
CATHAY FOREST PRODUCTS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2009

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For the nine month period ended September 30, 2009

This discussion and analysis prepared by the management (“MD&A”) of Cathay Forest Products Corp. (“Cathay Forest” or “the Company”) provides a review of the significant developments and issues that influenced the Company during the nine month period ended September 30, 2009 as compared to the nine month period ended September 30, 2008. This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Company for the nine month period ended September 30, 2009 as well as the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2008 and the accompanying Management Discussion and Analysis.

Unless otherwise indicated, in this MD&A all reference to “dollar” or the use of the symbol “\$” are to the Canadian dollar, all references to the “Rmb” are to the Renminbi, which is the legal currency in the People’s Republic of China, all references to the Rb are to the Ruble which is the legal currency in the Russian Federation and all references to “US dollars” or “US\$” are to the United States of America dollar.

Forward-Looking Statements

This MD&A contains forward-looking statements which reflect management’s expectations regarding Cathay Forest'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. These statements are not historical facts but instead represent only Cathay Forest'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 that Cathay Forest 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 in 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 and the Russian Federation economic, political and social conditions and government policy, other factors, such as general, economic and business conditions and opportunities available to or pursued by Cathay Forest, not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Cathay Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements as such information may not be appropriate for other purposes. Except as required by securities laws, Cathay Forest does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

This MD&A has been prepared based on information available as at **November 9, 2009**.

Additional information relating to Cathay Forest Products Corp. can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and the Company’s website at www.cathayforest.com

Overview of Business

Cathay Forest Products Corp. (the “Company”, “Cathay” or “CFZ”) is listed on the TSX Venture Exchange for trading under the symbol CFZ. The Company is a forestry company with operations in the People’s Republic of China (“PRC” or “China”) and the Russian Federation (“Russia”). The Company holds its ownership interest by way of various Wholly Foreign Owned Enterprises (“WFOE”) as well as Joint Ventures (“JV”). As of the date of this MD&A, the Company had

five fast growth plantations (“FGP”) in the PRC: these plantations are located in Mudan (Heze), Cao Xian and Ju Ye in the Shandong province; Tongzhou in the Jiangsu province and Zhengzhou in the Henan province.

The Company also has standing timber interest in the PRC’s Jiangxi and Guizhou provinces as well as in the Khabarovsk Region of Russia.

In addition, the Company has interests in a roundwood importing operation and a Jatropha based biodiesel operation, based in China.

Significant Activities

Significant activities that took place during the first three quarters of 2009 and to the date of this MD&A were as follows:

Valuation of Forestry Assets

Subsequent to September 30, 2009, the Company received the forest valuation from Pöyry Forest Industry Pte Ltd (“Pöyry”) indicating an asset valuation of US \$176 million. The Company commissioned this report to provide an independent assessment of its managed forestry assets portfolio and to establish market value of its assets for purpose of the required conversion to International Financial Reporting Standards in 2011.

A copy of the valuation report will be posted on website www.cathayforest.com and will also be filed on www.sedar.com.

Received First Instalment Payment from DalEuroLes

On September 18, 2009, the company received the first instalment against loans made to its majority-owned Russian Joint Venture, DalEuroLes L.L.C.. A total of US \$18,115,000 has been advanced to DalEuroLes since December 2007. The funds have been used to develop the infrastructure of the forest property and to acquire the necessary forestry equipment. Under terms of the loan agreement, the first payment was due September 2009. Regular additional loan payments of approximately US \$1,000,000 are required to be paid on a quarterly basis for five years.

Appointment of Chief Operating Officer

On September 29, 2009, the company announced the appointment of Dr. Run-Peng Wei as Chief Operating Officer,

Eco-Energy China Group Inc.

In July 2009, the company acquired a 40.0% interest in Eco-Energy China Group Inc. Subsequent to September 30, 2009, additional equity financing in Eco Energy China Group Inc. reduced the Company’s interest to 33.8%.

Financial Information

The following table sets forth selected operations results for the three months and nine months ended September 30, 2009 and 2008 and the Company’s financial position as at September 30, 2009 and December 31, 2008.

