



CATHAY FOREST PRODUCTS CORP.

Renewal Annual Information Form

for the year ended

December 31, 2009

April 30, 2010

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GLOSSARY

“**AIF**” means this Annual Information Form.

“**Annual Allowable Cut**” or “**AAC**” means the amount of timber that may be harvested from a certain forestry land as permitted by the relevant PRC laws and regulations.

“**CJV**” means co-operative Sino-Foreign joint venture.

“**Domestic**” means PRC entities that are owned completely by other PRC entities.

“**EJV**” means equity Sino-Foreign joint venture.

“**FGP**” means Fast Growth Poplar.

“**ha**” means hectare.

“**Indufor**” means Indufor Oy, an independent forestry consulting firm, located at Töölönkatu 11 A, FI-00100 Helsinki, Finland.

“**m³**” means cubic metre.

“**PIP**” means the Priority Investment Program.

“**Pöyry**” means Pöyry (Beijing) Consulting Company Ltd. (previously named JP Management Consulting (Asia-Pacific) Ltd. or Jaakko Pöyry, an independent forestry consulting firm, located at 2208-2210 Cloud Nine Plaza, No. 1118 West Yan An Rd., Shanghai 200052, PRC.

“**PRC**” means People’s Republic of China.

“**RMB**” means the Chinese currency, the Renminbi.

“**RF**” means the Russian Federation.

“**RUB**” means the Russian currency, the Ruble.

“**WFOE**” means wholly foreign-owned enterprise.

FORWARD-LOOKING STATEMENTS

This Annual Information Form (“**AIF**”) contains forward-looking statements which reflect management’s expectations regarding Cathay Forest Products Corp.’s future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Cathay Forest Products Corp. These statements are not historical facts but instead represent only Cathay Forest Products Corp.’s expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Cathay Forest Products Corp. currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation and the demand and supply of logs, our reliance on joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of our provision for income and related taxes and each of the People's Republic of China’s (“**PRC**”) and the Russian Federation’s (“**RF**”) economic, political and social conditions and government policies, other factors, such as general, economic and business conditions and opportunities available to or pursued by Cathay Forest Products Corp., not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Cathay Forest Products Corp. has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements as such information may not be appropriate for other purposes. Except as required under applicable securities laws, Cathay Forest Products Corp. does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this AIF.

THE CORPORATION

Cathay Forest Products Corp. (“**Cathay Forest**”, the “**Company**”, “**we**” or “**us**”) is a corporation continued pursuant to the *Canada Business Corporations Act* (“**CBCA**”) by Certificate of Continuance dated September 22, 2004. The Company was incorporated as Vinta Explorations Ltd. on March 11, 1987 under the laws of British Columbia. In conjunction with a consolidation of its shares, Vinta Explorations Ltd. changed its name to Progressive Technologies Inc. on August 11, 1992. Upon further consolidation of its shares, Progressive Technologies Inc. changed its name to Progressive Applied Technologies Inc. on August 12, 1999. Progressive Applied Technologies Inc. changed its name to Pacific Vegas Global Strategies Inc. on June 26, 2002 pursuant to a further consolidation of its shares. Pacific Vegas Global Strategies Inc. consolidated its shares on a basis of one (1) share for five (5) shares on September 13, 2004 and changed its name to Cathay Forest Products Corp. on September 16, 2004.

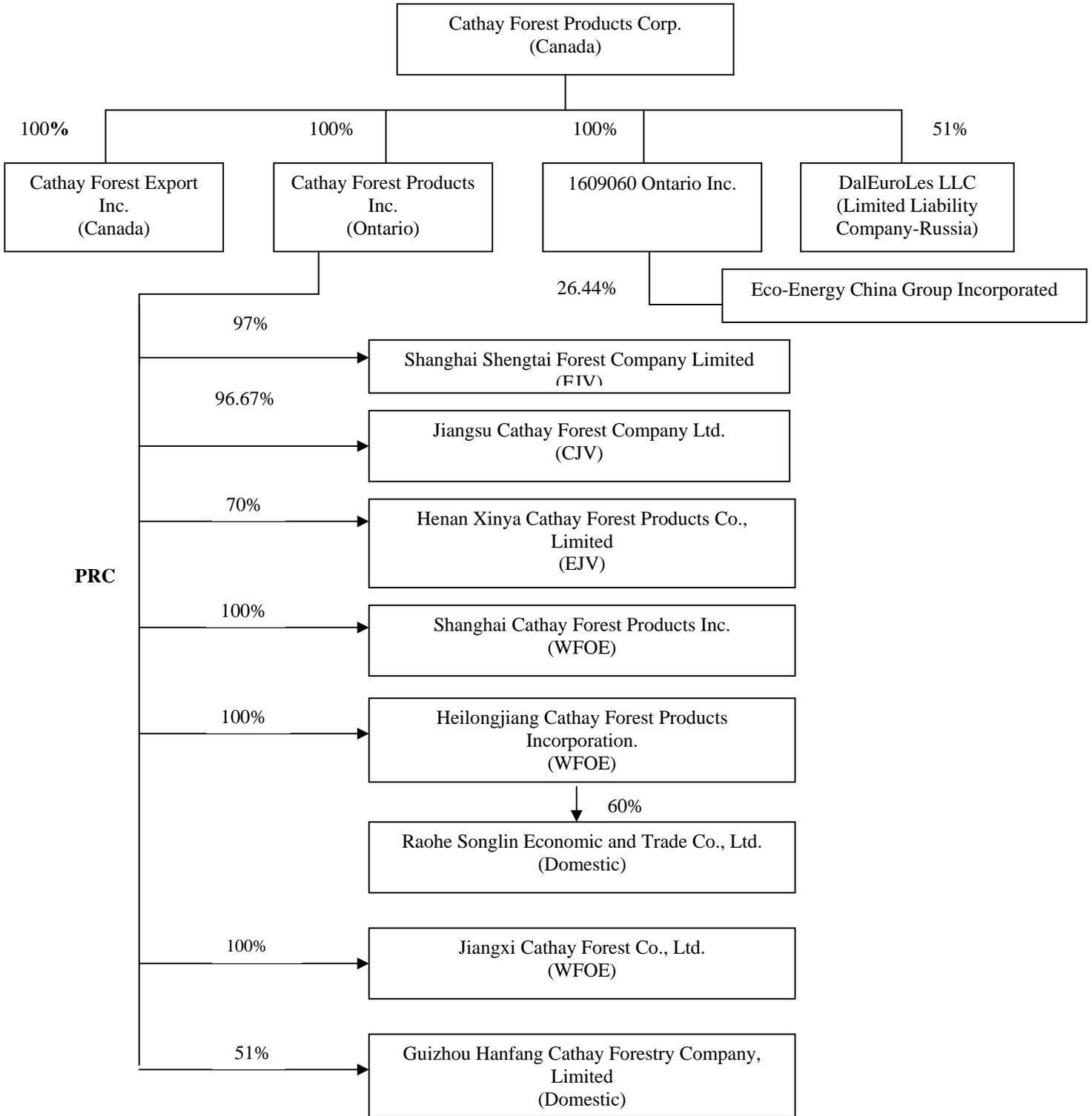
Cathay Forest's head office is located at 30 Wertheim Court, Suite 14, Richmond Hill, Ontario, L4B 1B9 and its common shares are posted and listed for trading on the TSX Venture Exchange Inc. under the symbol “**CFZ**”.

CORPORATE STRUCTURE

All of our forestry investments in the PRC are held by our wholly-owned subsidiary, Cathay Forest Products Inc., a corporation incorporated pursuant to the *Business Corporations Act* (Ontario) on November 18, 2003. All of our investments in the Russian Federation are held directly by the Company. Our investments in Eco-Energy China Group is held by a wholly-owned subsidiary, 1609060 Ontario Inc., a corporation incorporated pursuant to the *Business Corporations Act* (Ontario) on March 2, 2004.

Our investments in the PRC are comprised of wholly foreign-owned enterprises (“**WFOE**”), co-operative Sino-Foreign joint ventures (“**CJV**”), equity Sino-Foreign joint ventures (“**EJV**”) and/or PRC entities that are owned completely by other PRC entities and referred to as “Domestic”.

