

The following is the text of the reports, prepared for the purpose of incorporation in this prospectus, received from Pöyry, a forestry consultant, in connection with the valuation of our forest assets in Yunnan and our natural forest concessions in Peru.

A. VALUATION OF FOREST ASSETS IN YUNNAN



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Date: May 16, 2011

CHINA FLOORING HOLDING COMPANY LIMITED

Valuation of Forest Assets in Yunnan As at December 31, 2010

DISCLAIMER

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PREFACE

Jiangxi Yingran Forest Development Co., Ltd, a wholly-owned subsidiary of China Flooring Holding Company Limited, commissioned Pöyry to undertake a market valuation of its forest estate in Yunnan province, China in 2010.

This report contains the opinion of Pöyry as to the **Value of Jiangxi Yingran Forest Development Co., Ltd's forest assets in Yunnan province, China as at December 31, 2010.**

This findings and conclusion in this report are subject to the assumptions and limiting conditions set out in the following pages and to any further qualifications referred to in the body of the full market valuation report.

See Young Ho
VICE PRESIDENT

Steve Croskery
SENIOR CONSULTANT

INTRODUCTION

At Jiangxi Yingran Forest Development Co., Ltd's request, Pöyry has prepared an independent market valuation of a forest estate in Yunnan province, China. The valuation date is as at December 31, 2010.

VALUATION METHODOLOGY

It is recommended practice when appraising real property to consider three main approaches:

- The comparable sales method (i.e. referencing the results of market transactions of other properties similar to the subject property).
- The income method (i.e. assessing the present value of the anticipated future net earnings stream).
- The costs method (i.e. acknowledging what it would cost to recreate the asset in its current condition).

It then rests with the appraiser's professional judgment to assess what weighting should be applied to the results from the respective methods.

The assessment of forest investments generally requires the examination of cash flows over a long time period. This leads to the application of discounted cash flow analysis techniques (DCF) as an indispensable part of the appraisal process. Each of the three main approaches may come to be applied within a DCF framework.

Thus;

- The cost method may be applied with wholly young stands and especially those where relying on a discounting approach alone produces values unlikely to be supported by the market. In valuing the young stands reference is made to their costs of establishment. In order to recognize the forest owner's entitlement to a return on investment, a compounding approach may be applied, requiring the selection of a suitable compounding rate.
- The income method employs a conventional discounting approach. In referencing wider evidence of investors' expectations of a return on capital, one common basis for the discount rate is the Weighted Average Cost of Capital (WACC). The cost of equity may be examined within the Capital Asset Pricing Model (CAPM).
- The comparable sales approach may also employ a DCF framework. This is particularly necessary because such sales evidence as does exist is rarely immediately comparable on a convenient unit basis (e.g. \$/hectare or \$/m³). In order to effect adjustments it is necessary to consider relative forest maturity, and this leads back to DCF analysis. Ultimately the one parameter that can be distilled from sales and then extrapolated to a subject forest is the Implied Discount Rate (IDR). This is obtained from other contemporary transactions by relating constructed cash flows for the sold forests to their respective transaction values.

For this forest asset, it is Pöyry's opinion that the parties to any real or hypothetical transaction involving Jiangxi Yingran Forest Development Co.'s forest estate would not attribute weight to the cost method of valuation. This method has not therefore been further addressed in the forest valuation.

Both the comparable sales and income approaches have been considered for the forest asset valuation. Their application has shared the same forest estate model which provides the means of projecting future anticipated cash flows. The distinction between the approaches has been maintained in the basis for selecting the discount rate.

Pöyry has elected to use the income approach (DCF analysis) in modeling the projected cash flows arising from the existing tree crop, in coming to an estimate of the market value.

The scope of the forest asset market valuation is confined to the projected cash flows arising from the existing tree crop.

FOREST AREA

Jiangxi Yingran Forest Development Co., Ltd's forest estate in Yunnan was a total area of some 4 445 ha (66 682 mu). Around 4 027 ha (60 405 mu) was forest, 252 ha (3 780 mu) bush, and the remaining area of 167 ha (2 497 mu) bare land as shown in Figure S-1. The bush and bare land areas are not considered in this valuation. The species and age-class distribution in the forest are shown in Figure S-2.

Jiangxi Yingran Forest Development Co., Ltd has advised Pöyry that land use rights of average 70 years have been obtained in association with the forest crop assets.

Figure S-1:

Jiangxi Yingran Forest Development Co., Ltd's Land Area by Cover Type

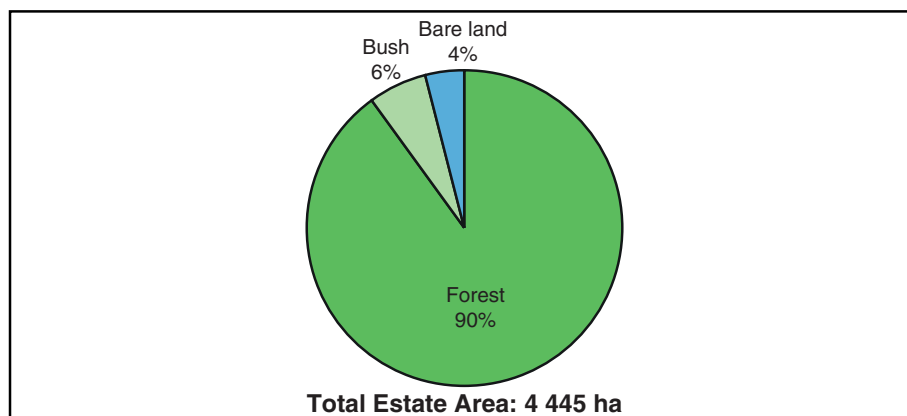
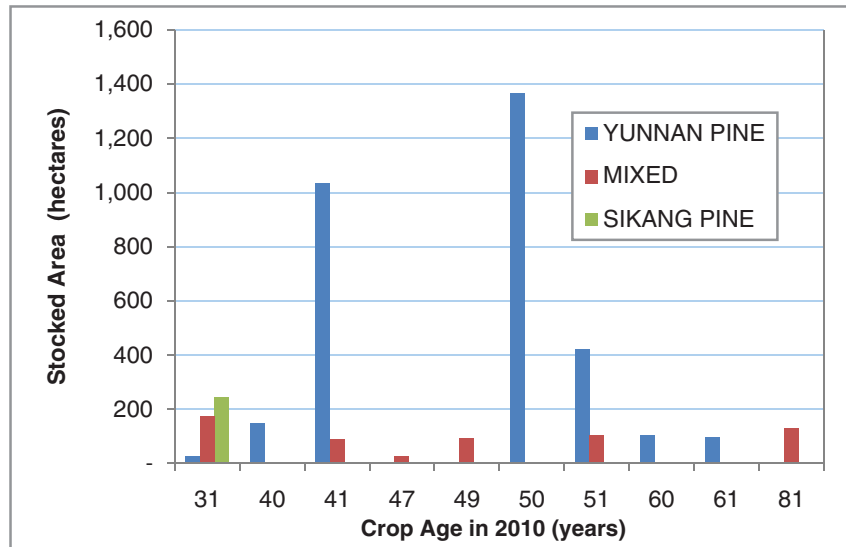


Figure S-2:
Area of Forest by Species and Age



FIELD INSPECTION, INVENTORY AND FOREST YIELD

In preparing the valuation, Pöyry has relied on inventory data provided by Jiangxi Yingran Forest Development Co., Ltd, the results of a field inspection and assessment at locations within the subject forest as selected by Pöyry, and other industry information.

The inventory supplied by Jiangxi Yingran Forest Development Co., provided Pöyry with data for use in the valuation. This included estimates of the total standing and recoverable volume (per unit area) of various species in the estate. The forest inspection process comprised driving to and walking through selected forest areas, and the establishment and measurement of more than 50 plots by Pöyry for comparison with data provided by Jiangxi Yingran Forest Development Co., Ltd.

The field inspection included discussions with the manager of a local saw mill, local Forest Bureau officers, and a visit to the Kunming log market.

Pöyry's inventory has been compared with the data provided by Jiangxi Yingran Forest Development Co. in terms of estimates of yield for the forest. The results shows that yield information provided by Jiangxi Yingran Forest Development Co. is reliable, if not somewhat conservative. Pöyry has chosen to make no adjustment to the total recoverable yield estimates as provided by Jiangxi Yingran Forest Development Co..

COSTS

Major cost elements associated with the valuation of the current crop are as follows:

Direct Forestry Costs

The only forestry costs that impact on the value of the current crop, are associated with the protection and maintenance of the forest crop and associated assets. This includes costs of forest security, fire prevention and pest control, and costs associated with the general management and maintenance of the forest, such as road and track maintenance and periodic visits by management staff.

Direct Harvesting and Cartage Costs

Direct harvesting and cartage costs are all of the direct costs incurred between the standing trees and processing of the logs to the point of sale. In China, most harvesting operations are labor-intensive. Trees are felled by axe or saw, cut to length in the forest and then carried to the roadside by hand. The harvest cost for Yunnan Pine & Sikang Pine (clearfall) has been assumed to be RMB155/m³ while Oak & Mixed Species attracts a higher cost of RMB207/m³. These costs are consistent with other current work and valuations conducted by Pöyry in China. The assumed cartage cost from the forest to the point of sale is in the range of RMB102-132/m³. The point of sale in every case is assumed to be at-mill-gate (AMG) which is also the price point assumed in the derivation of log prices.

Management and Administration Overhead

The Management and Administration Overhead cost of the forestry business is the total spend of the business excluding all direct forestry operations costs, the cost of land rentals, and costs associated with harvesting and marketing activity. Pöyry has significant experience in assessing forestry overhead costs on an international basis. Pöyry has applied an annual overhead cost of RMB75/ha, or RMB5/mu in this forest valuation. Unlike some forest estates, the Jiangxi Yingran Forest Development Co. estate is small and because of its size and restricted age-class or maturity distribution of crops, it is relatively simple to manage.

Forest Tax and Harvest Inventory & Survey Fee

A standard harvest tax of 10% of the forest roadside price (Price at mill gate — cartage cost) plus RMB9/m³ for Harvest Inventory & Survey fee has been applied in the valuation.

Land Rental or Cost of Land Use

According to Pöyry's discussions with Jiangxi Yingran Forest Development Co.'s staff and local Forest Bureau officers, there is no annual land rental for the forest estate that is the subject of this valuation. This is uncommon compared with most other regions in China.