Operating Results	Three Months ended September 30,		Nine Months ended September 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Revenue	\$23,304,614	\$5,560,299	\$44,515,820	\$16,196,572
Cost of Sales	17,753,915	4,701,152	37,039,936	14,064,351
Gross Profit	5,550,699	859,147	7,475,884	2,132,221
Net Income (Loss)	\$2,585,614	\$(538,719)	\$(595,157)	\$(1,759,213)
Net Income (Loss) per Share	\$0.023	\$(0.005)	\$(0.005)	\$(0.016)

Financial Position

	As at	As at
	September 30, 2009	December 31, 2008
	(unaudited)	(audited)
Current Assets	\$24,186,866	\$29,312,818
Non Current Assets	103,740,644	111,713,872
Total Assets	127,927,510	141,026,690
Current Liabilities	63,179,306	67,507,112
Long Term Liabilities	3,429,055	6,372,396
Total Shareholders' Equity	60,665,303	66,422,168

Results of Operations Nine Months ending September 30, 2009 and September 30, 2008**Revenue**

Revenue increased by \$28,319,248 or 175% to \$44,515,820 for the nine month period ended September 30, 2009. This compares to revenue of \$16,196,572 for the nine month period ended September 30, 2008.

The significant increase in year over year revenue is due to a number of factors including, the sale of standing poplar trees and of bamboo from our Chinese operations and additional sales volumes from our importing operations.

During the quarter ending September 30, 2009, the Company completed the sale of standing poplar growing on 1,348 hectares of the Cao Xian property in the Shandong area. The sale of these poplars resulted in revenue of \$11,662,734 during the quarter. There was no comparable revenue in 2008. By contract the buyer of this timber is responsible for the harvesting of the property.

In addition to the sale of the standing poplar in Shandong, the Company also completed the sale of bamboo from its Jiangxi property totalling \$2,087,917. Bamboo is traditionally harvested on a 2 year cycle.

In addition to achieving larger volumes from supplies provided by our Russian operations in 2009, our cross border import operations significantly reduced its log inventory during the second quarter of 2009. The log inventory was reduced by approximately 29,000 cubic metres from the end of 2008 and resulted in increased sales volume during the first six months of 2009 compared to the first six months of 2008.

As Cathay's importing business continues to establish itself as the leader in cross border import from Russia of roundwood timber, the Russian operations have demonstrated its operational ability to maintain full quota production levels while the importing operations have demonstrated the ability to move significantly higher volumes than in prior periods. In addition to the sale of logs to the China market, Cathay has begun expanding its market reach by selling roundwood harvested in Russia into the Japanese market. The price of logs has recovered from lows experienced in the first quarter of 2009 and these prices appear to have stabilized while continuing to rise slowly. It is anticipated that the higher prices should continue to hold or increase throughout the remainder of 2009 as the Chinese economy and wood prices recover. The Company is confident that the log importing business will continue to increase its volume of transactions in 2009 over volumes experienced in 2008.

The Company continues to diversify its customer base for greater stability. In addition to the current Chinese and Japanese markets previously mentioned, the Company is also developing additional markets within China away from traditional import operations. This will provide for greater market reach and should enable the Company to achieve optimal margins.

To date, the Company has not entered its full harvesting revenue stage for its FGP. Management is currently monitoring the market conditions in order to determine the feasibility of beginning the harvesting program. This program is being lead by the Company's new Chief Operating Officer, Dr. Run-peng Wei.

For the remainder of 2009, it is anticipated that the Company will continue to harvest standing timber from its first joint venture property in Russia and will continue to import these logs to the China market with some shipments going to the Japanese market.

Cost of Sales

The cost of sales increased \$22,975,585 to \$37,039,936 for the nine month period ended September 30, 2009 compared to the same period in 2008. This increase reflects the additional volume of logs being sold and is consistent with the additional revenue that was generated in the period.

Expenses

General and administrative costs for the nine month period ended September 30, 2009 were \$3,719,720 versus \$2,092,232 for the same period in 2008. The increase in general and administrative expenses is attributable to the coming on line of the Russian operations. During the first three quarters of 2008, the Russian operations were in the process of developing infrastructure prior to the start of the harvesting operations in that region and as a result no significant expenses were being incurred in Russia that were not directly related to the construction of the infrastructure and capitalized. In addition, throughout the later part of 2008 additional personnel were added at various locations which added to the general expenses being incurred. For the remainder of the fiscal year ending December 31, 2009 it is not anticipated the rate of general and administration expenses will be significantly different then the level currently experienced.

Selling and marketing expenses were \$1,224,832 for the nine month period ended September 30, 2009 versus \$1,078,828 a year earlier. This increase of expenses reflects the additional resources applied to increase the sales level to the current volume of transactions. Management does not anticipate a significant change for the balance of the fiscal year.