The following chart illustrates the inter-corporate relationships among Cathay Forest and its direct and indirect subsidiaries:



The following table provides a brief description of our subsidiaries:

Entity	Type	Ownership Interest	Size of Plantation (ha)	Operations and Locations
Cathay Forest Products Inc.	Ontario Corporation	100%	N/A	Holding Company
Cathay Forest Export Inc.	Canadian Corporation	100%	N/A	Roundwood Sales
1609060 Ontario Inc.	Ontario Corporation	100%	N/A	Holding Company
Shanghai Shengtai Forest Company Limited	EJV	97%	11,530	Fast Growth Plantations
Jiangsu Cathay Forest Company Limited	CJV	96.67% ⁽¹⁾	874	Fast Growth Plantations
Shanghai Cathay Forest Products Inc.	WFOE	100%	N/A	Holding Company
Guizhou Hanfang Cathay Forestry Co., Ltd.	Domestic	51%	6,996	Standing Timber Operations
Henan Xinya Cathay Forest Products Co. Ltd.	EJV	70%	221	Fast Growth Plantation
Jiangxi Cathay Forest Co. Ltd.	WFOE	100%	1,819 5,173	Fast Growth Plantations Standing Timber Operations
Heilongjiang Cathay Forest Products Inc.	WFOE	100%	N/A	Standing Timber Operations
Raohe Songlin Economic and Trade Co., Ltd.	Domestic	60%	N/A	Roundwood Importing
DalEuroLes LLC	Russian Federation limited liability company	51%	992,196	Standing Timber Operations

⁽¹⁾ We have the right to use 96.7% of the Jiangsu fast growth plantation under the relevant land lease agreements. In lieu of paying annual rent, we share the harvest equally with the lessors. Accordingly, our effective beneficial ownership interest is 48.5%.

GENERAL BACKGROUND OF THE BUSINESS

Overview

Cathay Forest is a Canadian company operating a commercial forest products business through its subsidiaries and related companies in the PRC and in the RF.

We began our forestry operations in the PRC in 2004. Our areas of business in China are development of fast growth, high-yield poplar plantations, acquisition and management of standing timber properties and the importation of roundwood from the RF to the PRC.

We began our forestry harvesting operations in the RF in October 2008. Roundwood logs are harvested and exported to China and Japan.

Through wholly foreign-owned enterprises and joint venture companies, we currently have Fast Growth Poplar (“FGP”) plantations in the provinces of Shandong, Jiangsu, Henan and Jiangxi in the PRC.

Our revenue is generated from the sale of timber harvested from our standing timber interests in Jiangxi, Heilongjiang, Hunan and Guizhou in the PRC and Kharbarovsk in the RF. In 2009, Cathay Forest’s revenue was composed of income from our roundwood trading operation in the Heilongjiang Province of the PRC in which we source roundwood from the RF and sell it in the PRC market and, to a lesser extent, in the Japanese market. Revenue was also generated from the sale of some fast growth poplar and bamboo from our plantations.

Historical Milestones

Since we began our operations in 2004, we have achieved the following milestones:

2004

March – Planted first poplar tree in the PRC.

August/September – Raised \$6 million by private placement in conjunction with the re-listing of our common shares on the TSX Venture Exchange under the symbol “CFZ”.

2005

August – Raised \$10.3 million in a private placement offering to finance our fall 2005 planting program.

October – Acquired approximately 1,600 hectares of standing timber interests in the Jiangxi province, PRC.

2006

February – Entered into an agreement with the local forest bureau to establish poplar plantations in Jiangsu Province, PRC.

July – Acquired approximately 2,700 hectares of standing timber in the southern provinces of Henan and Jiangxi, PRC.

2007

January – Raised \$5.2 million in a private placement offering to finance the acquisition of additional standing timber plantations and to further expand our existing poplar plantation program and roundwood import operation.

February – Entered into a mutual cooperation agreement with a local forestry group to develop 66,660 hectares of standing timber in Guizhou province over three phases.

October – Entered into an agreement to purchase 51% of DalEuroLes LLC (“DalEuroLes”), a Russian limited liability company that controls a 271,000 hectare standing timber concession in Khabarovsk, Russian Federation.

October - Completed the acquisition of a 51% controlling interest in DalEuroLes.

November – Completed a \$45 million private placement offering to finance the participation in DalEuroLes, and the development of the standing timber properties of DalEuroLes and Guizhou Hanfang Cathay Forestry Co., Ltd.

December – Entered into a co-operative agreement with a local forestry company, to develop and plant FGP on approximately 3,300 hectares within five (5) years in the Poyang Lake region.

2008

June – Entered into a distribution agreement with Marubeni Corporation a Japanese firm to facilitate the sale of wood products from Russia to Japan.

July – Received final approval for forestry rights to an additional 721,196 hectares in the Khabarovsk Region of Russia with an attached Annual Allowable Cut quota of 400,000 cubic metres.

October – Harvesting operations began on first leased property in Khabarovsk, Russia.

2009

March- DalEuroLes receives an operating license for its rail storage and storing yard located in Kharpichan, Russia.

May- The Board of Directors approves an investment of up to US\$2.4 Million to acquire a stake in Eco-Energy China Group Incorporated, a vertically integrated biodiesel fuel producer in the PRC. This transaction was completed in July 2009.

December – Completed a \$15.25 million public offering for common shares to finance the expansion of the standing timber properties of DalEuroLes including the development of value added processes.

DESCRIPTION OF THE BUSINESS

Strategy and Objectives

Cathay Forest's goal is to become a world class forestry products company. In pursuit of this goal we intend to (i) promote, develop and practice sustainable re-generation forestry; and (ii) become a preferred supplier of forestry products to downstream customers.

To achieve our objectives, we are pursuing the following strategies:

1. Manage all forestry assets on a sustainable basis and continue to promote Cathay Forest's reputation in the forestry industry in China, Russia, and Japan.
2. Develop FGP plantations on lands in China that will minimize cost and maximize profit margins.
3. Strategic acquisitions of additional standing timber assets in China and Russia.
4. Improve yields on acquired standing timber properties through sustainable forestry management with the goal of achieving operation independence from AAC.
5. Increase the volume of our roundwood imports from Russia and optimize cash flow to support the development of our FGP plantations.

6. Develop relationships and distribution channels in Japan where there is an established market for top quality Russian roundwood.

FGP Plantations

Our FGP plantations are generally operated through Sino-foreign joint ventures with local PRC farmers. These joint ventures are operated under two models.

Under our *rental model*, we rent land from farmers and collective organizations. Plantations in some areas have deferred rental arrangements whereby the rental payment is made upon the harvest and sale of the harvested timber. Under our *joint development model*, the local partners provide land for planting and Cathay Forest is responsible for planting, silviculture and management of the plantation. The net proceeds from future harvests are expected to be shared with the local partners on a 50/50 basis.

We plant fast growth hybrid poplar saplings that have been developed to grow 2 to 3 times faster than conventional poplars. The FGP growth rate in volume is fastest between the third and the eighth year and is characterized by superior quality and higher resistance to pests and diseases.

As of the date of this AIF, we have 14,444 hectares of FGP plantations strategically located in the central and eastern PRC provinces of Shandong, Jiangsu, Henan and Jiangxi. We plant in prime agricultural areas and in underutilized land areas such as riverbanks and lakeshores. We operate plantations using advanced, management practices focused on the development of sustainable forestry. Our poplar plantations are considered mature upon reaching 20 cm of diameter, typically achieved in a tree's fifth or sixth year of growth. We predominately sell our wood to buyers who are then responsible for harvesting. Otherwise, we employ local seasonal workers for harvesting. The usual practice for our customers is to employ or contract their own harvesters. We do allow buyers a window of time to harvest after our plantation manager/workers have segregated the area that has been sold. The harvesters schedule a time to remove the wood from our plantation under a supervised and monitored environment.

Summarized below are each of our FGP operations:

Shanghai Shengtai Forest Company Limited

Shanghai Shengtai Forest Company Limited (“**Shengtai**”) was established in April of 2004 as an EJV in which we hold a 97% interest. Shengtai currently operates 11,530 hectares of poplar plantations in the province of Shandong. Of these plantations, 8,730 hectares were developed in late 2004 and 2005, and 2,800 hectares were developed in 2006. These plantations currently operate under the rental model.

