HANFENG EVERGREEN INC.

Annual Information Form

dated

September 28, 2010

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Unless otherwise indicated or the context otherwise requires, references to the "Company" in this Annual Information Form refer to Hanfeng Evergreen Inc., while references to "Hanfeng", "we", "us" and "our" refer to the Company together with its subsidiaries. Unless otherwise stated, information is presented as at June 30, 2010.

Unless otherwise indicated, all references to "$" or "dollars" in this Annual Information Form refer to the Canadian dollar. The exchange rate used herein for conversion of Chinese Renminbi ("RMB") to Canadian dollars is 6.394 RMB = $1.00 as at June 30, 2010.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form, to the extent not based on historical events, are forward-looking statements based on certain assumptions and reflect the Company's current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions in the preceding sections, and statements regarding growth strategy and future-oriented project revenue, costs and expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Hanfeng's control, affect the operations, performance and results of Hanfeng and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include those disclosed herein under "Risk Factors", including the impact or unanticipated impact of: current, pending and proposed legislative or regulatory developments in the jurisdictions where Hanfeng operates, in particular in China and Indonesia; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the value added fertilizer industry; technological change; currency value fluctuation and changes in foreign exchange restrictions; changes in Chinese government support or restrictions on foreign investment; general economic conditions worldwide, as well as in China; Hanfeng's success in developing and introducing new products and services, expanding existing distribution channels, developing new distribution channels and realizing increased revenue from these channels. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. See "Risk Factors". The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made. Readers are cautioned not to put undue reliance on forward-looking statements.

I. CORPORATE STRUCTURE

A. NAME, ADDRESS AND INCORPORATION

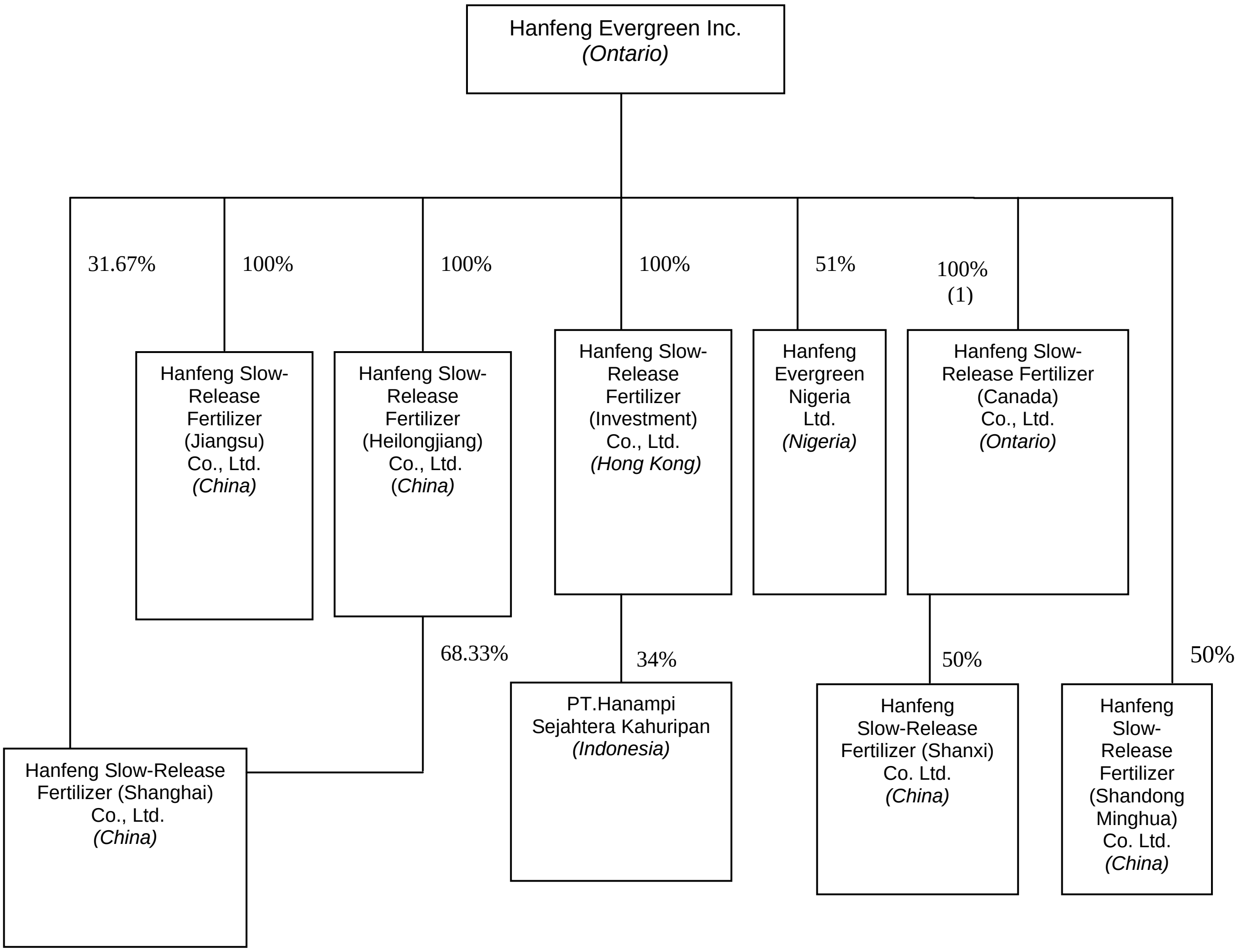
Hanfeng Evergreen Inc. ("Hanfeng" or the "Company") was formed by Articles of Amalgamation dated June 1, 2003 under the laws of the Province of Ontario on the amalgamation of McVicar Minerals Ltd. ("McVicar Minerals") and Hanfeng Evergreen Inc. ("Old Hanfeng").