Our estimate of value as provided below, presumes that there is no cost of land use. The fact or presumption that there is no annual land rental may have arisen because future land rentals (for the

remaining life of the current crop) were paid in a lump sum at acquisition, along with, and perhaps undifferentiated from, that amount paid for the existing tree crop. This is more likely the case than the land having no economic value and requiring no rental payment for its use.

Accordingly then, the value provided is effectively for the combined assets of trees and land, or the forest.

We are aware however that land use rentals for forestry purposes in Yunnan province are currently quite low. Forest land rentals that we are familiar with in Yunnan are around RMB30-35/hectare/annum.

Applying a nominal rental of RMB50/hectare/annum to the cost and cash flow arising from this Jiangxi Yingran Forest Development Co. forest in Yunnan, reduces the value of that reported, by about 1%. In other words the cost of land use in this case does not have a material bearing on the value of the tree crop.

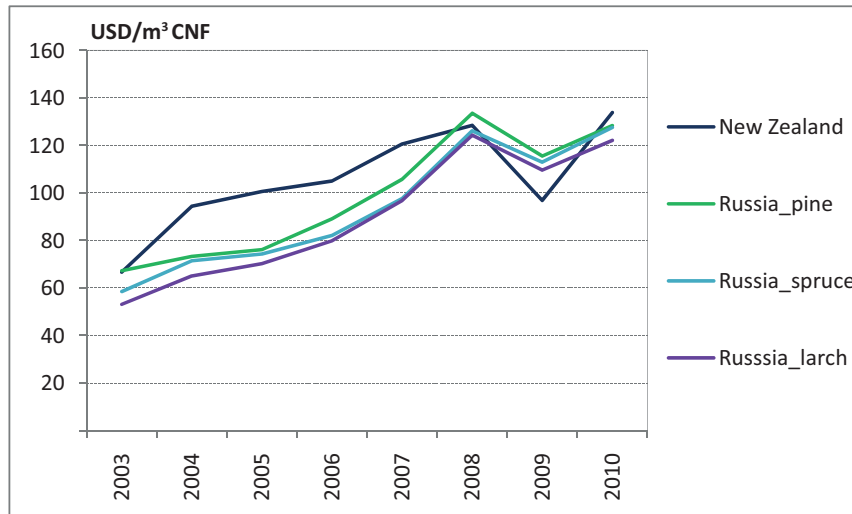
LOG PRICES

Log market analysis constitutes an important part of the valuation process. An NPV valuation is, by definition, based on expected future cash flows. Pöyry's approach to price estimation involves an examination of the underlying economic and market factors that influence log demand. In forecasting China's domestic log prices, Pöyry analyses a series of factors that affect log demand and supply, production costs and competitive forces.

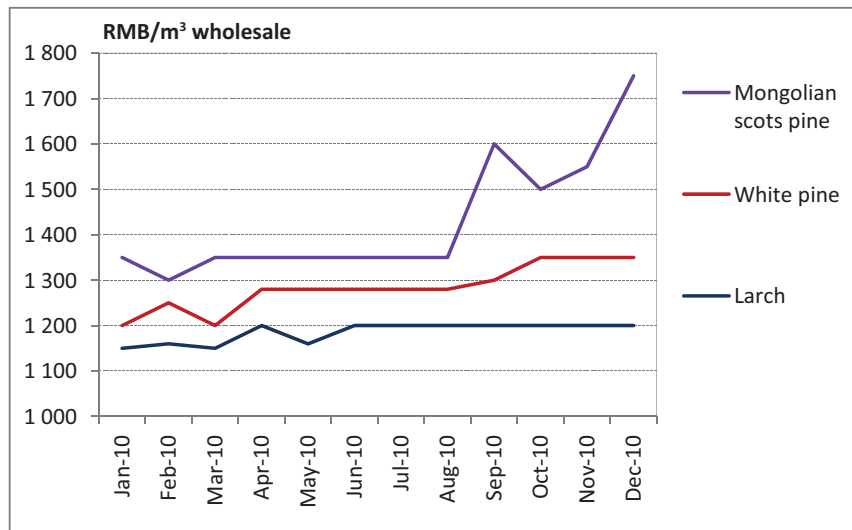
Figure S-3 presents the development of imported softwood log prices from Russia (by species) and New Zealand into China, on a USD/m³ cost-and-freight (CNF) basis. Prices have increased considerably between 2003 and 2008, driven primarily by the continued significant demand growth in China, couple with high ocean freight rate. However, the global financial crisis downturn resulted in a share price decline during the late 2008 and early 2009. Prices recovered in 2009 and continued increasing in 2010 with renewed demand.

In addition, Figure S-4 shows the latest 2010 development of domestic softwood log prices at several major wholesale markets. Typically, log prices in China vary greatly depending on region, species and size. Domestic log prices are found to be broadly in line with the imported log price trend and are becoming increasingly internationalized.

**Figure S-3:
China Imported Softwood Log Price Development**



**Figure S-3:
China Domestic Softwood Log Price Development**



Pöyry has independently assessed market prices for the range of species and grades from data collected during the field inspection and Pöyry’s China log price database. In the model, an increase in log prices of around 1%-2%/year has been applied over the next 4 years. The assumed log prices for the main species and grades are shown in Table S-1.