Jiangsu Cathay Forest Company Ltd.

Jiangsu Cathay Forest Company Ltd. (“**Jiangsu Cathay**”) is a Sino-foreign CJV established in May of 2005. We hold a 96.67% interest in this joint venture which currently manages 874 hectares of FGP plantations. Of these plantations, 680 hectares were developed in 2005/2006 and the additional hectares were developed in 2007.

Henan Xinya Cathay Forest Products Co. Ltd.

Henan Xinya Cathay Forest Products Co. Ltd. (“**Henan Cathay**”) is a Sino-Foreign EJV in which we own 70%. The EJV was established in April of 2005. It has a 221 hectare FGP plantation developed in 2005. There is currently a supply agreement in effect until November 19, 2013 with a local paper producer at a minimum timber sale price.

Jiangxi Cathay Forest Co. Ltd.

Jiangxi Cathay Forest Co. Ltd. (“**Jiangxi Cathay**”) is a wholly foreign-owned enterprise that was established in October of 2005. In November of 2007, Jiangxi Cathay began developing its plantations around Po Yang Lake with 474 hectares. 687 hectares of FGP were developed in 2008 and 658 hectares in 2009.

Standing Timber

PEOPLE’S REPUBLIC OF CHINA

In 2005, we initiated a strategy of acquiring, managing and harvesting standing timber forests to expand and diversify our sources of revenue. Standing forests provide immediate cash flow with low overhead costs. Our strategy allows us to develop FGP plantations in eastern and central PRC provinces while pursuing standing timber trading opportunities and acquisitions in the northern PRC provinces and the Russian Federation. Additionally, we replant our standing timber forests with improved species and varieties to enhance yields. Chinese fir is the dominant specie on these properties. We currently manage 12,169 hectares of standing timber in the PRC provinces of Jiangxi, Guizhou and Hunan. The harvesting of these properties is subject to the logging quota of the Annual Allowable Cut (“**AAC**”) system.

Summarized below is each of our standing timber operations:

Jiangxi Cathay Forest Co. Ltd.

Jiangxi Cathay Forest Co. Ltd. owns and manages 3,775 hectares of standing timber in Jiangxi and 1,397 hectares in Hunan province.

Guizhou Hanfang Cathay Forestry Co. Ltd.

In February of 2007, Cathay Forest entered into a Mutual Co-operative Agreement with Hanfang Forestry Group to acquire and develop 66,660 hectares of standing timber in Guizhou through a joint venture. The agreement encompasses three phases of development. Phase 1 features approximately 6,990 hectares of timberland. Phase 2 features approximately 13,440 hectares and is scheduled for 2010. The balance of the 66,660 hectares is to be carried out in Phase 3. The terms of acquisition are to be further negotiated at the time of acquisition based on market conditions. Hanfang Forestry Group is responsible for obtaining all of the rights associated with the operation of the standing timber plantations. Cathay Forest is responsible for operations and management of the plantations.

The first phase was executed in 2007 with 6,996 hectares of standing timber. The area covered was planted in the early and mid-1990s, predominantly with Chinese fir. Cathay Forest has advanced an initial deposit of \$3.4-million to the joint venture for the acquisition of the first phase and is awaiting receipt of forestry certificates to complete the acquisition of phase 1. The joint venture has commissioned Indufor to prepare a sustainable forestry management plan. Cathay Forest’s proposal to the forestry bureau would permit operation of the standing timber property independent of the AAC system. As of the date of this AIF we are still awaiting approval of our plan from the forestry bureau.

Russia

DalEuroLes LLC

In October 2007, we acquired a controlling interest of 51% of DalEuroLes, a company that has been granted the rights to a 271,100 hectare concession in the region of Khabarovsk, Russia.. The operation of DalEuroLes predominately follows an operation and feasibility study conducted by Indufor

for the joint venture in 2007. Rights to an additional 721,196 hectare concession were obtained by DalEuroLes in July 2008.

The concessions of DalEuroLes have lease lives of up to 49 years. The minority joint venture partner of DalEuroLes is Finmashineri Co., Ltd., a member of the Business Marketing group of companies. Finmashineri Co., Ltd. has 49% shareholding interest in DalEuroLes. Business Marketing is a Russian-based forestry group that has been operating in the Khabarovsk region since 1998. The DalEuroLes concessions currently have a total approved annual harvest limit of 700,000 m³.

In 2007, the Priority Investment Program (“**PIP**”) was introduced by the government of Khabarovsk with the purpose of attracting investment into the domestic timber processing industry. Business Marketing is one of the ten approved members of the PIP. The PIP extends to its members preferential treatments such as:

- tariff-free export of any processed goods from members’ processing facilities;
- direct negotiations for attaining forestry concessions (as opposed to participation in public auction); and
- exemption from future increases in export tariff rates on export of roundwood from concessions owned by the members (subject to Russian Federation Government approval as of the date of this AIF).

In 2008, we entered into a distribution agreement with Marubeni Corporation to sell, market and distribute roundwood and other wood products in Japan. DalEuroLes commenced harvesting in October, 2008 and delivered its first shipment to China in November 2008 and to Japan in January 2009. During 2009, DalEuroLes operated at capacity and its harvest was delivered, for the most part, to China and some of it to Japan.

Roundwood Importing

Since 2005, Cathay Forest has imported spruce, pine, larch and other species through its subsidiary, Raohe Songlin Economic and Trading Co., Ltd. (“**Raohe**”), from the Russian Federation into the PRC for sale to local wood markets. Traditionally, the imported wood was carried out by rail. In 2007, we added shipping of roundwood by water transport which improved our ability to move large quantities of roundwood economically. In these transactions, we primarily deal with brokers and dealers who are responsible for the delivery of roundwood from the loading area to the delivery point.

Raohe Songlin Economic and Trading Co., Ltd.

Our import activities are conducted by Raohe Songlin Economic and Trading Co. Ltd., a domestic joint venture in which our 60% ownership interest is owned in trust on behalf of Cathay Forest. Our minority partner is Yao Song Lin, a local businessman with more than a decade of cross-border trading experience in the RF and the PRC.

In 2006, we imported approximately 70,000 m³ of wood by rail. In 2007, we imported approximately 150,000 m³ of wood from Russia. In 2008 we continued to grow our operations by importing approximately 173,000 m³ and in 2009, we imported approximately 222,239 m³ of roundwood from Russia to China. We anticipate that the volume of imported roundwood for delivery to PRC markets through the Raohe operations will reach approximately 350,000 m³ by the end of 2010

Locations

The following map highlights the locations of our forestry plantations as at the date of this AIF:



Poplar Plantation Inventory

Year Planted	2004	2005	2006	2007	2008	2009
Hectares	1,340	8,291	2,800	668	687	658

Plantation Management

Our approach to plantation management combines solid forestry management practices with sustainable environmental policies. We utilize advanced silviculture practices in an effort to maximize our plantation growth. Moreover, we undertake each and every step of our process from site assessments to selection, preparation, clonal cuttings fertilization, and harvest with considerable care and diligence. Additionally, we monitor and ensure the security of all our properties regularly.

Our PRC plantations are primarily managed by the local Forest Bureaus who cooperate closely with our local staff. To that end, we have cultivated strong relationships with all levels of governments to secure the support required for our coordination with the relevant Forest Bureaus. The quality and growth of our plantations are closely supervised, inspected and monitored by our regional staff, which consists of a plantation manager, a technical engineer, various supervisors and security personnel. Most of the field

operations are contracted out to qualified and experienced contractors who normally employ seasonal labourers.

Environmental Matters

Our plantation management practices and processes at each site in the PRC have been approved by the relevant PRC Forestry Bureaus and to our knowledge, are in compliance with PRC laws and regulations. Our river bank plantations also provide aesthetics to the landscape and aid in controlling floods.

Our operations are underpinned by a philosophy of practicing sustainable forestry. To support our environmental practices, in 2007 we retained the services of Indufor, a leading independent forestry consultant, to conduct a social environmental study. This study explored issues such as air and water quality, biodiversity, and environmental performance assessments. The Indufor social environmental report has been widely accepted and endorsed by the Forestry Bureaus in the PRC provinces where we operate.