The Company's head office is located at 20 Toronto Street, Suite 788, Toronto, Ontario, Canada, M5C 2B8.

Old Hanfeng was formed by Articles of Incorporation dated October 22, 2002 under the laws of the Province of Ontario. McVicar Minerals was formed by Articles of Incorporation dated December 6, 1996 under the laws of Canada under the name 3324869 Canada Ltd. Pursuant to Articles of Amendment dated February 14, 1997, 3324869 Canada Ltd. changed its name to McVicar Minerals Ltd. McVicar Minerals continued its articles under the laws of the Province of Ontario pursuant to Articles of Continuance dated May 21, 2003.

B. INTERCORPORATE RELATIONSHIPS

The following diagram sets out the current corporate structure of Hanfeng as at the date of this report:



(1) On July 16, 2010, Hanfeng repurchased Agrium's 50% interest in Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd.

A brief description of each subsidiary is provided below:

Hanfeng Slow-Release Fertilizer (Shanghai) Co., Ltd. – Headquarters of Hanfeng's China based operations. The slow-release blending plant formerly located on the Shanghai site was modified and relocated. As a result, the Company's manufacturing capacity was expanded to two sites: Jiangsu in the fourth quarter of 2006 and Heilongjiang in the first quarter of 2007. In January 2006, Hanfeng purchased the 5% minority interest in Hanfeng Slow-Release Fertilizer (Shanghai) Co., Ltd., and this entity became a whole-owned subsidiary of Hanfeng thereafter. In late 2007, its R&D major assets were also moved to Hanfeng's production sites.

Hanfeng Slow-Release Fertilizer (Jiangsu) Co., Ltd. – Acquired property in 2004 to build the first sulphur coated urea ("SCU") plant in China in Jiangsu province. Currently operates three fertilizer plants on the same site: a SCU slow-release fertilizer plant, a nitrogen, phosphate, and potassium ("NPK") prill tower fertilizer plant, and a slow-release fertilizer blending plant. In 2007, Jiaxing Hanfeng Slow-Release Fertilizer Co., Ltd. (established in 2004 as a potential site for fertilizer plant in Jiangsu province) was merged into Hanfeng Slow-Release Fertilizer (Jiangsu) Co., Ltd.

Hanfeng Slow-Release Fertilizer (Heilongjiang) Co., Ltd. – Established in 2005 and acquired a NPK fertilizer plant in Heilongjiang province, along with administrative and warehouse buildings, land use rights, and proprietary slow-release technology. Currently operates a NPK plant, a blending facility, a NPK prill tower fertilizer plant, a sulphur polymer coating plant, and a rail spur on site. As at January 1, 2008, Dalian Hanfeng Eco-technologies Co., Ltd was merged into Hanfeng Slow-Release Fertilizer (Heilongjiang) Co., Ltd. (Dalian Hanfeng originally carried on Hanfeng's landscaping and nursery businesses. The nursery business was sold in January 2006 after the sale of related assets and inventories, and the landscaping business was discontinued in May 2006.)