Table S-1:
Current and Future Log Prices Applied in Valuation Model

Species	Grade	Period 1	Period 2	Period 3	Period 4	Period 5 onwards
	SED (cms)					
			(RMB/m3 at mill or market)			
Yunnan Pine	6–14	600	610	620	625	625
Yunnan Pine	14–26	840	860	880	895	900
Yunnan Pine	> 26	1,050	1,085	1,115	1,135	1,150
Sikang Pine	6–14	600	610	620	625	625
Sikang Pine	14–26	840	860	880	895	900
Sikang Pine	> 26	1,100	1,135	1,165	1,185	1,200
Oak	6–14	600	610	615	620	620
Oak	14–26	650	660	670	675	680
Oak	> 26	720	740	755	765	775
Mixed Species	6–14	530	535	545	545	550
Mixed Species	14–26	720	730	740	750	755
Mixed Species	> 26	800	820	840	850	860

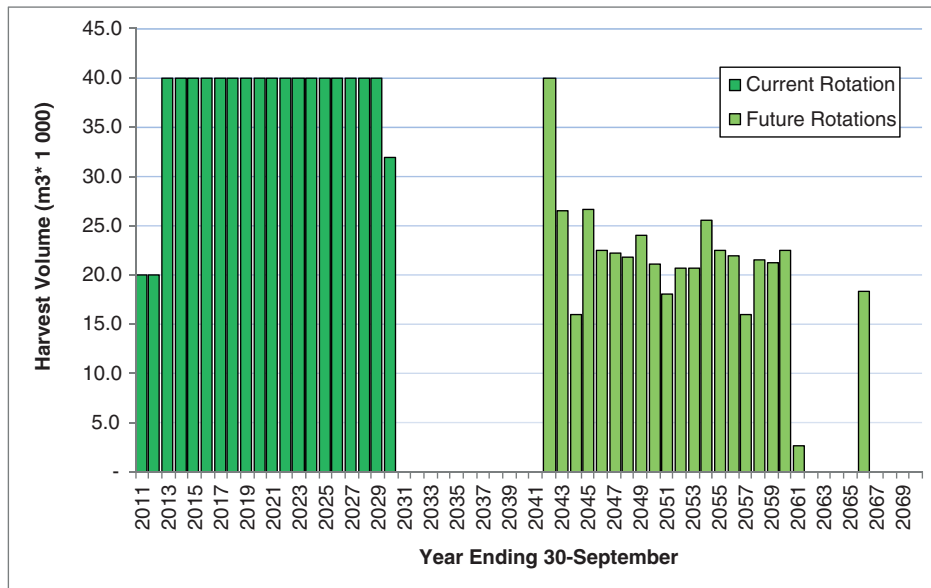
WOOD FLOW

The physical and financial descriptions of the forest, as outlined above, are brought together in the form of input to the Forest Estate Model from which wood flows and cash flows are generated. The Forest Estate Model employs a linear programming formulation that allows constraints to be specified and applied to the management and harvest of the forest estate. These constraints include the specification of:

- Minimum and maximum harvest ages by species
- Replanting assumptions in terms of crop types and expected future crop yields
- Levels of harvest volume (or area), in total or by defined parts of the forest estate, by species and location and period, and, where appropriate
- The minimum and maximum volumes of particular log grades that can go to certain destinations

The perpetual wood flows from the Jiangxi Yingran Forest Development Co., Ltd's forest estate are shown in Figure S-5. **The current rotation component of the overall wood flow on which the market valuation is based is also indicated.** The first two years' harvest is constrained to 20 000 m³. Beyond that, the level of harvest is constrained to less than 40 000 m³. In Pöyry's opinion, this is a practicable harvesting strategy and one that should not exceed market capacity and within AAC by county.

**Figure S-5:
Wood Flow by Rotation**



DISCOUNT RATE

A valuation based on a Net Present Value (NPV) approach requires the identification of an appropriate discount rate. In selecting the rates there are two broad approaches:

- Deriving the discount rate from first principles: The most common expression of this approach turns first to the Weighted Average Cost of Capital (WACC). This recognizes the costs of both debt and equity. The cost of equity may be derived using a Capital Asset Pricing Model (CAPM) method.
- A second approach is to derive implied discount rates from transaction evidence.

Pöyry commissioned Associate Professor Alastair Marsden of Auckland UniServices Limited to prepare a report on the cost of capital for a generic forest investment located in China. The range of rates suggested by the WACC/CAPM approach, at 7.1% to 12.8%, as applied to pre-tax cash flows.

Pöyry has very little implied discount rate data for China. As the commercial plantation forest industry develops and forests are transacted, empirical evidence from which to derive implied discount rates is expected to arise. By comparison, in Australia and New Zealand analyses of implied discount rates has become a standard means for comparing transaction results and deriving discount rates to apply in forest valuation. Currently, NPV or DCF based valuation of forests in Australasia typically sees discount rates of 8.5 to 9.0% applied to pre-tax cash flows.

However, compared with New Zealand and Australia, commercial forestry activity and investment in China is relatively new and still developing. It is Pöyry's opinion that, for many forest investors, investing in plantation forestry in China would be considered a riskier proposition than investing in the industry in Australia or New Zealand.