We are working towards obtaining a Forest Management Certificate from the Forest Stewardship Council (“FSC”). The FSC is an international association of members consisting of a diverse group of representatives from environmental and social groups, the timber trade and the forestry profession, indigenous people's organizations, responsible corporations, community forestry groups and forest product certification organizations from around the world. Forest management certification involves an inspection of the forest management unit by an independent FSC-accredited certification body to check that the forest complies with the internationally-agreed FSC Principles of Responsible Forest Management. If the forest complies with FSC standards, then the FSC accredited certification body issues a certificate for the operation. Certified forest operations can claim the forest products they produce come from a responsibly well managed forest.

Insurance

We currently maintain insurance on our standing timber properties in Jiangxi and Hunan. The insurance premium is 40% subsidized by the provincial government, consistent with recent preferential policies laid out by the PRC central government. We believe that our policy in securing insurance coverage is consistent with the practices of other PRC forestry plantation operators.

Our hybrid poplars are highly resistant to pests, diseases and floods. The innate nature of poplar as a relatively wet wood, combined with frequent field patrols in dry seasons and the close proximity of our plantations to the living areas of our plantation workers/farmers, substantially reduces the risk of fire at our FGP plantations. Given these considerations, we currently do not carry fire insurance for our FGP plantations. Furthermore, our risk of loss is minimized as our forest asset portfolio is widely spread across different counties and provinces.

Sales and Marketing

In 2009, the revenue derived from the sales of our roundwood importing operations comprised approximately 80% of our total revenues. We primarily deal with brokers and dealers who are responsible for delivery from the loading area. Our sales and marketing strategy for this business unit is to cultivate long-term relationships with Russian roundwood suppliers to ensure constant supply to meet demand. In addition, we continue to develop our reputation as a credible and consistent supplier with good inventory levels to meet demand.

In the PRC, we have developed long-term ongoing relationships with pulp and paper and other processing facility operators which are located near our plantations. These long-term relationships enable

us to stay flexible and adapt to changes in our customers' needs exploiting our competitive strengths. Our sales in the PRC are usually denominated in Chinese renminbi.

Customers

For our plantations in the PRC, our customers mainly consist of end users such as pulp and paper mills and local brokers. In either case, the usual practice for our customers is to employ or contract their own harvesters. We do allow buyers a window of time to harvest after our plantation managers/workers have segregated the areas that are sold. The harvesters schedule the time of the removal of the wood from our plantations under a supervised and monitored environment.

For DalEuroLes, the exporting of roundwood into the PRC is mainly arranged through Raohe Songlin Economic and Trade Co. Ltd. (“**Raohe**”). Raohe sells directly to local brokers. Sales to the Japanese market are arranged through Cathay Forest Export Inc. which sells to Marubeni Corp. under terms of a distribution agreement.

Suppliers

The supply of roundwood sourced from Russia is sourced primarily from DalEuroLes (57%) and from two other local suppliers. Deposits are provided to suppliers in advance. These deposits amount to roughly one month’s supply of purchases.

Transportation

Historically we have not been responsible for transporting logs to our customers. Generally, in the PRC the transportation of wood is the responsibility of the buyer. With respect to our trading activities of roundwood sourced from Russia, the customers arrange for the transportation of the roundwood once they are unloaded at the port or rail station in the PRC.

Competition

The market for wood in the PRC is highly fragmented and underdeveloped. While there are a large number of small operators of forestry plantations, there are also large operators of forestry plantations in the PRC, including Asia Pulp and Paper, Gaofeng Tree and Paper Group, Sino-Forest, Guangdong Petro-Trade, and Hunan Tiger Forest and Paper. In addition, local PRC Forestry Bureaus, including the Leizhou Forestry Bureau, Hainan Forestry Bureau and Guangxi Forestry Bureau, also manage natural and plantation forests in the PRC. These State-owned operators’ primary emphasis is to administer and oversee the use of forestry resources in their areas. There is potential in the PRC market for growth for the larger local players by consolidation of the fragmented industry.

Employees

As of April 2010, we have 506 full-time employees. The following table sets forth the number and location of these employees, according to category.

	Canada	PRC	Russia	Total
Executives and Senior Management	1	4	3	8
Harvesting Operation ⁽¹⁾			270	270
Plantation Operation ⁽²⁾		157		157
Finance, Accounting and Risk Management	1	14	6	21
Sales and Marketing (importing)		50		50
Total	2	225	279	506

- ⁽¹⁾ Harvesting Operation includes all staff working in the forestry operation including equipment operators, technicians, engineers and field workers.
- ⁽²⁾ Plantation Operation includes all staff working in our plantations and forestry projects, including quality controllers, forestry engineers, technicians and security guards.

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

GOVERNMENT REGULATION

China

Development of the Plantation Industry

The PRC government is encouraging the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated “The Notice on the Decision to Expedite the Development of Plantation Industry” (Zhong Fa [2003] No. 9) dated June 25, 2003. The Key Elements of the Policies in Forestry Industry was jointly promulgated by the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission on August 10, 2007 for implementing this notice. The notice records the decision of the PRC Central Government concerning the following main areas:

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

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 favour allocation of foreign investments on areas identified in the Catalog of Foreign-invested Industry Guidance and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region;
- to encourage and facilitate development and use of critical technologies, equipment and products that favour 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 dated June 8, 2008 in order to further liberalize and modernize the forestry industry, develop the productivity of the forestry industry, increase farmers' income and develop the ecological system in the PRC. Such opinions provide that, among others, in accordance with applicable laws and regulations, the farmers with contractual rights over the collectively owned PRC commercial plantations may, without change of the plantation usage, dispose of such rights relating to plantation operations and plantation tree ownership rights through sub-contracts, leases, transfers, mortgages, or as contributions in capital or under cooperative structures.

Forest Classifications

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

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

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

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

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

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

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

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

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

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

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and its system of issuing certificates to the persons having plantation land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the PRC State Forest Bureau announced the “Notice on the Implementation of Nationwide Uniform Plantation Right Certificates” (Lin Zi Fa [2000] No. 159) on April 19, 2000 (the “**Notice**”). Under the Notice, a new uniform form of plantation rights certificate is to

be used commencing from the date of the Notice. The same type of new form plantation rights certificate will be issued to the persons having the right to use the plantation land, to persons who own the plantation land and plantation trees, and to persons having the right to use plantation trees.

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

However, for a number of reasons, differences among the localities, the registration and issuance of the new form plantation rights certificates by PRC have not been fully implemented in a timely manner in certain places of the PRC.

Permits and Quotas

Logging applicants must apply to the Forest Bureau of the local PRC government at the county level or above for a logging permit. Logging of forests must be conducted in accordance with the logging permit. Logging permits will not be issued to the applicant under the following circumstances:

- the applicant fails to complete the reforestation task after previous year's logging;
- the applicant fails to take preventive or improved measures after the occurrence of forest fires, significant unlawful logging or large scale destruction caused by forest pests in the previous year; or
- if the application is for logging in a conservation forest zone or in a special purpose forest zone and which is not sustainable, or the application is for logging during the period of "mountain closure for facilitation of forestation" or within an area of "mountain closure for facilitation of forestation".

Under the PRC Forestry Law, the PRC strictly implements a quota system for the logging of forest trees. The annual quota for each entity is collected and accounted for by the provincial level Forest Bureau. Such annual quota is then reviewed and examined by the local PRC government at the same level before the quota is submitted to the PRC State Council for approval. According to the Implementation Regulations, the annual quota for certain key forest zones will be reviewed and examined by the PRC State Forestry Administration and approved by the PRC State Council. The annual logging quota approved by the State Council will be reviewed every five years.

The Implementation Regulations stipulate that for foreign-invested timber forests where the volume of forest required to be logged is of a certain scale, then such logging is subject to the approval of the relevant provincial forest bureau or above, and logging must be within the annual logging quota approved by the PRC State Council.