Hanfeng Evergreen Nigeria Limited – Established in December 2006 to facilitate Hanfeng's transaction with the Nigerian government for fertilizer importation to the country.

Hanfeng Slow-Release Fertilizer (Shanxi) Co., Ltd. – 50/50 joint venture established in October 2007 between Hanfeng and a local urea producer in Shanxi province, China to build and operate a SCU production facility. It was put into operation in July 2008. In May 2009, Agrium Inc. ("Agrium") exercised its option to purchase 50% of the outstanding shares of Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd., a 100% subsidiary of Hanfeng Evergreen Inc. that owned 50% shares of Hanfeng Slow-Release Fertilizer (Shanxi) Co., Ltd. As such, Hanfeng has reduced its ownership of Hanfeng Slow-Release Fertilizer (Shanxi) Co., Ltd. from 50% to 25%. On July 16, 2010, Hanfeng repurchased Agrium's 50% interest in Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd. thereby increasing its ownership in Hanfeng Slow-Release Fertilizer (Shanxi) Co. Ltd. to 50%.

Hanfeng Slow-Release Fertilizer Investment Co. (Hong Kong), Ltd. – Established in November 2007 as a holding company for future business needs.

Hanfeng Slow-Release Fertilizer (Canada) Co., Ltd. – Established in April 2007 to explore new SCU projects and joint venture opportunities in China. In May 2009, Agrium exercised its option to purchase 50 percent of the outstanding shares of Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd. In July 2010, Hanfeng repurchased Agrium's 50 percent interest in Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd. thus making it a wholly owned subsidiary.

Hanfeng Slow-Release Fertilizer (Shandong Minghua) Co., Ltd. – 50/50 joint venture established in August 2008 between Hanfeng and a local urea producer in Shandong Province, China to build and operate a polymer coated urea ("PCU") fertilizer production facility. The initial 100,000 metric tonne per annum ("MTPA") plant was completed in July 2009. In 2009, the Company entered into an agreement to merge Minghua's existing 40,000 MTPA sulphur coated facility with the joint venture and build an additional PCU production line with an annual capacity of 100,000 MTPA. The Company has recently decided to dedicate its limited construction resources to other markets which it expects will provide a higher return on investment. Consequently, the Company will not proceed with the merger of Minghua's existing 40,000 MTPA sulphur coated facility with the joint venture and the additional 100,000 MTPA PCU production line.

PT. Hanampi Sejahtera Kahuripan ("PT")– In April 2009, Hanfeng completed a joint venture agreement with PT. Matahari Kahuripan Indonesia ("Makin Group"), the largest Indonesian palm oil and tobacco producer, and PT. Sumber Agrindo Sejahtera ("Sejahtera Group"), the largest agricultural distributor in Surabaya, Indonesia, to build and operate the initial phase of a slow and controlled release fertilizer facility, including a 100,000 MTPA slow release NPK plant and a 50,000 MTPA slow release coating plant, which is located near port and rail facilities, and within five kilometres of a urea production plant. The construction started in May 2009 and was completed in September 2010. The commissioning is underway. Hanfeng has 34% of the ownership of the joint venture.

II. BUSINESS OF THE COMPANY

A. COMPANY OVERVIEW

1. Description

Hanfeng is a leading provider of value added fertilizers in China, with plans to extend its manufacturing capabilities into Southeast Asia ("SE Asia"), as well as pursue opportunities for its value added fertilizers in other large international markets. Hanfeng currently has two types of value added fertilizers: (1) its traditional slow and controlled release ("SCR") fertilizers and (2) its new CarbonPower coated urea ("CPU") fertilizer. Compared to conventional fertilizers, SCR fertilizers have properties that improve fertilization effectiveness and efficiency, increase crop yield, and reduce the impact on the environment; CPU fertilizer have properties that improve the plants effectiveness of up taking nutrients and increasing the plant's resistance to stress and thus increasing crop yields. All production facilities are located in prime agricultural regions of China. The Company is headquartered in Toronto, Ontario and its shares are listed and traded on the Toronto Stock Exchange. As at June 30, 2010, Hanfeng has approximately 800 full-time employees led by an experienced management team based in China, Canada and Indonesia.

