of such Note. Payment of the fundamental change 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 fundamental change purchase price of a Note on the fundamental change 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.

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.

Furthermore, holders may not be entitled to require us to purchase their Notes upon a fundamental change in certain circumstances involving a significant change in the composition of our board of directors, including in connection with a proxy contest where our board of directors does not endorse a dissident slate of directors but approves them for purposes of the definition of clause (3) of the definition of "change in control" below.

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, shares of common stock, depositary receipts or other certificates representing common equity interests that are listed or quoted on any of the TSX, The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market 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 consideration (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).

A "termination of trading" will be deemed to have occurred if our Common Shares into which the Notes are convertible (or other shares of common equity underlying the Notes) are not listed for trading on the TSX.

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 13(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 be reissued or resold; provided that (i) we are permitted by applicable law to so reissue or resell such Note and (ii) such reissuance or resale does not result in such Note becoming a "restricted security," as such term is defined in Rule 144(a)(3) under the Securities Act. We may also surrender any Note so purchased to the Trustee for cancellation, in which case any such Note may not be reissued or resold and will be cancelled 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 (excluding debt to be repaid with the proceeds from the Notes offering). 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 the principal of the Notes at maturity or to purchase the Notes upon a fundamental change.”

#### **Make-Whole Premium Upon a Make-Whole 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” above and, in the case of a transaction described in clause (2), without regard to the exception in the second bullet thereunder (a “make-whole 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 make-whole fundamental change 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 make-whole fundamental change if the conversion notice is received by the Conversion Agent on or subsequent to the effective date of the make-whole 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 make-whole 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 make-whole fundamental change, subject to adjustment as described below. If holders of our Common Shares receive only cash in the make-whole 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 daily VWAP of our Common Shares for 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 Make-Whole Fundamental Change (Number of Additional Shares)**

<b>Stock Price on Effective Date</b>	<b>December 17, 2009</b>	<b>December 15, 2010</b>	<b>December 15, 2011</b>	<b>December 15, 2012</b>	<b>December 15, 2013</b>	<b>December 15, 2014</b>	<b>December 15, 2015</b>	<b>December 15, 2016</b>
US\$15.97 . . . . .	15.3601	15.3601	15.3601	15.3601	15.3601	15.3601	15.3601	15.3601
US\$19.00 . . . . .	13.0356	12.5485	11.9458	11.2597	10.4192	9.2985	7.5758	5.3697
US\$21.00 . . . . .	11.0460	10.5004	9.8140	9.0219	8.0306	6.7069	4.6914	0.3571
US\$23.00 . . . . .	9.5194	8.9523	8.2478	7.3993	6.3498	4.9611	2.9105	0.0000
US\$25.00 . . . . .	8.3201	7.7543	7.0497	6.1984	5.1483	3.7811	1.8512	0.0000
US\$30.00 . . . . .	6.2311	5.7158	5.0739	4.3014	3.3659	2.2079	0.7736	0.0000
US\$35.00 . . . . .	4.8996	4.4552	3.9028	3.2434	2.4613	1.5362	0.4940	0.0000
US\$40.00 . . . . .	3.9804	3.6042	3.1371	2.5837	1.9374	1.1954	0.3916	0.0000
US\$50.00 . . . . .	2.7919	2.5247	2.1921	1.8008	1.3496	0.8407	0.2854	0.0000
US\$60.00 . . . . .	2.0535	1.8617	1.6210	1.3374	1.0093	0.6358	0.2178	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\$60.00 per share, subject to adjustment in the same manner as the stock prices set forth in the first column of the table above as described below, no make-whole premium will be paid; and
- if the stock price on the effective date is less than US\$15.97 per share, subject to adjustment in the same manner as the stock prices set forth in the first column of the table above 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 62.6220 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.

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 equitable remedies.

The additional shares (or cash in lieu thereof) delivered to satisfy our obligations to holders that convert their Notes in connection with a make-whole fundamental change will be delivered upon the settlement date for the conversion.

### **Redemption For Tax Reasons**

We or the Surviving Person (as defined under “—Consolidation, Mergers or 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, after the date of this Offering Memorandum, or in the case of Additional Amounts owed by the Surviving Person or any future Subsidiary Guarantor, after 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, after the date of this Offering Memorandum, or in the case of Additional Amounts owed by the Surviving Person or any future Subsidiary Guarantor, after the date such Surviving Person or Subsidiary Guarantor assumes the obligations under the Indenture, in an official position regarding the 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 that 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 and 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.