Amortization for the nine month period ended September 30, 2009 was \$2,505,508 versus \$1,074,638 for the same period in 2008. The significant increase reflects the additional equipment employed in Russia that was not in place in 2008. Throughout 2008, the Company acquired a significant amount of road building and harvesting equipment as it equipped the operations for road building and in preparation of harvesting operations which began in the fourth quarter of 2008. As this equipment was put into service, amortization was calculated as required which leads to increased amortization calculation in 2009 over 2008. Unless there are additional capital expenditures in the near future, the current rate of amortization is anticipated to continue.

Interest Income

Interest income decreased by \$720,570 to \$26,126 in the nine month period ended September 30, 2009 compared to \$746,696 for the same period in 2008. The significant decrease resulted from the Company's available cash balance decreasing significantly during 2008 as the Company acquired equipment for the Russian operations in addition to current low interest rates. Given the Company's current cash position and the low interest rate environment that continues to exist it is anticipated that interest income will continue not to be significant in 2009.

Results of Operations- Three month periods ending September 30, 2009 and September 30, 2008

The following table sets forth selected operations results for the three months ended September 30, 2009 and September 30, 2008.

	2009	2008
Operating Results		
Revenue	\$23,304,614	\$5,560,299
Cost of Sales	17,753,915	4,701,152
Gross Profit	5,550,699	859,147
Gross Margin	23.8%	15.5%
Net Income (Loss)	\$2,585,614	(\$538,719)

Revenue

Revenue increased 319% or \$17,744,315 to \$23,304,614 for the quarter ended September 30, 2009 over the quarter ended September 30, 2008.

The increase in revenue is primarily attributable to the higher revenue that was generated from the increased volumes transacted by the log importing business operations in the current year as a result of the sale of harvesting rights of standing poplar trees in Shengtai, the sale of harvesting rights of bamboo stems in Jiangxi and the additional volumes available from the Company's Russian operation. For the final quarter of 2009, management is not anticipating significant revenue from the sale of any significant poplar trees or bamboo stems. Revenue will generally be derived from the China importing operations and other revenue derived from sales to Japan.

Cost of Sales

The cost of sales for the quarter ended September 30, 2009 increased 277% or \$13,052,763 to \$17,753,915 over the same period in 2008. This increase is consistent with the increase in the level of activity in the log importing operations and the sale of standing timber. Margins in the final quarter of 2009 will be derived from the importing operations.

General and Administration Expenses

General and administrative costs for the quarter ended September 30, 2009 were \$1,227,143 versus \$360,474 for the same period in 2008. Increases in general and administrative expenses attributable to an increase in staffing levels throughout the Company in support of the experienced growth, the additional cost of professional services employed by the company in addition to the absorption of the general and administrative costs associated with the Russian operations.

Selling and Marketing Expenses

Selling and marketing expenses were \$451,210 for the quarter ended September 30, 2009 versus \$370,918 a year earlier a increase of \$80,292. . The increase was mainly due to additional resources associated with the additional volumes in 2009.

Foreign Exchange Loss

A foreign exchange loss of \$81,711 has been recorded in the quarter ended September 30, 2009 versus a foreign exchange loss of \$199,274 recorded in the comparable period in 2008. The loss was primarily generated by the translation of US\$ denominated transactions made during the period.

Stock Based Compensation

The stock based compensation expense of \$362,250 recognized this quarter reflects the issuance of share options in May 2009. There was no comparable expense in the same period in 2008. The recognition of this level of stock base compensation expense for the May 2009 stock options is expected to continue for the next two quarters. Following the second quarter of 2010, the level of expense being recognized should decrease to approximately \$120,750 per quarter until the second quarter of 2011. Should additional options be granted in future period it is possible that the level of expense required could be different.

Liquidity

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
(all values should have \$ or none)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities	\$(937,922)	\$(1,815,595)	\$985,944	\$(11,839,657)
Investing activities	254,878	(6,757,406)	(3,818,282)	(6,756,005)
Financing activities	10,690	2,380,601	(2,017,032)	3,365,804
Effect of change rate change	(248,559)	690,869	(429,739)	569,163
Change in Cash and cash equivalents	\$(920,913)	\$(5,501,531)	\$(5,279,109)	\$(14,660,695)

Operating Activities

Cash flow from continuing operations was a positive \$985,944 for the first nine months of 2009 compared to a negative \$11,839,657 in the first nine months of 2008. In 2009, the increase in cash from operations was primarily related to the effect of the loss for the period in addition to an increase in accounts receivable of \$6,858,895 which in turn was offset by a reduction in inventory of \$4,978,938.