Hanfeng combines its proprietary technologies with single nutrient fertilizers (primarily nitrogen) and compound fertilizers (multiple nutrients) to produce high quality, low cost SCR and CPU fertilizer products such as:

A. Single Nutrient fertilizers
- Sulfur coated urea ("SCU")
- Polymer coated urea ("PCU")
- Urea formaldehyde ("UF")
- CarbonPower coated urea ("CPU")

B. Multiple Nutrient fertilizers
- Homogeneous nitrogen, phosphate and potassium ("NPK") granules
- Sulfur or resin coated NPK
- Blended SCR fertilizers

Hanfeng`s value added fertilizers are used in China and to a more limited degree in other nations for agricultural purposes, being applied to corn, rice, oil palm, soybean and wheat crops.

Technology

Hanfeng's success is founded in its strong research and development ("R&D") capabilities and its ability to develop and commercialize effective, low cost value added fertilizers. The Company owns the exclusive rights and/or holds patents to a number of key technologies, which it continually refines, modifies, and improves in order to broaden its product portfolio.

Patents

Hanfeng has submitted 18 patent applications, of which five have been approved, nine are waiting for final approval, and four are now in the processing stage.

Licenses

Hanfeng has been granted a perpetual exclusive license from Agrium to produce and sell SCU in China. In addition, Hanfeng has the right to sell SCU in South Korea, Japan, Vietnam, Laos, Cambodia, Thailand, Malaysia, Singapore, Philippines, Myanmar, Kampuchea, India, Pakistan, Bangladesh, Nepal and Indonesia.

Supply and Distribution Agreement

Hanfeng has secured a five year exclusive supply and distribution agreement for CarbonPower for China and SE Asia and a two year exclusive supply and distribution agreement for Japan, North Korea and South Korea. The agreement expires December 31, 2014 and is subject to minimum purchase amounts to maintain the exclusive distribution rights which include a right of first negotiation and a right of first refusal. CarbonPower is the key ingredient to the new CPU fertilizer.

Manufacturing Capacity

Hanfeng's facilities are strategically located in two regions in China: the northeast region in Heilongjiang Province and the eastern region located in Shanxi, Jiangsu and Shandong provinces. Combined, these two regions account for more than two-thirds of the approximately 51 million metric tons of fertilizers consumed annually in China. As at June 30, 2010, the Company had design capacity of 762,500 metric tones per annum ("MTPA"). On July 16, 2010, Hanfeng repurchased Agrium's 50 percent ownership interest in Hanfeng Slow-Release Fertilizer (Canada) Co., Ltd. thus increasing its design capacity to 775,000 MTPA.

In the northeast region, also known as China's "corn-belt", Hanfeng has four wholly-owned plants located at the Shangzi, Heilongjiang facility with a total design capacity of 450,000 MTPA.

In the eastern region, the Company has three wholly owned plants located at the Jiangyan, Jiangsu facility with a total design capacity of 250,000 MTPA, and a plant located at the Yuncheng, Shanxi facility with a total design capacity of 50,000 MTPA. As at June 30, 2010, the Shanxi facility SCR fertilizer plant was jointly owned with Shanxi Fengxi Fertilizer Industry Group Ltd. ("Fengxi") (50 percent), Agrium (25 percent) and the Company (25 percent); Thus, the Company defines its combined manufacturing capacity as 12,500 MTPA from the Shanxi facility, 25,000 MTPA after July 16, 2010. The Shandong facility jointly owned by Shandong Mingshui Great Chemical Group and the Company (50/50) with a design capacity of 100,000 MTPA started commercial operation in July 2009.

Both geographic regions feature strong sales teams that work together with the Company's R&D group to service the over 300 accredited distributors and government agents who sell Hanfeng's fertilizer products.