For the avoidance of doubt, any Additional Amounts that had been payable in respect of the Notes as a result of the laws or regulations of the Relevant Taxing Jurisdiction in effect on the date of this Offering Memorandum shall continue to be payable to such holders of the Notes.

The holder must convert its Notes not later than the business day immediately preceding the redemption date or deliver to the Paying Agent a written notice of election not to have its Notes redeemed 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 and the holder does not convert its Notes, the holder will have its Notes redeemed without any further action.

A holder may withdraw any notice of election not to have its Notes redeemed 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 or 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");
- (3) to any withholding or deduction that is imposed on a payment to an individual and that is required to be made pursuant to the European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive; or
- (4) 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 and failure to deliver the consideration due upon conversion, 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.

If any portion of the amount payable on the Notes upon acceleration is considered by a court to be unearned interest (through the allocation of the value of the instrument to the embedded warrant or otherwise), the court could disallow recovery of any such portion.

### **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 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 in clause (1) above, 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 the preliminary offering memorandum, as supplemented by the related pricing term sheet, 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 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 applicable conversion rate, any adjustment thereto, the make-whole premium, conversion value, daily conversion value amount, daily common share amount, the daily VWAP, the daily volume weighted average trading price and the 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**

Our Common Shares are listed under the symbol “TRE” on the TSX.

### **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 waiver 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, and any claim, controversy or dispute arising under or related to the Indenture or the Notes, will be 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 will be the Trustee, Registrar, Paying Agent and Conversion Agent under the Indenture for the Notes. The Bank of New York Mellon, whether acting as Trustee, Conversion Agent, Paying Agent or Registrar, makes no representation as to the enforceability, validity, sufficiency or value of any Guarantee, the Notes, the Common Shares, any conversion consideration, any make-whole premium, average market price, conversion rate, any adjustment thereto, conversion value, daily conversion value amount, daily common share amount, daily VWAP, daily volume weighted average trading price, prevailing exchange rate, or any calculation performed by the Company hereunder.

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

### **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 depository for the Global Notes and a successor depository 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 our 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 220,279,062 Common Shares were issued and outstanding as of December 10, 2009, and an unlimited number of preference shares issuable in series, of which none were issued and outstanding as of December 10, 2009.

On a diluted basis, we have 241,405,291 Common Shares outstanding as of December 10, 2009, assuming the exercise of 4,118,626 outstanding stock options and the issuance of 17,007,603 Common Shares upon the conversion of the 2013 Convertible Senior Notes in full.

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 under the 2011 Indenture, 2014 Indenture 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 that, 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***

CIBC Mellon at its principal offices in the city of Toronto, Ontario currently acts 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. Effective December 29, 2009, Valiant Trust Company has been appointed to replace CIBC Mellon as the transfer agent and registrar for our Common Shares.

### ***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 December 10, 2009, 4,118,626 Common Shares, being approximately 1.9% 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 1,007,041 Common Shares, being approximately 0.5% 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 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) the (“Minister”) 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 rate of exchange that is acceptable to the Minister.

### ***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  $6\frac{2}{3}\%$  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 Conversion 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 aggregate of 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 $\frac{1}{3}$ % 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.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Conversion Share may be reduced by the amount of dividends received or deemed to be received by it on such Conversion Share (or on a share for which the Conversion Share has been substituted) to the extent and under the circumstances described in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Conversion Shares, directly or indirectly, through a partnership or a trust.

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 $\frac{2}{3}$ % 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 benefits 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. Non-Residents who are residents of the United States 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 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 residents 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 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 our voting stock, 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 we are not a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes, which we believe to be the case. Our possible status as a PFIC must be determined annually and therefore may be subject to change. If we 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 Convention, 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 CONVENTION, 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 accrued interest or 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 (other than Conversion Shares attributable to accrued interest) will generally be the same as the U.S. Holder’s basis (exclusive of any tax basis allocable to 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, we intend 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 (other than amounts attributable to accrued interest, which will be treated as described above under “Notes—Payments of Interest”) received over the holder’s adjusted tax basis in the Note, but in no event will the capital gain recognised exceed the amount of cash received (excluding cash attributable to accrued interest or received in lieu of fractional Conversion Shares)

In such circumstances, a U.S. Holder’s tax basis in the Conversion Shares received upon a conversion of a Note (other than Conversion Shares attributable to accrued interest, but 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 attributable to accrued interest or received in lieu of a fractional Conversion Share), increased by the amount of gain, if any, recognised (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 recognise gain or loss with respect to our 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 Rights—Conversion Rate Adjustments,” and “—Make-Whole Premium Upon a Make-Whole Fundamental Change,” 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. 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 us on Conversion Shares out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Canadian withholding tax paid by us 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, we do not maintain calculations of our earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that

any distribution 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 us.