For the three month period ending September 30, 2009, cash flow from continuing operations was a negative \$937,922 which represented an improvement of \$877,673 over the comparable period in 2008. The most significant item was the increase in accounts receivable amounts resulting from the increase in revenue during the period. The Company also provided additional deposits and short term advances for operational needs. In the quarter ended September 30, 2009, the accounts receivable amounts increased by \$4,131,718 over the previous quarter mostly due to the sale of poplar trees and bamboo stems. In the same quarter in 2008, the accounts receivable balances had been a reduction of \$456,843 during that time period as volumes of revenue were significantly different between the comparable periods. Management expects that the accounts receivables relating to the third quarter operations will be collected by the end of the fiscal year.

Investing Activities

Negative cash flow of \$3,818,282 was provided by investing activities, representing a reduction of \$2,937,723 for the nine month period ended September 30, 2009 compared to the nine month period ended September 30, 2008. In 2008, the cash provided by investing activities included \$6,900,000 of cash inflow from the maturity of a short-term investment. The 2009 results include the investment in Eco-Energy China Group Inc. for \$2,600,400 for a 40% interest holding. The outflow for property and equipment was lower than in 2008 by \$10,794,571. This was a result of less equipment acquisition and road building being completed in Russia as the focus is now on operations and not on building infrastructure. The property and equipment expenditures in 2009 related primarily to the completion of the lower landing facilities and rail spur lines.

For the three month period ending September 30, 2009, cash flow from investing activities was \$254,878 compared to a negative \$6,757,406 experienced in the comparable period in 2008. In 2009, the deposit for the investment in Eco-Energy China Group Inc. was made in July 2009 and the construction of infrastructure for the Russian operations diminished, the amount of resources expended on the acquisition of property and equipment decreased from \$8,646,435 in 2008 to \$496,680 in 2009. Offsetting the cash outflows from the acquisition of property and equipment in 2008 the recognition of a positive cash inflow from the sale of plantation assets.

Financing Activities

Cash flow from financing activities was negative \$2,017,032 for the nine month period ending September 30, 2009 compared to a positive cash flow of \$3,365,804 in the comparable period of 2008. In 2009, the Company returned to its related party a portion of the funds that was previously advanced to the Company in 2008. In 2008, the opposite effect was experienced as the positive cash flow reflected funds being advanced by the same related party.

For the three month ending September 30, 2009, the cash flow from financing activities was not significant. In the quarter ended September 30, 2008 cash flow from financing activities was a positive \$2,380,601 represented mainly by the advance of funds by the related party noted above.

Capital Resources

In order to finance the Company's future development and expansion, management may be seeking to raise additional funds until such time as cash flow from its operations, including the harvesting of plantations, are sufficient to fund growth internally. The timing and ability to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance junior forestry companies operating in the PRC and in Russia.

Share Capital

The following financings have been completed by the Company since March 2006:

Date	Gross Proceeds	Type of Transaction
January 2008	182,000	Exercise of Warrants
November 2007	45,000,000	Private Placement
September 2007	4,097,692 600,000	Exercise of Warrants Exercise of Options
June 2007	4,543,027	Exercise of Warrants
March 2007	37,500	Exercise of Warrants
January 2007	2,064,400	Private Placement
December 2006	3,135,000	Private Placement
September 2006	117,600	Exercise of Warrants
April 2006	122,400	Exercise of Warrants
March 2006	80,000	Exercise of Warrants

There has been no change in share capital since the issuance of the 800,000 shares issued in April 2008 in settlement of the transaction to acquire the investment in the Russian company.

Capital Structure

The Company is authorized to issue an unlimited number of common shares, where each common share provides the holder with one vote. As of the date of this MD&A there were 112,524,714 common shares issued and outstanding. There was no change in the number of outstanding shares from December 31, 2008.