Timber Transportation Permits

According to the PRC Forestry Law, any entity which needs to transport the forest trees (unless those forest trees can only be removed by the State) out of the forest zones must apply for a timber transportation permit issued by the forest bureau at the county level or above. According to the PRC Forestry Law and the Implementation Regulations, after the entity obtains the timber logging permit, the forest bureaus shall issue a timber transportation permit to the entity for transporting the timber out of the forest zone.

Timber Operations and Processing Permits

Timber operations and processing in the forest areas must be approved by the forest bureau at the county level or above.

Permits and Approvals Necessary for the Operation of our Plantation Business

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

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

Plantation Rights Certificates for Planted Tree Plantations

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

To date, Cathay Forest has received forestry certificates from the local government forest bureau for approximately 4,337 hectares. The balance of the certificates shall be issued once the Chinese forestry authorities are satisfied with the growth and quality of the saplings.

Plantation Rights Certificates for Purchased Tree Plantations

Based on the supplemental purchase contracts and the plantation rights certificates issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations. In situations where we are unable to obtain the corresponding Plantation Rights Certificates for purchased tree plantations, we obtain confirmation of ownership from the relevant forest bureau.

Timber Logging Permits and Logging Quotas

The Implementation Regulations stipulate that in foreign invested plantation projects, the forest trees should only be logged within the annual logging quota approved by the PRC State Council, upon obtaining approval from the forest bureaus at the provincial level or above. The Implementation Regulations are not clear as to who should be responsible for issuing timber logging permits to foreign invested plantation projects. Each of our joint ventures and wholly foreign-owned enterprises has obtained approval from the forest bureaus at the provincial level guaranteeing its logging quota target.

Upon obtaining the approval from the forest bureaus at the provincial level for the logging quota targets and the relevant written confirmations from the forest bureaus at the county level, there should not be any legal constraints for the joint ventures to obtain timber logging permits provided that the joint

ventures also provide information including area, volume and location of the plantation trees and replanting measures.

Timber Transportation Permit

Upon the obtaining of the timber logging permit and the provision of certain supporting documents such as the quarantine certification, there should not be any legal constraints for the joint ventures and wholly foreign-owned enterprises to obtain timber transportation permits.

Engaging in the Timber Business

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

Regulations that Apply Nationwide

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

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

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

Eleventh Five-Year Plan

The 11th Five-Year Plan (2006-2010) implemented during the Tenth National People's Congress held in March 2006, stipulated plans to improve "three rural problems" in the agricultural sector in relation to agricultural, rural areas and farmers. Top priority will be given to solve the issues of rural poverty with an aim to narrow the poverty gap between urban and rural dwellers. The Plan calls for infrastructure improvement and social development in the rural area, and the 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 forestry plantation to downstream pulp mills and manufacturing operations.

Regulations that Apply on the Local Provincial Level

Jiangsu Province: According to the Implementing Measures of Jiangsu Province for the PRC Forestry Law, promulgated on 27 October 1992, no entity is allowed to engage in the timber or timber processing business without first obtaining approval from the Forestry Supervision Department; and

further, no unit or person engaged in the timber or timber processing business is allowed to purchase timber that does not possess a logging permit or is not from an authorized legal jurisdiction.

1. Licenses and Certificates

Other than the four general certificates for forestry operation enterprises, namely the Plantation Land Ownership Certificate, Plantation Land Use Rights Certificate, Plantation Tree Ownership Rights Certificate and Plantation Tree Use Rights Certificate, pursuant to the Administration Measures on Forest Seeds Production and Operation Licenses issued by the State Forest Bureau on November 2, 2002, enterprises which engage in forest seed production or operation should obtain the license for forest seeds production or operation. As indicated in the Business Licenses provided by the target companies, Shanghai Shengtai, Shanghai Jiatai, Jiangsu Cathay and Guizhou Hangfang Cathay were involved in the production or operation of superior forest seeds. Therefore, these four target companies should obtain the license for forest seeds production or operation as required by the law.

2. Approval and Permits

In respect of Jiangxi Cathay, Article 12 of the Jiangxi Province Forest Resources Transfer Statute issued by the Standing Committee of Jiangxi Provincial People's Congress on September 25, 2004 provides that transfer of State-owned forest resources should be conducted in the public property exchange institution through auction or public bidding.

In respect of Heilongjiang Cathay, according to the Trial Administration Measures on Disposal of Heilongjiang Forest, Wood and Woodland issued by Heilongjiang Provincial People's Government on July 23, 2007, disposal (including but not limited to transfer, lease, sub-contract and mortgage) of the State-owned forest in Heilongjiang shall be subject to the approval by the forest bureau at the provincial level.

3. Evaluation Requirements

According to the Interim Administration Regulations on Forest Resources Assets Evaluation jointly issued by the Ministry of Finance and the State Forestry Administration on December 25, 2006 which came into effect on January 1, 2007, evaluation requirements on forest resources to be disposed only apply for those owned by the State. The projects involving evaluation of state-owned forest resources should be approved or filed with the forest bureaus at the provincial level or State level.

4. Applicable Rules and Regulations

Other than the laws and regulations mentioned in this AIF, there are two regulations which are applicable nationwide for the forestry industry:

- (1) Decisions on Expediting the Development of Forestry Industry jointly issued by the CPC Central Committee and the State Council on June 25, 2003 which encourages foreign entities to be involved in the development of forestry industry; and
- (2) Circular for Further Strengthening and Standardizing the Administration on the Registration and Certificate Issuance Related to Forestry Right Certificates issued by the State Forestry Bureau on February 8, 2007 which requires the governmental authorities to strengthen the administration for forestry right certificates issuance. For those applicants who do not satisfy the requirements for granting forestry right certificates, no certificate could be granted. And for those who were illegally granted certificates, such certificates should be revoked.

Russian Federation

Under the Constitution of the Russian Federation, the forestry legislation is governed jointly by Federal laws and laws of the Subjects of the Russian Federation. The laws of Subjects should not be in contradiction with Federal laws. According to the forestry and civil legislation of the Russian Federation, the terms and conditions of forestry tenders are mandatory for all its participants. The New Forestry Code came into force on January 1st, 2007, replacing the former Forestry Code of 1997. The New Forestry Code (the “**New Forestry Code**”) covers all forest areas within the Russian Federation – an area of more than one billion hectares (comparable with the territory of Europe), with over 50,000 forest resource users and industrial forest enterprises, and providing employment for 200,000 people. The New Forestry Code was needed to ensure coordinated and effective state management of forest use, preservation and reproduction, and the development of a positive climate for rational use of forest resources under conditions of economic growth.

The following summarizes some key aspects of the New Forestry Code:

Decentralization: Forest management has been decentralized from a Federal to regional level, although the way in which regional forest management structures will be organized is still not finalized on the national level. Numerous, diverse regional models, which will need further by-laws to implement the New Forestry Code, are being developed.

Privatization: The New Forestry Code allows for privatization of forests. The New Forestry Code links forest ownership to land tenure, yet it does not clarify how the New Forestry Code relates to the Land Code, leaving undefined questions such as the impact on agricultural and urban forest use and forest plantations outside the forestry land tenure area.

Classification: The New Forestry Code establishes a new classification of forests according to their economical, environmental and social importance. Forests are divided into three categories – protective, industrial and reserve. Moreover, the New Forestry Code preserved one more legal norm – forest areas of special protection, which makes it possible to preserve the most valuable forest areas in industrial forests.

Use: According the New Forestry Code, forest use is based on the following rights:

- permanent (open-ended) use of forest areas;
- limited use of somebody’s else forest areas (servitude);
- rent; and
- free of charge use of forest areas in a limited period of time.

Leasing of forests: Allowed for periods of 10-49 years. Subleasing is allowed, and obligations are put on the lessor to use the forest substantially or to lease it in a certain condition at the end of the lease.

Felling: According to the Old Forestry Code, wood harvesting is allowed only in accordance with the felling licenses, issued on the basis of the lease agreement. Under the New Forestry Code, licenses will not be required. However, Article 4 of the Federal Law on Enactment of the New Forestry Code provides that felling licenses issued prior to 1 January 2007 will stay in force until their term expires.