Given the current application of discount rates in Australasia, and the comparison of risk elements, in Pöyry's judgment, an additional 2.5% to 3.0% would seem reasonable to apply to the Jiangxi Yingran Forest Development Co. forest estate.

Pöyry has chosen to apply a discount rate of 11.5% to the pre-tax cash flows forecast to arise from the management and harvest of the current crops of the Jiangxi Yingran Forest Development Co. Ltd's forest estate.

In selecting such a rate we have been inclined to recognize that investors in forestry in China will inherently be taking a long term view, and do have grounds for cautious optimism on the forest industry's future there. The fundamental factors that affect forestry performance are favorable. Importantly too, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. A discount rate of 11.5% provides a margin of around 7.0% over Treasury Bond 'risk-free' real rates that have prevailed in western economies over the past 20 years.

MARKET VALUATION

Based on the previously explained assumptions, Pöyry's estimate of the market value of the Jiangxi Yingran Forest Development Co., Ltd's Yunnan forest estate as at December 31, 2010 is **RMB151.6 million.**

As far as Pöyry is aware, this estimate of market value of the forest has been derived in a manner consistent with NPV based valuation as described in IAS 41 — Agriculture. This is a global standard for the reporting of agricultural activity prepared by the International Accounting Standards Board (IASB).

SENSITIVITY

Table S-6 below shows firstly the sensitivity of the estimate of market value to changes in the discount rate, and secondly, at an 11.5% discount rate, the sensitivity of the estimate of market value to changes in log price.

Table S-6: Sensitivity Analyses

<u>Discount Rate</u>	<u>at</u>	<u>Market Value</u>
		(millions)
Reduced	9.5%	RMB175
Base Case	11.5%	RMB152
Increased	13.5%	RMB134
<u>Log Price</u>	<u>at</u>	<u>Market Value</u>
		(millions)
Reduced	-10.0%	RMB126
Base Case		RMB152
Increased	+10.0%	RMB178

B. VALUATION OF NATURAL FOREST CONCESSIONS IN PERU

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Shanghai Branch

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No. 1118, West Yan'an Road

Shanghai, PRC

Date: May 16, 2011

CHINA FLOORING HOLDING COMPANY LIMITED**Valuation of Natural Forest Concessions in Peru
as at December 31, 2010****DISCLAIMER**

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PREFACE

Nature America S.A.C. (N.A.), a wholly-owned subsidiary of China Flooring Holding Company Limited, commissioned Pöyry to undertake a market valuation of its forest estate in Peru in 2009. The valuation report date was as at September 30, 2009. The Company again commissioned Pöyry to undertake a market valuation of the same estate as at December 31, 2010.

This report contains the opinion of Pöyry as **to the combined value of the two natural forest concessions which belong to Nature America in the Loreto state of Peru as at December 30, 2010.** The findings and conclusions presented here are a summary of Pöyry's accumulated project experience with the estate over the two years.

This findings and conclusion in this report are subject to the assumptions and limiting conditions set out in the following pages and to any further qualifications referred to in the body of the full market valuation report.

See Young Ho
VICE PRESIDENT

Edward Warren
CONSULTANT

SUMMARY

Pöyry, on behalf of Nature America S.A.C. (N.A.), has undertaken an assessment and valuation of two adjacent forestry concessions (known as “**Pedro**” and “**Elizabeth**”) in Peru, South America, as at December 1, 2010. Pöyry has previous experience with these assets, having valued them in 2009.

VALUATION METHODOLOGY

It is recommended practice when appraising real property to consider three main approaches:

- The comparable sales method (i.e. referencing the results of market transactions of other properties similar to the subject property).
- The income method (i.e. assessing the present value of the anticipated future net earnings stream).
- The costs method (i.e. acknowledging what it would cost to recreate the asset in its current condition).

It then rests with the appraiser’s professional judgment to assess what weighting should be applied to the results from the respective methods.

The assessment of forest investments generally requires the examination of cash flows over a long time period. This leads to the application of discounted cash flow analysis techniques (DCF) as an indispensable part of the appraisal process. Each of the three main approaches may come to be applied within a DCF framework.

Thus;

- The cost method may be applied with wholly young stands and especially those where relying on a discounting approach alone produces values unlikely to be supported by the market. In valuing the young stands reference is made to their costs of establishment. In order to recognize the forest owner’s entitlement to a return on investment, a compounding approach may be applied, requiring the selection of a suitable compounding rate.
- The income method employs a conventional discounting approach. In referencing wider evidence of investors’ expectations of a return on capital, one common basis for the discount rate is the Weighted Average Cost of Capital (WACC). The cost of equity may be examined within the Capital Asset Pricing Model (CAPM).
- The comparable sales approach may also employ a DCF framework. This is particularly necessary because such sales evidence as does exist is rarely immediately comparable on a convenient unit basis (e.g. \$/hectare or \$/m³). In order to effect adjustments it is necessary to consider relative forest maturity, and this leads back to DCF analysis. Ultimately the one parameter that can be distilled from sales and then extrapolated to a subject forest is the Implied Discount Rate (IDR). This is obtained from other contemporary transactions by relating constructed cash flows for the sold forests to their respective transaction values.