In addition, the Company had the following convertible securities outstanding as at September 30, 2009:

<u>Type</u>	<u>Quantity</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Stock Options	1,420,000	\$ 0.60	May 31, 2010
Stock Options	940,000	0.80	December 31, 2010
Stock Options	1,830,000	1.25	May 10, 2012
Stock Options	<u>5,000,000</u>	0.50	May 20, 2014
Total Options	9,190,000		
Broker Warrants	<u>1,500,000</u>	1.50	November 21, 2009
Total	<u>10,690,000</u>		

As previously noted, in May 2009, the Board of Directors approved an additional 5,000,000 stock options which were allocated under the terms of the Company Stock Option Plan at an exercise price of \$0.50 per share. As at the date of this MD&A, the convertible securities outstanding total 10,690,000.

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

Amounts due from/to related parties are receivable and payable to entities controlled by shareholders, officers or directors of the Company. Related party transactions are with these related parties.

At September 30, 2009, included in other receivables are loans to a related company controlled by the same management team totalling \$31,086 (Rmb 198,000) (December 31, 2008 - \$63,005 - Rmb 351,000). This balance relates to short term advances from the Company and are unsecured, non-interest bearing and repayable on demand.

Also included in other receivable at September 30, 2009 is an advance of \$671,963 (Rmb 4,280,000) to Eco-Energy China Group Inc. This balance is a short term advance from the Company and is unsecured, non-interest bearing and repayable on demand.

The Company may borrow funds from time to time from related parties. To date these cash advances have been unsecured, non-interest bearing and payable on demand. As at September 30, 2009, there were advances by the minority shareholder of the export trading company totalling \$2,899,193 (December 31, 2008- \$5,390,055). The related party has agreed not to demand payment of the outstanding amount within the next year.

Proposed Transactions

With the exception of the information provided above, the Company is not a party to any other proposed transaction that may have an effect on the financial condition, results of operations or cash flows which the management believes would require the intervention or approval of the Board of Directors of the Company.

Summary of Quarterly Financial Information

The following table sets forth, for the eight most recently completed quarters, information relating to the Company's revenue, net loss and loss per common share.

	Total Revenue	Net Income (Losses)	Earnings (Losses) per share: Basic and Diluted
September 30, 2009	\$23,304,614	\$2,585,614	Basic - \$0.023 Diluted - \$0.021
June 30, 2009	14,933,687	\$(2,062,863)	(0.018)
March 31, 2009	6,277,519	(1,276,048)	(0.010)
December 31, 2008	8,619,483	(2,773,017)	(0.024)
September 30, 2008	5,560,299	(538,719)	(0.005)
June 30, 2008	4,506,072	(1,161,477)	(0.010)
March 31, 2008	6,130,201	(59,017)	(0.001)
December 31, 2007	7,052,190	(2,286,386)	(0.015)

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. The Company’s significant accounting policies are noted in the annual consolidated financial statements. The application of policies involves estimates and certain assumptions that are made by management. The Company bases its estimates on historical experience and other assumptions as required that management believes are reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. The Company reviews its estimates on an on-going basis in order to ensure the appropriateness of the estimates. Different accounting policies or changes in estimates and assumptions could potentially have a material impact, positive or negative, on the financial position and the results of operations of the Company. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to the valuation of its plantation assets and the corresponding accrued liabilities.

Changes in Accounting Policies

On January 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accountants (the “CICA”) accounting standards.

Section 3064 – Goodwill and Intangible Assets and Section 1000 – Financial Statement Concepts

In February 2008, the CICA released new Handbook Section 3064 “Goodwill and intangible assets”, replacing Handbook Section 3062 “Goodwill and Intangible Assets” and Handbook Section 3450 “Research and development costs”. The CICA also amended Handbook Section 1000 “Financial Statements Concepts” to provide consistency with this new standard. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. This section clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and as a result start-up costs must be expensed as incurred. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standards IAS 38 “Intangible Assets”. Upon adoption, there was no impact on the Company’s consolidated financial statements.

Abstract EIC-173- Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued the Emerging Issues Committee (EIC) Abstract EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”, effective for interim and annual financial statements ending on or after January 20, 2009. The adoption of this new standard had no impact on the Company’s presentation of its financial position or results of operations for the period ended September 30, 2009.

Financial Instruments

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, available for sale investments, loans and receivables, held-for-trading financial assets or financial liabilities and other financial liabilities.

The carrying values of the Company’s financial instruments are classified into the following categories:

	September 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
Held for trading (a)	\$4,665,617	\$ 9,944,726
Loans and receivables (b)	9,936,062	5,204,123
Other financial liabilities (c)	65,701,460	72,493,108

(a) Cash and cash equivalents, measured at fair value.
(b) Accounts receivable, other receivables, and long-term loans receivable measured at amortized cost using the effective interest rate method.
(c) Accounts payable and accrued liabilities, due to related party, long term loan payable and mortgage payable measured at amortized cost.