The Company is commissioning their newest facility, in which the Company has a 34 percent interest located in Surabaya, Indonesia in October 2010. SE Asia is a key new market for the Company where local governments are faced with similar challenges as the People's Republic of China ("PRC"). The new plant has a design capacity of 150,000 MTPA and is jointly owned with two joint venture partners who have agreed to purchase all of the initial production capacity

Growth Strategy

Joint Venture with China Based Urea Producers

In 2007, Hanfeng initiated its joint venture growth strategy whereby the Company would enter into 50/50 joint ventures with large urea producers to construct SCR fertilizer plants at the urea producer's facility. The strategy calls for plants to be constructed adjacent to the producer's urea finishing line, significantly reducing the capital costs associated with the construction and installation of required infrastructure such as buildings, warehouses, underground connections, and heating systems, which are already in place. Under each joint venture agreement, the urea producer guarantees the urea supplies for the joint venture and the PCU or SCU produced by the facility is marketed through the producer's distribution channels in the particular province or surrounding provinces. In addition to providing Hanfeng with a low cost method to expand its production base throughout China, the joint venture also provides the Company with access to required raw materials.

To date, Hanfeng has announced the following joint venture agreements in China

- Fengxi – Signed in September 2007; operations of SCU fertilizer plant in Shanxi province commenced in the third quarter 2008.

- Shandong Mingshui Great Chemical Group ("Minghua") – Signed in July 2008 to construct and operate a PCU fertilizer plant with 100,000 MTPA in the Shandong province. Construction commenced in the fourth quarter of 2008 and the facility was put into production in July 2009. In 2009, the Company entered into an agreement to merge Minghua's existing 40,000 MTPA sulphur coated facility with the joint venture and build an additional PCU production line with an annual capacity of 100,000 MTPA. The Company has recently decided to dedicate its limited construction resources to other markets which it expects will provide a higher return on investment. Consequently, the Company will not proceed with the merger of Minghua's existing 40,000 MTPA sulphur coated facility with the joint venture and the additional 100,000 MTPA PCU production line.

- Heilongjiang Beidahuang Agriculture Company Limited ("Beidahuang") – In September 2010, the Company announced a letter of intent with Beidahuang to build and construct a 150,000 MTPA multi product production joint venture (50/50) facility located in the Heilongjiang province. The proposed joint venture is subject to final board approval. Construction is expected to begin after a definitive agreement is reached.

Hanfeng is currently in discussions with other urea producers in China.

Expansion into Southeast Asia through Local Partnerships

Due to the Company's success in China, Hanfeng's leading technologies have attracted interest in other markets, including SE Asia, where large cash crop producers recognize the benefits of value added fertilizers. Hanfeng has been actively performing field trials in the region for four years to demonstrate the effectiveness of SCR and CPU, especially during the long rainy season. One of the many advantages SCR has over conventional fertilizers is that it sinks rather than floats in water; therefore less fertilizer is washed away during heavy rains, reducing the cost and environmental damage caused by additional applications.

In April 2009, Hanfeng entered into a joint venture agreement with PT. Matahari Kahuripan Indonesia (the "Makin Group"), one of the largest oil palm tree growers in Indonesia, and PT. Sumber Agrindo Sejahtera (the "Sejahtera Group"), a key agricultural product distributor in Indonesia, to build and operate a 150,000 MTPA slow-release fertilizer facility in Surabaya, Indonesia. Hanfeng's joint venture interest is 34%.

Under the agreement, all production of the joint venture will be sold to the Makin Group and Sejahtera Group. The plant is expected to be commissioned in October 2010.

Introduce New Technologies to Existing Markets

Hanfeng started in the value added fertilizer business by identifying a best in class SCU product from Canada that would be readily accepted in the Chinese market. More recently, the Company has secured a five year exclusive distribution agreement for the CarbonPower product. The Company intends to continue to introduce new technologies to existing markets which it believes will be readily accepted. The Company believes that it can leverage off of its existing brand recognition and distribution channels with innovative new technologies that improve crop yields.

Expansion into other international markets through Local Partnerships

The Company intends to carefully pursue opportunities in the other international agricultural markets for its value-add fertilizers. Hanfeng would utilize a strategy similar to those used in the China and Indonesia expansions to enter new international markets where it can export its technical know-how and proprietary products in order to joint venture with established partners that can provide both access to raw materials and an established distribution network.