It is Pöyry's opinion that the parties to any real or hypothetical transaction involving N.A.'s forest assets in Peru would not attribute weight to the cost method of valuation. This method has not therefore been further addressed in this valuation.

Both the comparable sales and income approaches have been considered for the forest asset valuation. Their application has shared the same forest estate model which provides the means of projecting future anticipated cash flows. The distinction between the approaches has been maintained in the basis for selecting the discount rate.

Pöyry has elected to use the income approach (DCF analysis) in modeling the projected cash flows arising from the existing tree crop, in coming to an estimate of the market value as at December 31, 2010.

The forest valuation excludes volume arising from areas harvested beyond the first 40 year selective cut cycle (current rotation only).

In the valuation of the forest concessions, it was assumed that a portion of forest output will be sold on the local market as logs and a portion will be converted to sawn timber in an existing outsourced sawmill in Yurimaguas for export to either Nature Flooring's flooring factories in China or related markets in USA. The sawmill does not form a part of the asset valuation as it is an outsourced entity that only converts logs to sawn timber at a negotiated rate per cubic meter of output. Since there is an established market for the converted logs (sawn timber), Pöyry regards the inclusion of the benefits of this processing operation as a valid approach in determining a fair market value for the forest asset.

FOREST AREA

The two concessions are known as "Pedro" and "Elizabeth", with gross areas of 24 373 ha and 21 974 ha, respectively or 46 347 ha in total. After reductions for reserves and Pöyry's estimate of non-productive area, **the net productive area for the concessions is 87% of the gross area, or 40 322 ha.**

According to copies of the ownership transfer documents, called "resolutions", provided by Nature Flooring, the harvesting license is valid for 40 years with an option to renew.

**Table S-1:
Forest Concession Areas**

<u>Concession</u>	<u>GFMP</u>	<u>GFMP</u>	<u>Pöyry</u>	<u>Pöyry</u>
	<u>Total Area</u> <u>(ha)</u>	<u>Reserve Area</u> <u>(ha)</u>	<u>Non-productive</u> <u>Area (ha)</u>	<u>Net Productive</u> <u>Area (ha)</u>
Pedro	24,373	1,933	1,235	21,204
Elizabeth	21,974	1,505	1,352	19,118
Total	<u>46,347</u>	<u>3,438</u>	<u>2,587</u>	<u>40,322</u>

The 100 or so species are classified into the following four categories. Categories 1 - 3 cover the 32 commercial species based on relative current commercial value and N.A.'s targeting markets for

the respective species. Category 1 is the most valuable, followed by Categories 2 and 3. Category 4 is currently regarded as having no commercial value.

The cash flow model upon which the valuation is based assumes that Category 4 is not cut. This is mainly because the cost of getting the logs to market exceeds the likely price for the logs even if there was a market (that does not currently exist) for Category 4.

FIELD INSPECTION, INVENTORY WORK AND FOREST YIELD

In preparing the valuation, Pöyry has relied on inventory data provided by Nature America S.A.C. (N.A.), the results of a field inspection and assessment at locations within the subject forest as selected by Pöyry, and other industry information.

During Pöyry's field inspection of the two forest concessions in 2009 and 2010, which included both ground and aerial inspection, Pöyry was able to observe the overall condition of the forest, and its suitability for commercial management and harvest.

Aerial assessment indicated a dense and healthy forest canopy, and ground assessment provided confirmation of the reasonableness of inventory data made available to Pöyry. This inventory data is the basis of the estimates of harvest volume, by species and log size class over the duration of the concession. The assessments also allowed Pöyry to estimate infrastructure costs that will be required in the management and harvest of the forest.

ENVIRONMENTAL AND SOCIAL IMPACT

Forest resource operations in indigenous territories, both small-scale and large, can have a significant impact upon the environment, health, resource base and quality of life of indigenous peoples.

Logging in tropical natural forest has a long-term impact on the structure and composition of the forest. It is suggested that to preserve the current species mix of the Elizabeth and Pedro concessions, wood removal should be based on the current species structure. That means harvesting should not be focused on commercially-valuable species only.

One of the positive aspects of N.A. plans is that they intend to build processing facilities locally to utilize the currently little to no commercial value species to produce veneer for plywood products.

There is an inextricable link between the survival of the forest and the preservation of traditional indigenous cultures. Preserving indigenous cultures, and consequently rainforest ecosystems, begins by fortifying traditional borders and establishing recognized protected areas. Operating concessions in a sustainable manner as required by FSC certification would reduce the risk of forest uncontrolled harvesting.

We assume, the Company will continue to focus on supporting environmentally-friendly sustainable development. This would also establish and manage protected areas, support community-based resource management projects, build human capacity and expand knowledge through research.

COSTS

Major cost elements associated with the valuation are as follows:

Road and Bridge building

In order to harvest the forest, additional roading is required. The total road construction cost is estimated to be USD278 643 in the first year and maintenance cost USD69 812. As the roads need to be extended there will be an annual new road construction cost of USD68 563 from the 2nd year on. Road maintenance is needed for the entire main road and the new secondary road constructed for the year, and corresponding costs will be cumulative as additional lengths of road are constructed each year.

It is estimated that USD186 329 is required in the 1st year for construction of bridges. From the 2nd year further bridge construction will be required as the operation extends into the depth of the concessions.