For taxable years that begin before 2011, dividends paid by us will generally be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to long-term capital gains, provided we qualify for the benefits of the Convention. 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.

*Foreign Currency Dividends.* Dividends paid in Canadian dollars will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the Canadian dollars are converted into U.S. dollars at that time. If dividends received in Canadian Dollars are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

*Effect of Canadian Withholding Taxes.* As discussed in “Taxation—Canadian Federal Income Tax Consideration,” under current law payments of dividends 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 Convention 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 us, 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 us 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 Convention rate withheld by us. 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 generally will constitute foreign source income in the “passive income” basket. If a U.S. Holder receives a dividend from us 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 reduced. 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 and receiving a dividend from us that is eligible for the special reduced rate described above under “Dividends—General”.

## **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 (as determined above under "Notes—Conversion"). 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.

The amount realised on a sale or other disposition of Conversion Shares for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, the U.S. Holder will recognise U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Conversion Shares traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

## **Disposition of Foreign Currency**

Foreign currency received on the sale or other disposition of a Conversion Share will have a tax basis equal to its U.S. dollar value on the settlement date. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Conversion Shares or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

## **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. We do not believe that we will be a PFIC for U.S. federal income tax purposes for our current taxable year, and we do not expect to become a PFIC in the foreseeable future. Although income from the sales of commodities is generally passive income, a special rule treats active business gains from the sales of commodities as non-passive income provided certain requirements are met. To the extent we derive income from the sale of commodities, we believe that we currently meet these requirements. Our possible status as a PFIC must be determined annually, however, and therefore may be subject to change particularly if we fail to qualify under this special rule. This determination will depend in part on our spending schedule for our cash balances and the proceeds of the offering.

If we were to be treated as a PFIC, unless a U.S. Holder makes certain elections, gain recognised 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 us 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. Credit Suisse Securities (USA) LLC (“Credit Suisse”) 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 December 10, 2009 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.

<u>Initial Purchaser</u>	<u>Principal Amount</u>
Credit Suisse . . . . .	US\$220,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated . . . . .	US\$140,000,000
TD Securities Inc. . . . .	US\$40,000,000
Total . . . . .	US\$400,000,000

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 Purchasers 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 97.4% of the principal amount thereof.

We estimate that the net proceeds from the offering of the Notes will be approximately US\$388,300,000 (or approximately US\$446,740,000 if the Initial Purchasers’ overallotment option is exercised in full) after giving effect to the Initial Purchasers’ discount and offering expenses payable by us.

### **Over-allotment Option**

We have granted the Initial Purchasers an option to purchase up to an additional US\$60.0 million 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 over-allotments, 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.

#### *PRC*

This Offering Memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC (excluding, for purposes of this paragraph only, Hong Kong, Macau and Taiwan). The Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC except pursuant to applicable laws and regulations of the PRC, including but not limited to the laws and regulations applicable to qualified domestic institutional investors as approved by competent authorities in the PRC.

#### *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*.

#### *France*

Each Initial Purchaser has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering Memorandum or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Code monétaire et financier.

#### **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 120 days from the date of the first issuance of the Notes, without the prior written consent of Credit Suisse, 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 exchangeable 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, (C) upon the conversion or exercise of the Notes or securities outstanding on the date hereof or (D) pursuant to the Equity Offering.

### **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. 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 symbol “TRE”. The TSX has conditionally approved the listing of the Common Shares issuable upon conversion of the Notes.