History

After ten years of building a successful landscape and nursery business in China, Hanfeng transitioned in 2006 to focus solely on being a producer of value added fertilizer. The value added fertilizer business has greater requirements for capital, technology, management expertise, and China market expertise, which are all core competencies of Hanfeng. Hanfeng sold its nursery business and assets in January 2006 and discontinued its landscaping business in May 2006 to focus on the expansion of its value added fertilizer business.

Hanfeng's rapid, profitable growth has been the result of a focused strategy capitalizing on its first-mover advantage in the value-added fertilizer industry. The Company has successfully established low-cost production facilities in prime agricultural areas of China in order to build regional advantages.

The following table outlines the Company's facilities and their start-up dates.

Operation Starting Time	**Designed Capacity** MTPA	**Plant Name and Location**
2nd quarter 2006	100,000	Jiangsu SCU plant
2nd quarter 2006	100,000	Heilongjiang NPK plant
3rd quarter 2006	100,000	Jiangsu NPK tower
4th quarter 2006	50,000 (increased from 20,000)	Jiangsu blending plant
1st quarter 2007	50,000	Heilongjiang blending plant
3rd quarter 2007	200,000	Heilongjiang tower plant
4th quarter 2007	50,000	Heilongjiang SCF plant (phase I)
1st quarter 2008	50,000	Heilongjiang P/SCF plant (phase II)
3rd quarter 2008	25,000	Fengxi JV plant (50%)
1st quarter 2010	50,000	Shangdong JV plant (50%)
	775,000	**Ten plants**

As at September 28, 2010, Hanfeng is operating 10 plants (wholly owned and joint venture) in 4 provinces in China with a combined 775,000 MTPA of SCR design capacity. The Company also added CPU production capacity this fiscal year. The Company's rapid growth has been achieved through uncompromising attention to planning and budgeting, as well as a prudent approach to financing. Hanfeng has invested its cash earnings, and additional financing through both debt and equity to fund its growth in the value-added fertilizer business. Since transitioning to a value-added fertilizer producer in 2006, Hanfeng's assets have grown from $70 million as at December 31, 2005 to $287 million as at June 30, 2010. Throughout its transition and ramp-up from 2006 to present, the Company has maintained its balance sheet and capital structure. As at June 30, 2010, the Company had approximately 62 million shares outstanding on a fully diluted basis and no outstanding debt.

Investment by Agrium and PetroChina

In April 2007, Hanfeng entered into an agreement with a subsidiary of Agrium, whereby Agrium agreed to subscribe for 11,959,000 common shares of Hanfeng purchased for cash at $6.22 per share, representing an investment of approximately $74.4 million in Hanfeng. In addition, the existing exclusive licensing agreement in place between Hanfeng and Agrium regarding production technologies for SCU was amended, granting Hanfeng an exclusive, perpetual right to use the technology. Under the alliance, Agrium had an exclusive right to acquire 50% of Hanfeng's future SCU projects in China for a period ended in 2009. In May 2009, Agrium exercised its options to purchase 50% of the outstanding shares of Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd. In July 2010, Hanfeng repurchased Agrium's ownership interest in Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd.

Also in April 2007, PetroChina Ningxia Petrochemical Company ("PetroChina"), a division of PetroChina Petrochemical Company, purchased through a subscription agreement one million common shares of Hanfeng at a price of $6.22 per share, representing an investment of approximately $6.2 million in Hanfeng and approximately 1.6% of Hanfeng's outstanding shares. PetroChina and Hanfeng intended to set up a joint venture SCU fertilizer production plant on PetroChina's site in Ningxia, China. However, due to internal issues at PetroChina, the joint venture agreement was not completed.

B. PRODUCTS, MARKETS, AND SERVICES

1. Value Added Fertilizers

Slow and Controlled Release ("SCR")

SCR fertilizers release nutrients to plants over time, in contrast to conventional fertilizers which typically result in a large amount of the nutrient being lost to leaching and evaporation. With conventional fertilizers, plants receive less than optimal nutrition, with a peak level of nutrients available at the time of application and decreasing amounts over the growth cycle.