Bringing of the lease agreement into conformity with the New Forestry Code: Registered leaseholders must bring their lease into compliance with the New Forestry Code by January 1, 2009 by filing an application with the lessor. Until the lease is brought into compliance with the New Forestry Code, the leaseholder will not have the right to: (1) sublease the land plot; (2) assign its rights under the lease to third parties; (3) pledge its lease right; and (4) contribute its lease right into the charter capital of other companies.

On 2 February 2007, the Federal Forestry Agency issued a letter with the proposals for bringing the lease agreements into conformity. If the tenant fails to apply for a new lease agreement, the existing lease agreement terminates upon expiration of its term.

Pursuant to Article 83(2) and Letter of the Federal Forestry Agency No. MG-03-54/776, dated February 6, 2007 in order to bring the forest land lease agreement into conformity with the New Forestry Code, it shall be re-concluded with the forest bureaus. The Law on Enactment envisages that in order to bring the lease agreement into conformity, the tenant must submit an application to the relevant authorities. Upon such application, a new lease agreement will be concluded.

RISK FACTORS

General

The forestry business involves a degree of risk, particularly when it is conducted in other countries. The following is a brief description of some of the risks that investors should be aware of.

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

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

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

With PRC's entry into the World Trade Organization, the PRC is expecting to reduce or remove existing tariffs on the import of paper, paper pulp, paperboard and timber. This may lead to greater volatility of prices in paper pulp and timber in the domestic market, potentially resulting in greater volatility of market prices of the wood fibre harvested. In the event of any material drop in the

international prices of paper, pulp and/or timber, this may reduce the demand or the price at which we can sell it.

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

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

The success of our business plan is dependent on, among other things, obtaining sufficient funding to enable us to explore and develop our forestry assets. To date, we have financed our forestry asset expansion activities primarily with equity financing and may require additional capital to continue to operate our business and to continue developing our plantations. It is likely that such additional capital will be raised through the issuance of equity which will result in a dilution of ownership for our shareholders. We can give no assurance that we will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further development of our plantations and could have a material adverse effect on our business, financial condition and results of operations.

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

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

- Unfavourable local and global weather conditions, such as prolonged drought, flooding, hailstorms, 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 and severe snow storms. In addition, the coastal areas of southern China suffer a number of typhoons each season, which lasts from July to September, which occasionally results in significant damage. Dry weather conditions brought by the El Nino weather pattern in 1998 adversely affected certain areas of the world. Similar conditions may occur in the future. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our forestry plantations are located, which may adversely affect our business, financial condition and results of operations.

Reliance on a single or few suppliers for the fast growth saplings

Historically, we have relied on a single supplier of saplings for the FGP plantations, Guangzhao Plant Fast-Growing Technology Co. Ltd. In 2006, we diversified from one supplier to several across different regions in China. In practice, we now formally source our supply of saplings through all local forest bureaus.

We would be adversely affected by any disruption in the supply of such saplings. Such disruptions may arise from natural calamities, diseases and/or pests affecting the plantations of our supplier. Moreover, there is a risk that our supplier may be unable or unwilling to fulfill its obligations,

or terminate our arrangements with them. However, we intend to mitigate this risk by investigating other sources of saplings or the possibility of developing our own sapling nurseries.

Factors which may affect the growth of the saplings

The tissue cultured seedlings, rooted seedlings and grown saplings are, like other varieties of plants, vulnerable to pests, diseases and natural calamities, such as fires, droughts, floods and hurricanes. The growth and development of the saplings are affected by a number of factors, many of which are beyond our control. Factors that can affect the growth and development of the saplings include, genetic superiority, seedling quality, weather conditions, climate, soil conditions as well as damage by disease, pests and other natural disasters. The ability for the Company to maintain expected yields will depend on the impact of one or more of these factors would have on the saplings.

The Company's ability to optimize yields will depend on the factors listed above in addition to the acquisition of genetically improved materials as well as the continued development of our silviculture practices. As a result, the Company is unable to provide assurance as to future yields. If we can not achieve the levels of expected yield, our business, financial conditions and results of operations would be materially and adversely affected.

Reliance on a few suppliers for the log trading supplies

The Company purchases its roundwood trading supplies from several suppliers. However, any disruption in the supply would have an adverse effect on Cathay's roundwood trading business.

Our insurance coverage may be insufficient to cover losses

We do not insure all of our forestry assets against losses from all natural and other disasters and we do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on our forestry plantations. If we were to suffer an uninsured loss to our forestry plantations, our business, financial condition and results of operations could be materially adversely affected.

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

We have entered into agreements whereby we have options to acquire plantations available for sale. All such options are subject to negotiation of a price and receipt of relevant governmental approvals, and satisfaction of registration requirements. We cannot give any assurance that we will exercise any of these options. Our decision and ability to exercise our option will depend on, among other factors, our ability to negotiate a final price, whether the area is desirable for forestry plantations and the availability of future financing.

Should we be unable to exercise the option to acquire plantations, or obtain and complete requisite government approvals for our plantations or should we be unable to acquire additional resources for expansion, our business, financial condition and results of operations could be materially and adversely affected.

Exchange rate fluctuations

Exchange rate fluctuations may adversely affect our financial position and results. We currently do not have in place a policy for managing or controlling foreign currency risks since, to date, our primary activities have not resulted in material exposure to foreign currency risk. Even if we did have a

policy in place for managing or controlling foreign currency risks, there is no assurance that such policy would eliminate this risk.

We publish our financial statements in CDN dollars, while substantially all of our revenue is denominated in Chinese Renminbi. Since 1994, the conversion of Renminbi into Canadian and U.S. dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict when the PRC government will allow free conversion of Renminbi into foreign currencies. Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the Canadian dollar, U.S. dollar, Euro or Hong Kong dollar, or in the U.S. dollar against the Renminbi, the Canadian dollar, the Euro or the Hong Kong dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into Canadian dollars, U.S. dollars, Rouble or otherwise, of our revenue and net income.

Infrastructure

Industrial activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinations which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect our financial condition and results of operations.

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

We are dependent on the services of key executives and a small number of highly skilled and experienced executives and personnel. Due to a relatively small number, the loss of these persons or our inability to attract and retain additional highly skilled employees may adversely affect our business and future operations. We currently do not carry any key man life insurance on any of our executives.

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

As of December 31, 2009, we had 10 employees managing and supervising our forestry plantations. As we expand the area of our forestry plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our forestry plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary for us to strengthen our internal controls and corporate governance as we continue to build the business. Should we fail to take these measures, we may not be able to implement our expansion strategy or manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected.

Difference in the Guizhou business model may pose execution risks

Guizhou is a region that we recently entered into and our intention is to execute all three phases of the Mutual Cooperation Agreement between a local forestry group and Cathay Forest. Our business model is in a development stage and has a short operating history. Despite the strong support and collaboration we received from the local governments and forestry bureaus, there remain risks such as i) disagreement with collectively owned farmers and ii) execution risks of large-scale harvesting and replanting programs.

In addition, Cathay Forest may not have the ability to allocate proper management resources and attention

to the successful implementation of the business model.

Joint Venture partners and Contract Parties

We currently have joint venture arrangements which operate our forestry plantations and operations in the provinces of Henan, Jiangsu, Heilongjiang, Guizhou, and the region of Khabarovsk. These, and possible future joint ventures and contractual arrangements with other third parties, may involve certain risks. These risks include, among others, the possibility that the joint venture partners and contract parties may be unable or unwilling to fulfill their obligations, whether of a financial nature or otherwise, under the relevant joint venture or other agreements, or that the joint venture partners or contract parties could terminate our arrangements with them before the end of the term of the relevant contract or refuse to renew such arrangements when the term of the relevant contract expires. Although we have not experienced any significant disputes with our PRC joint venture partners or contract parties, a serious dispute over joint venture and contractual obligations, timber-sharing arrangements or otherwise, or an early termination of our arrangements with them, could adversely affect our business, financial condition and results of operations.

Conflicts of interest

Certain of our directors and officers also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving Cathay Forest will be made in accordance with their duties and obligations to deal fairly and in good faith for the best interest of the Company and its shareholders.