### **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 144A 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, 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”) AND THE GUARANTEES EVIDENCED HEREBY, AND THE COMMON SHARES OF SINO-FOREST CORPORATION ISSUABLE UPON CONVERSION HEREOF (THE “CONVERSION SHARES”), HAVE NOT BEEN, AND WILL NOT 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, OR (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, 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 WHETHER HOLDERS WISHING TO SELL CONVERSION SHARES IN RELIANCE ON RULE 144 UNDER THE SECURITIES ACT WILL BE ABLE TO TACK THE HOLDING PERIOD FOR THE NOTES TO THE HOLDING PERIOD FOR THE CONVERSION SHARES FOR PURPOSES OF RULE 144;

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 and the Common Shares Issued Upon Conversion 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.

**You may only be able to resale or otherwise transfer any Common Shares issued upon a conversion of Notes (i) to QIBs in accordance with Rule 144A, (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iii) under Rule 144 under the Securities Act (which may only be available after one year following the relevant conversion date).**

### **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 assigned an expected BB+ by Fitch Ratings Ltd. and a proposed BB rating by Standard & Poor’s Ratings Services. 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.

### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

Our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007, the auditors’ report of BDO McCabe Lo Limited dated March 19, 2007 with respect to our audited consolidated financial statements for the years ended December 31, 2005 and 2006 and the auditors’ report of Ernst & Young LLP dated March 12, 2008, except as to notes 2, 18 and 23 which are as of July 17, 2008, with respect to our consolidated financial statements for the year ended December 31, 2007, in the final offering memorandum dated July 17, 2008 with respect to US\$300,000,000 5.00% convertible senior notes due 2013 included as Schedule D to our material change report dated July 25, 2008 filed with the provincial securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this Offering Memorandum.

Our audited financial statements for the years ended December 31, 2007 and 2008 and the auditors’ report of Ernst & Young LLP dated March 13, 2009 and our unaudited interim consolidated financial statements for the nine-month periods ended September 30, 2008 and 2009 are also specifically incorporated by reference in and form an integral part of this Offering Memorandum.

The Pöyry Reports, filed with the provincial securities commissions or similar commissions or similar authorities in Canada, are also specifically incorporated by reference in and form an integral part of this Offering Memorandum.

A copy of each of these documents is available electronically at [www.sedar.com](http://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).

Any statement contained in this Offering Memorandum or a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

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

### **LEGAL MATTERS**

Certain legal matters will be passed upon for us by Aird & Berlis LLP as to Canadian law, Linklaters as to Hong Kong and United States federal and New York law and Appleby as to British Virgin Islands and Cayman Islands law, and for the Initial Purchasers by Stikeman Elliott LLP as to Canadian law and by Davis Polk & Wardwell LLP 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 year ended December 31, 2006 were audited by the audit firm BDO McCabe Lo Limited (now known as BDO Limited), independent auditors, as stated in their reports incorporated by reference in this Offering Memorandum, and our consolidated financial statements for the years ended December 31, 2007 and 2008, as well as adjustments to our consolidated financial statements for the year ended December 31, 2006 were audited by Ernst & Young LLP, independent auditors, as stated in their report incorporated by reference in this Offering Memorandum. Such financial statements have been incorporated by reference in this Offering Memorandum 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:

	CUSIP	ISIN	Common Code
Rule 144A Notes . . . . .	82934H AD3	US82934HAD35	047429960
Regulation S Notes . . . . .	C83912 AD4	USC83912AD41	047430488

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 September 30, 2009.
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, USA during normal business hours.
6. **Auditors:** Our consolidated financial statements for the year ended December 31, 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 years ended December 31, 2007 and 2008, as well as adjustments to our consolidated financial statements for the year ended December 31, 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 financial information of our Company included in the audited financial statements incorporated by reference 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 September 30, 2009 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 September 30, 2009. 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 September 30, 2009 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.

## **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 accounted 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, ASC 740-10 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 recognition and measurement of the provisions of ASC 740-10 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.

## **Business Combination**

Current Canadian GAAP accounting for business combinations is substantially the same as U.S. GAAP through December 31, 2008. However, for business combinations consummated on or after January 1, 2009, U.S. GAAP was revised and ASC 805 *Business Combinations* became effective. Canadian GAAP will change for business combinations consummated on or after January 1, 2011 (earlier adoption is permitted) to a model that is substantially similar to the U.S. GAAP ASC 805 model.