The main advantages of SCR fertilizers are improved efficiency (fewer applications and less fertilizer required) and improved crop yields and quality (the fertilizer is released when nutrients are required over time). In addition, SCR fertilizers result in reduced environmental damage from leaching of nutrients into water and gas emissions relative to conventional fertilizers. Because of continuing environmental concerns about nitrate pollution of ground and surface water caused by leaching and runoff of nitrogen fertilizers, the controlled release rates and non-leaching properties of SCR fertilizers are important environmental considerations. Due to their complexity, SCR fertilizers are generally more expensive on a per unit basis than conventional fertilizers, which is one of the primary reasons why they have not penetrated the large global agriculture market. However, due to the nutrients being released slowly over time, the crops require fewer fertilizers. Hanfeng focuses on combining its proprietary technology with single nutrient fertilizers, i.e. SCU or polymer coated urea, and compound fertilizers, i.e. NPK, to produce low-cost, SCR products. Although Hanfeng products are more expensive on a per unit or metric ton basis, field trials have proven that they are more cost effective and produce higher yields than conventional fertilizers, generating higher returns and income for farmers.

During fiscal year 2007, 2008, 2009 and 2010, all sales were made to third party customers.

CarbonPower Coated Urea ("CPU")

While most fertilizers work outside of the plant, CarbonPower operates within the molecular structure of a plant. CarbonPower is derived from over 2000 natural organic materials that are extracted from the earth and stabilized in a highly concentrated liquid form. Upon application, it proprietary technology assists the plant to either up-regulate or down-regulate genetic responses to help the plant maximize its ability to absorb nutrients making it a highly complementary product to Hanfeng SCR fertilizers. Hanfeng has field-tested CarbonPower on multiple plants and in multiple provinces in China with consistent results. To commercialize the product, the Company has chosen to coat regular urea with CarbonPower. The Company is currently looking at other applications of CarbonPower.

The Company imports CarbonPower from FBSciences, Inc. headquartered in Memphis, Tennessee. During fiscal 2010, the Company secured an exclusive supply and distribution agreement of CarbonPower for 5 years for mainland China and SE Asia. The Company also secured exclusive supply and distribution rights to the regions of North Korea, South Korea and Japan on a two year basis. Included in the agreement is a right of first negotiation and a right of first refusal.

Patents, License, and Proprietary Processes

In order to maintain its competitive edge, Hanfeng established China's first non-government owned or controlled SCR fertilizer R&D facility in April 2004, in Shanghai. Staffed by some of China's leading fertilizer researchers and technicians, the R&D centre focuses on developing and patenting new technologies and improving existing technologies to provide value to the China market at a low cost of production, including exclusive China licenses for SCU and slow-release homogenous NPK fertilizers, as well as providing technical support and services to Hanfeng customers and distributors by conducting training programs, field trials and working with national and local governmental authorities and scientific institutions, such as the National Agro-Tech Extension and Service Center, a division of the Ministry of Agriculture, and China National Hybrid Rice R&D Center. The Hanfeng R&D centre also works with major fertilizer companies and national policy making bodies to set fertilizer industry standards for SCR fertilizers.

In November 2004, Hanfeng signed an Exclusive Technology and Know-how License Agreement with Agrium (formerly Nu-Gro) (the "SCU License Agreement") covering China. The SCU License Agreement enabled Hanfeng to construct and operate its SCU plant in Jiangyan, Jiangsu province, China. Under the SCU License Agreement, Hanfeng is permitted to sell SCU products on a non-exclusive basis in China, as well as in other parts of Asia. In April 2007, this agreement was revised with Agrium, granting Hanfeng a perpetual exclusive license for SCU in China. (See Section VIII "Material Contracts".)

Hanfeng acquired an exclusive 10-year right to technology in March 2005 for the production of high-concentration urea-based compound fertilizer by tower granulation. This technology and related know-how was acquired from Shanghai Keyi Fertilizer Engineering Technology Center, a division of the Shanghai Research Institute of Chemical Industry, a Shanghai government entity. The technology was used for the construction of Hanfeng's 100,000 MTPA design capacity NPK plant in Jiangsu province.

In March 2005, Hanfeng filed a patent in China for biodegradable resin-coated slow-release fertilizer technology developed at Hanfeng's R&D centre. The patent covers proprietary coating materials as well as a process to produce resin-coated slow-release fertilizer products. The biodegradable properties of Hanfeng's proprietary resin materials will enable Hanfeng to offer slow-release fertilizer with better environmental qualities than existing resin-coated and polymer-coated products. Hanfeng commercialized this technology by constructing a 50,000 MTPA of polymer/sulfur coated compound fertilizer plant at the end of February 2008.