Direct Harvesting and Cartage Costs

Pöyry has derived the harvesting and transport costs by combining estimates of machine productivity and running costs in conjunction with transport lead distances. Delivered wood cost includes the cost of labor, equipment and tool maintenance, fuel and consumables, and other variable expenditure associated with the felling, extraction, and transportation of logs to the sawmill. in.

Total harvesting and transport cost is estimated at USD39/m³ log.

Management and Administration Overhead

The sales, general and administration (SG&A) costs associated with the forestry business in Peru (including field management and the Lima headquarters) has been estimated by Pöyry on an annual basis. Pöyry estimates the total SG&A cost associated with field and HQ management personnel at USD113 264/annum. A further USD33 979/annum has been costed for general office running costs, including office rental, utilities etc.

A “selling, marketing expense” of 2% of the timber sale price has been assumed to cover the estimated commission fee paid to the marketer/exporter. This is based on Pöyry’s experience in forest the industry business and is regarded as a reasonable level. Other miscellaneous indirect Costs, including inventory, planning and FSC certification have been included in the cash flow.

Inventory and planning costs associated with the forestry business are also factored into Pöyry’s valuation.

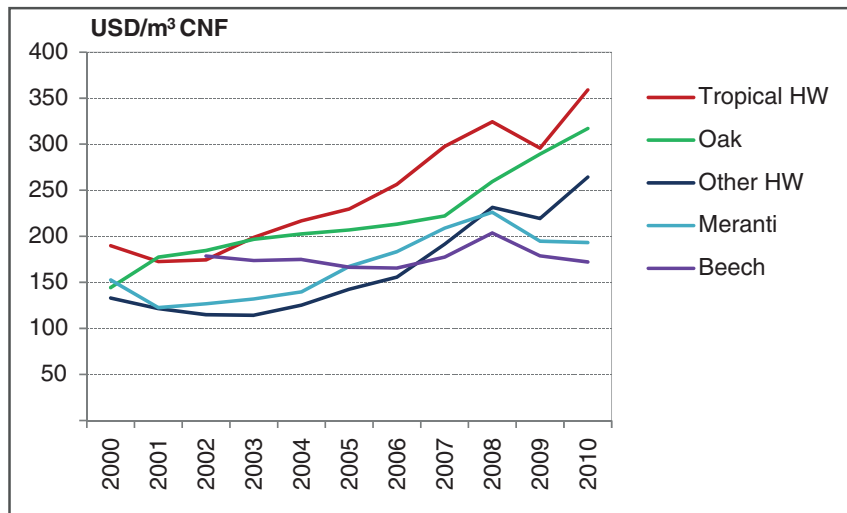
Land Rental or Cost of Land Use

Pöyry estimates an ongoing annual cost of land rental of USD0.55/m³/annum, or USD20 393/annum over the total net stocked concession area.

PRICES

Figure S-1 presents the development of imported hardwood log prices into China, on a USD/m³ cost-and-freight (CNF) basis. Prices have increased considerably between 2000 and 2008, driven primarily by the continued significant demand growth in China, coupled with high ocean freight rate. However, the global financial crisis downturn resulted in a price decline during late 2008 and early 2009. Prices have generally recovered in 2009 and continued increasing in 2010 with renewed demand.

Figure S- 1:
China Imported Hardwood Log Price Development



The market outlook for species found in Peru's tropical forests remains positive, with a potential developing shortage of heavy tropical hardwood species and strong demand from China likely to support a positive pricing trend over the short-medium term. Pöyry has applied a forecast 2% annual real price increase over the period January 1, 2011 — December 31, 2015, after which prices are assumed to remain flat in real terms.

Table S-2:
Log and Sawn Timber Prices Employed in this Valuation (USD/m³)

Category	Species	2010	2011	2012	2013	2014	2015+
	(Spanish Name)						
Category 1 (Sawn timber Price) FOB-Peru	<i>Aguano masha</i>	711	725	739	754	769	784
	<i>Ana caspi</i>	761	776	792	808	824	840
	<i>Azucar huayo</i>	1,015	1,035	1,056	1,077	1,099	1,121
	<i>Cedro</i>	914	932	950	969	989	1,009
	<i>Chontaquiro</i>	711	725	739	754	769	784
	<i>Estoraque</i>	1,269	1,294	1,320	1,346	1,373	1401
	<i>Huangana casha</i>	761	776	792	808	824	840
	<i>Machimango</i>	406	414	422	431	439	448
	<i>Mari mari</i>	711	725	739	754	769	784
	<i>Mashonaste</i>	711	725	739	754	769	784
	<i>Ochavaja</i>	711	725	739	754	769	784
	<i>Pumaquiro</i>	863	880	898	916	934	953
	<i>Quinilla</i>	761	776	792	808	824	840
	<i>Requia</i>	508	518	528	539	549	560
	<i>Shihua huaco</i>	1,015	1,035	1,056	1,077	1,099	1,121
<i>Tahuari</i>	1,066	1,087	1,109	1,131	1,154	1,177	
<i>Yacushapana</i>	761	776	792	808	824	840	
Category 2 (Sawn timber Price) FOB-Peru	<i>Cumala</i>	305	311	317	323	330	336
	<i>Huayruro</i>	457	466	475	485	494	504
	<i>Tornillo</i>	457	466	475	485	494	504
Category 3 (Log Price) AMG-Peru	<i>Alcanfor</i>						
	<i>Cachimbo</i>						
	<i>Catahua</i>						
	<i>Copaiba</i>						
	<i>Lupuna</i>						
	<i>Lupuna colorada</i>	102	104	106	108	110	113
	<i>Marupa</i>						
	<i>Moena</i>						
<i>Pashaco</i>							
<i>Quillobordon</i>							
<i>Zapote</i>							
Category 4	Currently there is no local market for the category, N.A. plans to develop veneer product for the category.						