Under U.S. GAAP, ASC 805 *Business Combinations* applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009 and significantly changes the accounting and reporting for business combinations and any non-controlling interests in consolidated financial statements. Amongst other things, it requires the use of the acquisition method to account for business combinations, of which the fair value of the underlying exchange transaction should be used to establish a new accounting basis for the acquired entity. In addition, acquisition-related costs are not considered part of the fair value exchange between the buyer and seller for the acquired business and, therefore, are expensed as incurred.

## **Convertible Debentures**

Under Canadian GAAP, financial instruments with both liability and equity components are required to be bifurcated. The value of the conversion option has been recorded using the residual method.

Under U.S. GAAP, ASC 470-20 *Debt with Conversion and Other Options* states that all of the proceeds received from the issuance of convertible debt generally should be recorded as a liability on the balance sheet. That is, no portion of the proceeds from the issuance of the convertible debt instruments described in ASC 470-20-25-11 generally should be attributed to the conversion feature unless a beneficial conversion feature exists.

ASC 470-20-15 (which is effective for fiscal years beginning after December 15, 2008) clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by ASC 470-20. The ASC requires the issuer of convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate.

Convertible debt has an embedded written call option, but does not require separate accounting pursuant to ASC 815-10-15-74(a) (as interpreted by ASC 815-40) if the embedded written call option (1) is indexed to the reporting entity's own stock and (2) would be classified in stockholders' equity if it were issued as a separate instrument.

ASC 815-40 provides guidance to determine whether the embedded written call is indexed to the entity's own stock (condition 1 above). Its provisions address both exercise contingencies and the determination of the settlement amount when evaluating the embedded feature.

ASC 815-40 provides guidance to determine whether the conditions necessary for equity classification have been met. ASC 815-40 generally requires, among other conditions described in the next paragraph, the written call option on a company's own stock to be classified as equity if it:

- Requires physical settlement or net-share settlement.
- Provides the issuer with a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). These contracts are classified as equity regardless of the intent of the company.

In addition, ASC 815-40-25 impose conditions for equity classification of freestanding derivative contracts. But these additional conditions do not apply to the evaluation of the embedded written call option in "conventional convertible debt." ASC 815-40 states that "conventional" convertible debt is



limited to those instruments that provide the holder with an option to convert into a fixed number of shares (or an equivalent amount of cash at the discretion of the issuer) and the ability to exercise that option based on the passage of time or a contingent event. In the event that the convertible debt is not considered “conventional,” the additional requirements described in ASC 815-40-25 must be met to conclude that the written call option need not be bifurcated and separately accounted for pursuant to ASC 815-10.

If an embedded derivative must be bifurcated from the convertible debt instrument, the issuer should account for the embedded derivative in the same manner as a freestanding derivative under ASC 815-10.

As a result, significant differences may arise between Canadian GAAP and U.S. GAAP with respect to the accounting for convertible debt.

## AUDITORS' CONSENT

We have read the offering memorandum of Sino-Forest Corporation (the "Company") dated December 10, 2009 relating to the offer of US\$400,000,000 4.25% Convertible Senior Notes Due 2016. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

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

Vancouver, Canada  
December 10, 2009

(Signed) ERNST & YOUNG LLP,  
Chartered Accountants

### **AUDITORS' CONSENT**

We consent to the incorporation by reference in the offering memorandum dated December 10, 2009 relating to the issue of US\$400,000,000 of 4.25% convertible senior notes due 2016 by Sino-Forest Corporation (the "Company"), of our report dated March 19, 2007 to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the two years then ended.

Hong Kong  
December 10, 2009

(Signed) BDO LIMITED  
Certified Public Accountants

**PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY**

**Sino-Forest Corporation**  
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**AUDITORS**

**Ernst & Young LLP**  
Chartered Accountants  
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Vancouver, British Columbia  
Canada V7Y 1C7

**TRUSTEE, PAYING AGENT,  
CONVERSION AGENT,  
TRANSFER AGENT AND REGISTRAR**

**The Bank of New York Mellon**  
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United States of America

**LEGAL ADVISORS TO THE COMPANY**

*As to United States law*

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Beijing, 100022  
People's Republic of China

**US\$400,000,000**



**Sino-Forest Corporation**

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

**4.25% Convertible Senior Notes due 2016**

**CONFIDENTIAL OFFERING MEMORANDUM**

**December 10, 2009**

**Joint Book-Running Managers**

**Credit Suisse**

**BofA Merrill Lynch**

**TD Securities**