Fair Value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash and cash equivalents, short term investments, other receivables, accounts receivable and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The carrying value of the mortgage payable approximates its fair value due to the fact that there have been minimal changes in the prevailing interest rates and the long-term profile of the Company has not significantly changed. The carrying value of long-term loans receivable and long-term loan payable approximate their fair value as the prevailing interest rate is not significantly different from the existing rates on the loans.

The fair value of the amount due to related party is not determinable as there is no comparable market data.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's accounts receivable, long-term loans receivable and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

The Company's cash and cash equivalents subject the Company to a significant concentration of credit risk. The cash and cash equivalents balances are held in bank accounts in various geographic regions.

The Company's credit procedure is to review each new customer for credit worthiness before the standard terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristic of each customer. Substantially all of the Company's customers are located in China.

As at September 30, 2009, accounts receivables from customers located outside Canada represented 100% of the accounts receivable balance and all accounts were outstanding for less than 30 days. The Company's largest trade receivables from three customers comprises 65% of the total accounts receivable as at September 30, 2009. (December 31, 2008- Nil)

To date the Company has not established an allowance for doubtful accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the value of inventories, collection of accounts receivable, investment in timber holdings, property and equipment, the settlement of obligations which includes (current liabilities as they become due, due to related party which will be payable after 2010 and the commitments as disclosed in Note 21 and the ability to raise funds in order to meet commitments and sustain operations.

The Company controls liquidity by managing its working capital and cash flows as well as obtaining additional equity infusion, if required.

Operating Environment of the Company

The Russian and PRC economies continue to display some characteristics of emerging markets. These characteristics include, but are not limited to the existence of currencies that are not freely convertible in most countries outside of Russia or PRC. The tax, currency and customs legislation within Russia and PRC are subject to varying interpretations, and changes, which can occur frequently.

While there have been improvements in the economic trends, the future economic direction of Russia and PRC is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government together with tax, legal and political developments.

Currency risk

The Company is subject to currency risk arising from these financial instruments in the normal course of business.

As at September 30, 2009, the Company had foreign currency denominated amounts of approximately:

	China		Russia	
	Rmb	Cdn\$	Rub	Cdn\$
Cash	12,417,493	\$ 1,949,555	290,778	\$ 10,381
Accounts Receivable and Other Receivables	55,245,062	8,673,511	31,630,209	1,129,199
Liabilities	399,059,323	62,652,577	102,124,477	3,645,844

As at December 31, 2008, the Company had foreign currency denominated amounts of approximately:

	China		Russia	
	Rmb	Cdn\$	Rub	Cdn\$
Cash	20,777,074	\$ 3,729,505	2,401,000	\$ 96,280
Accounts Receivable and Other Receivables	10,893,117	1,955,325	77,458,000	4,272,987
Liabilities	392,580,381	70,468,565	55,217,000	2,214,198

A fluctuation of +/- 1% provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than Canadian dollars, with, all other things being equal, have an effect on the results from operations and other comprehensive income of approximately \$515,000 in the case of Rmb denominated financial instruments and approximately \$25,000 for Rouble denominated financial instruments.

The Company monitors its net exposure to foreign currency fluctuations in each country and attempts to minimize the impact of the fluctuations by aligning appropriate levels of Rmb and Rub denominated liabilities with cash held in Rmb and Rub with future cash flows from the China and Russia operations.

The Company as not entered into any currency hedging contracts.

Interest Rate Risk

Fluctuations in interest rates would have no effect on the results from operations as the Company has no variable rate debt.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of forestry products that it purchases and sells for the PRC market. The Company imports round wood logs purchased from suppliers outside of China, at prevailing market prices.

Any fluctuations in the prices of standing timber and other imports can have a significant effect on the Company's business, results of operations, financial condition and cash flows.

The Company's overall performance is affected by the prices of lumber set in the Russian and PRC markets that are subject to significant fluctuations. Due to the nature of the import business, any significant fluctuation would have minimal effect on gross margins. The Company does not enter into any future contract to hedge its sales or purchases of forestry products. From time to time, the Company may use physical delivery sales agreement to manage market risks. No contracts are entered into for trading on a speculative purpose. The Company does not have any physical delivery sales contract at period end.