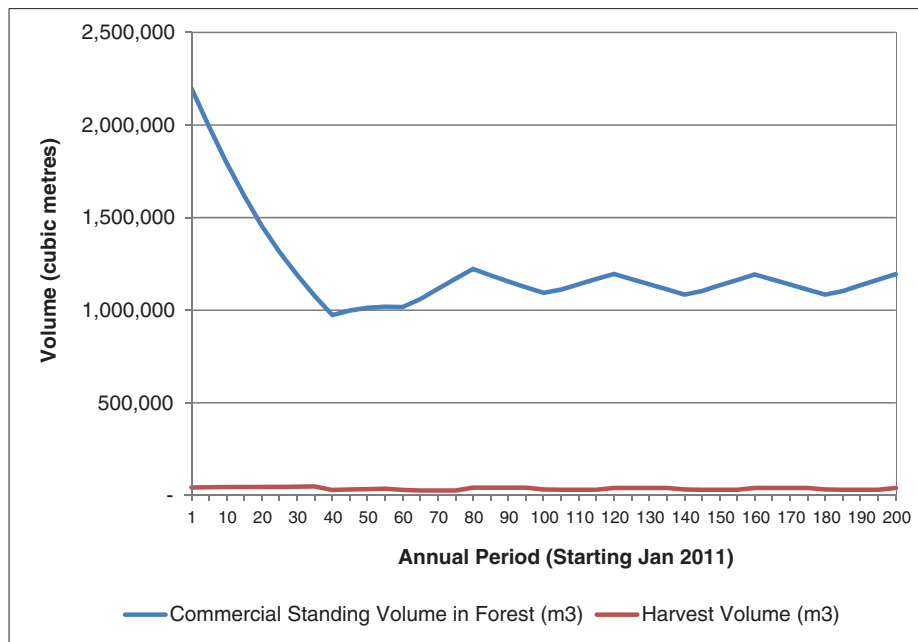
As appropriate, the costs of log processing (sawmilling), materials transport, port costs etc, have been accounted for in the cash flow model to effectively bring the net revenue for logs back to a stumpage basis (i.e. value ‘standing in forest’)

WOOD FLOW

The physical forest description (stocked area and yield) has been used in the modeling system called “MYRLIN” to model the sustainable harvest from the forest.

The total standing volume, and the harvest volume, both over a 200 year period are shown in Figure S-2, below. A 200 year period has been modelled to indicate the long-term sustainability or potential of the harvest, even though the concession rights, and the cash flow underlying the valuation are for just 40 years.

Figure S- 2:
Forecast Wood Flow (note valuation is based only on first 40 year period)



The physical wood flow, combined with product prices and costs of forest management and harvesting, give rise to a cash flow that is forecast as arising from the forest. This cash flow is then discounted to generate the discounted cash flow or DCF, and the net present value, or NPV.

DISCOUNT RATE

A valuation based on a Net Present Value (NPV) approach requires the identification of an appropriate discount rate. In selecting the rates there are two broad approaches:

- Deriving the discount rate from first principles: The most common expression of this approach turns first to the Weighted Average Cost of Capital (WACC). This recognizes the costs of both debt and equity. The cost of equity may be derived using a Capital Asset Pricing Model (CAPM) method.
- A second approach is to derive implied discount rates from transaction evidence.

A review of appropriate discount rates indicates that a range of rates from 12 to 16% applied to pre-tax cash flows is appropriate to recognize the risks associated with operating a venture of this type in Peru.

Pöyry has assumed a 12%/a real cost of capital discount rate applying to pre-tax cash flows for the base case valuation.

MARKET VALUATION

Based on the previously explained assumptions, Pöyry has estimated the market value of the N.A. forest assets in Peru as at December 31, 2010 to be **USD14.3 million**.

As far as Pöyry is aware, this estimate of market value of the forest has been derived in a manner consistent with NPV based valuation as described in IAS 41 — Agriculture. This is a global standard for the reporting of agricultural activity prepared by the International Accounting Standards Board (IASB).

SENSITIVITY

Table S-3 below shows firstly the sensitivity of the estimate of market value to changes in the discount rate, and secondly, at a 12.0% discount rate, the sensitivity of the estimate of market value to changes in log price.

**Table S-3:
Sensitivity Analyses**

<u>Discount Rate</u>	<u>at</u>	<u>Peru</u>
		(millions)
Reduced	10.0%	USD17.6
Base Case	12.0%	USD14.3
Increased	14.0%	USD11.8
<u>Log Price</u>	<u>at</u>	<u>Peru</u>
		(millions)
Reduced	-10.0%	USD13.8
Base Case		USD14.3
Increased	+10.0%	USD14.8