China

Environmental risks and hazards

The grown saplings originally used by us have been sold for cultivation on a commercial basis since 2003. While our supplier of saplings has advised that there have not been any adverse biological or environmental issues that have arisen in the cultivation of the saplings, there is no assurance that such issues will not arise in the future. If these issues arise and we are unable to resolve them, we may have to cease the cultivation and sale of the plantations utilizing that sapling. Consequently, such issues could adversely affect our business, financial condition and results of operations.

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

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

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

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

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the forestry industry;

- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and/or
- reduction in tariff protection and other import restrictions.

In addition, the growth of demand in China for forestry products depends heavily on economic growth. Between 1978 and 2008, China's GDP increased from approximately RMB362 billion to approximately RMB30 trillion. The annual per capital GDP had also risen during this period, from RMB 379 to RMB 22,698.

The central government has been prompt to take corrective measures and actions to stabilize the country's economy and any possible social unrest. The stimulus package imposed by the central government in response to the world financial crisis has supported the economic recovery. It is anticipated that the central government will continue its proactive fiscal policies and moderately ease its monetary policy during the remainder of 2010 although there is no assurance that such strategy will be sustained in the long term.

In addition, there have been concerns about a rising demand for labour, a shrinking supply of traditional unskilled labour and increase in workforce wages. While the rise in wages may increase consumption power, it may increase inflationary pressures in the economy. The reform programmes and shortage of supply of labour may have an adverse impact on our business, financial condition and results of operations could be adversely affected.

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

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties.

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

Our forestry plantations and log 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. Violations of a variety of PRC laws and regulations, including PRC environmental policies and programs that apply to our forestry plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage in the following activities that are subject to regulation:

1. forestry plantation activities, including planting, plantation use and maintenance, logging and transportation of logs; and
2. marketing, sale and trading of standing timber, logs and wood-based products;

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;
- service and repay our indebtedness; and/or
- pay out dividends to our shareholders.

Current account transactions refer to those international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, and the declaration of and payment of dividends out of retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions be processed through banks in China licensed to engage in foreign exchange.

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

We cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

Operational licenses and permits

Currently, PRC laws and regulations require forestry plantation companies to obtain licenses and permits to operate forestry plantations, harvest logs on the forestry plantations and transport the logs out of the forest areas. Forestry plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forest 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 and transportation permits for our completed logging and transportation activities. In this regard, the PRC government allocates logging quotas and transportation quotas annually for plantations that are to be harvested, rather than granting permits at the time the forest is established. There is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation activities or that the PRC government will not enact laws and regulations that would add requirements for forestry plantation companies to conduct these activities in the PRC.

Environmental Regulations

Laws and regulations protecting the environment have generally become strict in the PRC in recent years and could become more stringent in the future. On December 26, 1989, the Standing Committee of the National People's Congress of the PRC adopted the Environmental Protection Law of

the PRC. This law and future legislation with respect to protection of the environment, whether it relates to forests, protected animal species, or water conservation, could contain restrictions on tree planting, timber harvesting, and other forest practices. Currently, it is a general policy of the PRC that a person who harvests trees is required to replant the harvested lands. Our forestry plantations could also be subject to future environmental laws and regulations. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. Compliance with environmental laws and regulations may adversely affect our business, financial condition and results of operations.

Plantation land use rights

Our PRC joint venture partners are required under the joint venture contracts to obtain plantation land use rights certificates for the forestry plantations to be contributed to the joint ventures. Our PRC joint venture partners generally obtain the plantation land use rights from third parties, who are generally rural collective organizations, and then contribute plantation land use rights to the joint ventures. Under the Rural Land Contracting Law in the PRC, which took effect on March 1, 2003, our PRC joint venture partners must fulfill all relevant legal formalities for the transfer of plantation lands and the rights to operate and manage the plantations. These include obtaining consents from all members of the farming households who have contracted to transfer the plantation lands, from all members of the collective organizations where such farms are located to waive their pre-emptive rights and from the contracting parties who have rights to operate and manage the plantations. Because of the additional requirements of the Rural Land Contracting Law, our PRC joint venture partners may not be able to obtain sufficient plantation land use rights from the rural collective organizations or the farming households, which would adversely affect their ability to make their required contributions to the joint ventures. As a result, our PRC joint venture partners may not be able to provide us with the plantation land use rights to all the forestry plantations that we have the right to obtain.

Implementation of New Form Plantation Rights Certificate

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and of issuing certificates to the persons having land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the State Forest Bureau issued a notice, which provided that a new form of plantation rights certificate was to be used from the date of the notice. The PRC government now issues the new form of certificates on a nationwide scale. In addition, for the purchased tree plantations, we have obtained confirmations from the relevant forest bureaus that the Company has the legal right to own the purchased tree plantations for which we have not received certificates. Until official new-form plantation rights certificates are issued, there can be no assurance that our rights to our forestry plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if our right to any of our forestry plantation lands is subject to dispute or challenge, our business, financial condition and results of operations could be materially adversely affected.

Russia

Environmental Regulations

Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in our activities, the extent of which cannot be predicted and which may well be beyond our capacity to fund. Our rights to exploit the forestry concession area are subject to various reporting requirements being mandatory under Russian environmental legislation. Environmental impact studies may be required for some operations, and

significant fines and clean-up responsibilities may be assessed for companies causing damage to the environment in the course of their activities.

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

Russian laws and regulations regarding leasing of forest land, as well as regulations regarding construction, are often poorly drafted, containing vague and unclear provisions, inaccuracies and contradictions. This is the result of frequent changes in legislation over time (with new and old regulations often overlapping), a lack of coordination between various federal, regional, and local state bodies charged with enacting and enforcing such legislation, the repeated restructuring of relevant government bodies authorized to legislate in given areas, and often simply bad editing. Given the unclear nature of the legislation, its implementation in practice is often inconsistent.

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

There can be no assurance that industries deemed of national or strategic importance to Russia like forestry will not be nationalized. In addition, the Khabarovsk regional government current policy of encouragement of foreign investment may change, nationalization of the forestry industry may occur, or other government limitations, restrictions or requirements not at present foreseen, may be implemented. Changes in policy that alter Russian laws regulating forestry or export tariffs could have a material adverse effect on our financial position. There can be no assurance that our assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. While there are provisions for compensation and reimbursement of losses to investors under such circumstances, there can be no assurance that such provisions would be effective to restore the market value or value of the original investment, taxes and other fiscal measures. Customs and other import regulations are particularly susceptible to revision in reaction to political changes and the pressure on the Russian Government to generate revenue or to conserve hard currency.

Russian Export Taxation

The Russian government announced in 2007 plans to significantly increase the export tax on logs from then existing level of 6.5%. In July 2007 the tariffs were increased to 20% and to 25% in April 2008. Initially the Russia government had also announced a further 80% for January 2009. However, the Russian government announced in November 2008 that such an increase would be postponed. Cathay Forest understands that the expected date of such tariff increase will now be no earlier than January 2011.

As the Russian government is implementing their plans to consolidate their forestry industry and stimulate investment in the wood processing industry, there is resistance from importers of Russian wood such as Finland. The proposed increase in export tariffs are being challenged by various importers in the World Trade Organization. The outcome and implementation of these export taxes will have material effect on the operations of our Russian subsidiary and our Chinese importing unit.

Re-execute the Lease Agreement

Under the New Forest Code, the Company must apply for re-execution of the agreement whereby the Company leases the Forest Fund Plot (the "**Lease Agreement**") to ensure its compliance with the New Forestry Code. Such re-execution could entail changes in the rent, term of the lease or other terms of the Lease Agreement. There is no assurance that we will obtain the re-execution of the Lease Agreement and relevant permits for our future logging and, or that the Russian government will not enact laws and regulations that would add requirements for forestry companies to conduct these activities in Russia.