Capital Management

The Company's objective is to manage its capital to ensure that the Company will be able to continue to follow its business strategy of expanding current operations and pursue other sound opportunities that may become available from time to time.

Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income (loss).

The Company's management reviews its capital management approach on an ongoing basis to ensure that the Company's property and equipment are available and deployed in an optimized fashion to meet the Company's objectives. The Board of Directors does not establish quantitative return on capital criteria for management, but promotes year over year sustainable profitable growth. There were no changes in the Company's approach to capital management during the period.

At this time, the Company does not use any third party financing as all projects are internally financed. The Company will consider employing third party financing for certain future acquisitions should it be required.

The Company does not have any covenants respecting its capital ratios.

Commitments and Contingencies

(a) Operating Lease Commitments

The Company has entered into various operating leases for automobiles, equipment and office premises and is responsible for minimum lease payments. Under terms of the various leases, the Company's annual minimum future payments to September 30 are approximately as follows:

2010	\$ 116,919
2011	<u>30,615</u>
Total	<u>\$147,534</u>

(b) Management Fees and Consulting Fees Commitments

The Company has entered into various agreements relating to management and consulting services relating to plantation management and is responsible for minimum fee payments. Under terms of the various agreements, the Company's annual minimum future payments are approximately as follows:

2010	\$ 366,595
2011	211,396
2012	163,909
2013	163,909
2014	163,909
Thereafter	<u>54,636</u>
Total	<u>\$ 1,124,354</u>

(c) Land lease commitments

The Company has entered into various land rental agreements in several locations for its plantations. The lease payments for these properties are calculated on an annual basis and the amount is accrued, however the actual payment of the lease cost is contingent upon the timing of the harvest of the plantations. At September 30, 2009 the portion of the lease payments that could be payable contingent upon harvesting the plantation assets is as follows:

2010	\$11,161,077
2011	11,161,077
2012	11,161,077
2013	11,161,077
2014	1,700,844
Thereafter	<u>898,125</u>
Total	<u>\$ 47,243,276</u>

(d) Contingencies

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Company. As at September 30, 2009 no material claims were outstanding.

The enforcement of environmental regulation in Russia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, can not be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Company is in compliance with the Russian government's federal and regional requirements concerning environmental matters; therefore there are no significant liabilities for environmental damage and remediation recorded in the accounts.

(e) Plantation Assets

The Company's plantation assets are located in the PRC and owned by subsidiaries which take the PRC legal form of joint ventures and wholly foreign owned enterprises. As at September 30, 2009, approximately 14,929 hectares (ha) (December 31, 2008 – 13,786 ha) were planted. To date, the Company has received forestry certificates from the local government forest bureau for approximately 4,337 ha. The balance of the certificates shall be issued once the Chinese forestry authorities are satisfied with the growth and quality of the saplings. The subsidiaries are not required to pay for the liabilities associated with the planting of these saplings until such time as the management of the Sino Joint Ventures or Wholly Owned Foreign Entities have received the forestry certificates.

(f) Tax provision

The calculations of the provision for income taxes and other tax related liabilities are subject to various factors and estimates made by management in the course of preparing financial information. A change in factors and estimates used in the calculations could have a material impact on the Company's reported tax position.

The Company presently operates in countries, such as PRC and Russia, where civil laws apply. Similar to the situation of the new Land Appreciation Tax (LAT) towards the rental of property, the implementation of this tax varies among various PRC cities which make the application of the local tax authority to the national policy, not conclusive and uncertain.

One of the Company's subsidiaries adopted local practice in respect of the compilation of the value-added-tax submission. Such policy has certain inherent discrepancy compared to the national value-added tax policy. The Directors and the management of the subsidiary considered that satisfactory documentation had been submitted to the PRC authority in connection with those returns, and up to and inclusive until the date of the report, neither the Company, nor its subsidiary have received any notification from the tax authority regarding the subject matter. Accordingly, no additional provision for taxation has been made in respect of this subsidiary. In the event as stated above that a difference of opinion exists toward the interpretation of the tax policy by the respective authorities, the Company might be required to make further submissions and clarifications due to the uncertainty as highlighted, consequential additional tax liability might result.

New Accounting Pronouncements

Section 1582 – Business Combinations

This section replaces CICA Section 1581 "Business Combinations" and improves the relevance, reliability and comparability of the information that the entity provides in its financial statements about a business combination and its effects. This section is applicable to the annual and interim financial statements of the Company beginning on or after January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

Section 1601 – Consolidations and Section 1602- Non-controlling Interests

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

Harmonizing of Canadian and International Financial Reporting Standards

In February, 2008, the Accounting Standards Board (“AcSB”) of the CICA confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective in the calendar year 2011. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 “Inventories” and IAS 38 “Intangible Assets”, thus mitigating the impact of adopting IFRS at the mandatory transition date. The Company continues to monitor changes arising from this convergence and, as required by CSA Staff Notice 52-320, the Company is currently undertaking the first steps in completing its diagnostic review of the Company’s financial statements to determine potential financial statement areas with IFRS deviations. The Company expects that this first phase of the IFRS transition project will be completed by the end of December 2009.

Summarized below is a description of our progress towards completion of selected key activities of our IFRS changeover plan as of September 30, 2009. At this time we cannot quantify the impact that the future adoption of IFRS will have on our financial statements and operating performance measures, however, such impact may be material. We also expect the changeover to IFRS to impact internal controls over financial reporting, disclosure controls and procedures, and IT systems and processes. Additional information will be provided as we move towards the changeover date.

	SELECTED KEY ACTIVITIES	MILESTONES/DEADLINES	PROGRESS TO DATE
Financial statement preparation	<p>Identify relevant differences between IFRS and our accounting policies and practices and design and implement solutions</p> <p>Evaluate and select one-time and ongoing accounting policy alternatives</p> <p>Benchmark findings with peer companies</p> <p>Prepare financial statements and related note disclosures to comply with IFRS</p> <p>Quantify the effects of changeover to IFRS</p>	<p>Assessment and quantification of the significant effects of the changeover completed by the second quarter of 2010.</p> <p>Final selection of accounting policy alternatives by the changeover date</p>	<p>Currently in the process of identifying IFRS differences</p> <p>Design solutions to resolve IFRS differences progressing and it is anticipated that it will be completed late in the fourth quarter of 2009</p> <p>Evaluation and selection of accounting policy alternatives is ongoing</p>

<p>Training and communication</p>	<p>Provide training to affected employees of operating units, management and board of directors and relevant committees thereof, including the Audit Committee</p> <p>Engage subject matter experts to assist in the transition</p> <p>Communicate progress of changeover plan to internal and external stakeholders</p>	<p>Timely training provided to align with work under changeover –training completed by mid 2010</p> <p>Communicate effects of changeover in time for the 2011 financial planning process, by the third quarter of 2010</p>	<p>Training for resources directly engaged in the changeover and general awareness for board of directors and affected employees is on-going</p> <p>Periodic internal and external communications about our progress are ongoing,</p> <p>Third party subject matter experts are reviewing our assessments and assisting with the transition</p>
<p>IT systems</p>	<p>Identify and address IFRS differences that require changes to financial systems</p> <p>Evaluate and select methods to address the need for dual record keeping during 2010 (i.e. IFRS and Canadian GAAP) for comparatives and budget and planning purposes in 2011</p>	<p>Changes to significant systems and dual record-keeping process completed in time for the first quarter of 2010</p>	<p>IFRS differences with system impacts are being identified and subsequent changes and design of IT solutions will be implemented as required</p>
<p>Contractual arrangements and compensation</p>	<p>Identify impact of changeover on contractual arrangements.</p> <p>Make any required changes to arrangements and plans.</p>	<p>Changes completed by the third quarter of 2010</p>	<p>IFRS differences with potential impacts on contractual arrangements are being evaluated</p>
<p>Internal Control over financial reporting (ICFR)</p>	<p>Revise existing internal control and procedures to address significant changes to existing accounting policies and practices, including the need for dual record keeping during 2010</p> <p>Design and implement internal control with respect to one-time changeover adjustments and related</p>	<p>Changes completed by the first quarter of 2010</p> <p>Conduct management evaluation of new and revised controls throughout 2010</p> <p>Update Chief Executive Officer and Chief Financial Officer certification process as required by fourth quarter of 2010</p>	<p>In the process of reviewing IFRS differences to permit design, revision and testing of controls, if required, and implementation of necessary internal controls changes</p>

	communications		
Disclosure controls and procedures (DC&P)	For changes to accounting policies and practices identified, assess the DC&P design and effectiveness implications	See IFCR deadlines above	Expanded MD&A disclosure have begun