Priority Investment Program

The Priority Investment Program was initiated by the regional government of Khabarovsk and is subject to Russian Federal Government approval. There is no assurance that the Russian Federal Government will approve the Priority Investment Program. The final approved version of the Priority Investment Program could entail changes including the terms of membership and preferential policies provided to the members under the program. In addition, the Priority Investment Program approves its participating members based on a commitment to investment in the processing industry in Russia. Our Russian joint venture's membership in the program has significant reliance on our joint venture partner's commitment. The execution of our joint venture partners commitment is dependent on, among other things, obtaining sufficient future funding. We can give no assurance that our joint venture partner will be able to obtain adequate financing in the future for these commitments. Our risks include, among others, the possibility that the joint venture partners and contract parties may be unable or unwilling to fulfill their obligations, whether of a financial nature or otherwise. Failure to execute such commitment could have a material adverse effect on our qualification for the Priority Investment Program. Our participation in the Priority Investment Program will have a material effect on the business, financial condition and operations of our Russian subsidiary and our Chinese importing unit.

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

As of December 27, 2004, 10% of foreign currency earnings from export sales must be converted into Russian roubles (instead of the former 25%); however there is no certainty that this level will not be changed (either decreased or increased) in the future. There can be practical difficulties and delays involved in seeking to remit funds from Russia. These changes to Russian currency control legislation were generally intended to liberalize the control over currency transactions in Russia. The Russian Rouble is not convertible outside Russia and is not traded internationally. Although a market exists within Russia for the conversion of the Russian Rouble into other currencies, that market is limited in size and is subject to certain restrictions.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Cathay Forest prepares its financial statements in accordance with Canadian GAAP. For the years beginning on or after January 1, 2011, publicly accountable enterprises will have to report financial information using International Financial Reporting Standards ("IFRS"). As such, reporting issuers are required to produce comparative consolidated financial statements using IFRS in 2011. In order to provide a comparable balance sheet, statement of operations and statement of cash flows financial information for 2010 will need to be developed using IFRS. This included the preparation of an IFRS prepared balance sheet as of January 1, 2010. Applying reporting standards to the financial statements in accordance to IFRS could result in significantly different results from those obtained from financial statements prepared in accordance to Canadian GAAP. In particular, the valuation of Cathay Forest's plantation assets may be substantially affected by the application of IFRS. As of the date of this AIF the Company continues to proceed with its preparation to meet the IFRS reporting requirements in 2011.

DIVIDEND RECORD AND POLICY

We have not declared any dividends on our shares. Other than the generally applicable corporate law provisions respect in the declaration of payment of dividends, there are no constrains or restrictions that could prevent us from paying dividends. Our current policy is not to pay dividends but to reinvest any excess cash flows back into our operations.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital is comprised of an unlimited number of Common Shares. Each holder of Common Shares is entitled to one (1) vote at meetings of our shareholders. Each holder of Common Shares is also entitled to receive dividends if and when declared by our board of directors. As of the date of this AIF, we have 138,086,814 issued and outstanding Common Shares.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed on the TSX Venture Exchange and trades under the stock symbol "CFZ". The following table sets forth, for the periods indicated, the reported high and low prices and the average volume of trading of the Common Shares on the TSXV:

Calendar Period	High	Low	Average Daily Volume
January 2009	0.26	0.25	130,000
February 2009	0.38	0.21	74,000
March 2009	0.30	0.18	94,900
April 2009	0.67	0.28	230,200
May 2009	0.59	0.42	209,000
June 2009	0.60	0.39	185,300
July 2009	0.52	0.42	39,300
August 2009	0.75	0.47	105,500
September 2009	0.76	0.62	169,100
October 2009	0.75	0.64	185,500
November 2009	0.72	0.55	191,600
December 2009	0.63	0.54	101,800

ESCROWED SECURITIES

As at the date of this AIF there are no securities held in escrow.

DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors currently consists of seven directors which are elected annually. The following table states the names of the current directors, all other positions within the Company by them, their principle occupations or employment, the period or periods of service as director of the Company and the number of voting securities of the Company beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as of the date of this annual information form.

Name and Present Position with the Corporation	Principal Occupation	No. of Shares Owned, Controlled or Directed at the date hereof	Director Since
Anthony Ng Shanghai, China President, Chief Executive Officer and Director	President and Chief Executive Officer of the Corporation	94,914	October 9, 2001
John Housser Ontario, Canada Director	Director & Managing Partner of Brant Securities Limited, an independent securities firm	750,000 ¹	September 15, 2004
Hon. John D. Reynolds, P.C. British Columbia, Canada Director	Senior Strategic Advisor, Lang Michener, LLP, a law firm ²	10,000	June 26, 2008
Stephen Miller Hong Kong Director	Managing Director of Trinity Group Ltd, a private investment firm	Nil	September 15, 2004
Paul Wong Hong Kong Director	President of The Hogan Group, a holding corporation with diverse manufacturing facilities and investments in the PRC	14,237,150 ³	November 22, 2004
Raymond Lo Hong Kong Director	Managing Partner of AsiaVest Partners Limited, a venture capital firm	Nil	June 26, 2008
John Duncanson Ontario, Canada Director	President of Duncanson Investment Research Inc., an independent investment research firm	173,300	June 25, 2009
Luc Perron Ontario, Canada Chief Financial Officer	Chief Financial Officer of the Corporation	Nil	N/A
Ermo Ou Shanghai, China Vice President, Corporate Development	Vice President, Corporate Development of the Corporation	Nil	N/A
Run-Peng Wei Shanghai, China Chief Operating Officer	Chief Operating Officer of the Corporation	Nil	N/A

¹ Of these shares, 500,000 common shares are owned by Sehoco 1985 Ltd. which is owned by Mr. John Housser and 250,000 common shares is owned by Brigs Holdings Limited which is controlled by Mr. Housser.

² Mr. Reynolds has held that position since March 2006. From June 1997 to January 2006, Mr. Reynolds was a Member of Parliament for the Riding of West Vancouver Sunshine Coast.

³ Hogan Forestry Inc., which owns 14,237,150 shares, is controlled by Paul Wong.

Except as described below, to the knowledge of the Company and based on the information furnished by the directors and executive officers, no director or executive officer:

- (a) is, as at the date of the AIF or has been, within the 10 years before the date of the AIF, a director or executive officer of any company, that while that person was acting in that capacity,
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days; except as noted above or
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days; or
 - (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- (b) has, within the ten (10) years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets;
- (c) has, since January 1, 2001, been subject to:
 - (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
 - (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; or

Mr. John Reynolds resigned as a director of CY Oriental Holdings Ltd on March 30, 2009. On July 3, 2008, the British Columbia Securities Commission issued an Issuer Cease Trade Order against CY Oriental Holdings Ltd. for failure to file: (i) comparative financial statements for the year ended December 31, 2007; (ii) interim financial statements for the period ended March 31, 2008; and (iii) Management Discussion and Analysis for the related periods. The Ontario Securities Commission and the Alberta Securities Commission issued similar orders on July 18, 2008 and October 3, 2008, respectively. Such orders are still in force at the date of this AIF.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Cathay Forest may borrow, from time to time, funds from related parties. To date, these cash advances have been non-secured, non-interest bearing and payable on demand. As of December 31, 2009, there were advances of \$2,303,777 (2008-\$5,390,055) by a joint venture partner. As of the date of this AIF the amount of advances from the related party totalled \$4,201,784.

At December 31, 2009, included in other receivables, is a loan to a related companies controlled by the directors of Cathay Forest totalling \$30,353. This balance related to short-term advances from Cathay Forest and is unsecured, non-interest bearing and repayable on demand. It is anticipated that this loan will be repaid by December 31, 2010.

In addition as at December 31, 2009, included in accounts payable and accrued liabilities is an amount payable to the minority shareholder of DalEuroLes totalling \$13,039. This amount was repaid prior to the date of this AIF.

These transactions are in the normal course of operations and have been valued at the exchange amount which is the amount of consideration established and agreed to by the related parties.

TRANSFER AGENT AND REGISTRAR

Our transfer agent and registrar is Computer Share Trust Company of Canada, 510 Burrard Street, 2nd Floor, Vancouver, British Columbia V6C 3B9.

MATERIAL CONTRACTS

The only material contracts outside of the ordinary course of business, entered into since the beginning of the most recently completed financial year, or before the most recently completed financial year but is still in effect, are the:

- (i) Subscription Agreement for Eco-Energy China Group Incorporated dated July 2009.

INTEREST OF EXPERTS

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

ADDITIONAL INFORMATION

Additional information relating to our company may be found on SEDAR at www.sedar.com.

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

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