In December 2006, with the commercialization of its proprietary UF and MU technologies, and tower granulation method to produce slow-release NPK, Hanfeng's R&D group filed for patent protection on its UF production process, as well as its UF tower granulation process, which significantly reduces production costs. The tower granulation technology was further improved and modified when the 200,000 MTPA tower was constructed in Heilongjiang. This tower can use various sources of nitrogen, and the granules produced from this technology meets the stringent quality requirement for further coating process.

In total, Hanfeng has submitted 18 patent applications to the Patent Office of the Peoples Republic of China ("POPRC"). Five have been approved, nine are waiting for the final approval from POPRC, and four are now in the processing stage. Please see the following table for detailed information.

Patent No.	Patent Name	Progress
ZL200510024240.6	Resin coated fertilizer and its production method	Approved
ZL200510030371.5	Improved sulfur coated urea slow-release fertilizer and its production method	Approved
ZL200510030370.0	Tree slow-release fertilizer and its production method	Approved
ZL200520045565.8	Tree fertilizing machine	Approved
ZL200710038136.1	Tower granulation for slow-release compound fertilizer and related equipments and products	Approved
200710038135.7	Slow-release nitrogen and its production method	Waiting for final approval
200810043455.6	The production method of round and even granular MOP with high concentration	Waiting for final approval
200710100789.8	Production method of rice fertilizer	Waiting for final approval
200610010491.3	Long-acting slow-release formulation and its production method	Waiting for final approval
200610150915.6	Tower granulation of slow-release fertilizer containing *urea* formaldehyde and its production method	Waiting for final approval
200510127389.7	*Urea* formaldehyde production technology	Waiting for final approval
200710071865.7	Preparation of the *urea* formaldehyde	Waiting for final approval
200710071992.7	Long-acting slow-release formulation containing slow-release nitrogen, and its production method	Waiting for final approval
200920099954.7	Tray heater used for heating solid	Waiting for final approval
Pending	Collapsible slow-release turf fertilizer and its production method	In process /being reviewed by POPRC
Pending	Nitrogen fertilizer synergist and its production method	In process /being reviewed by POPRC
Pending	Phosphate fertilizer synergist and its production method	In process /being reviewed by POPRC
Pending	Organic acid chelated phosphate fertilizer and its production method	In process /being reviewed by POPRC

2. Market for Slow and Controlled Release Fertilizers

The China Market

While China is the world's largest consumer and producer of conventional fertilizers, its SCR fertilizer industry is still at an early stage of development. China's domestic fertilizer industry is fragmented with numerous small regional producers, many operating out-dated and inefficient equipment. There has been very little domestic production of SCR fertilizers due to the higher costs and necessary technology to develop and produce effective, cost efficient products. Also, imported SCR fertilizers are too expensive to penetrate the China market to any significant extent.

Hanfeng was the first to introduce the concept of low-cost SRC fertilizers into China's agriculture industry with its establishment of the first commercial scale SCR fertilizer production in the country. At its current production design capacity of 775,000 MTPA, it is estimated that Hanfeng has less than a 2 percent share of the overall China fertilizer market.

Demand for SCR fertilizers is increasing, as the Chinese government continues to increase its efforts to improve the domestic agricultural industry. In the 11th Five Year plan, China's central government mandated a more scientific approach to fertilization that emphasizes efficiency, enhanced crop yields, reduced pollution, and conservation of natural resources such as natural gas, coal and oil, which are utilized in the production of conventional nitrogen based fertilizers.

During this fiscal year, China's Ministry of Agriculture ("MOA") announced a large scale soil based fertilization initiative. The extensive initiative is part of China's continuing effort to promote more modern farming practices in order to increase crop yields and reduce environmental damage caused by conventional fertilizers. According to published reports, the initiative announced in late February provides for 100,000 experts and agronomists to be placed "in the field" to provide training and support to an estimated 160 million farmers in China. Specifically, these experts and agronomists will be tasked to provide extensive instruction and expand the practice of soil-survey based fertilization on up to 400 million mu (approximately 66 million acres) of privately leased farm land, expanding up to 1.1 billion mu (approximately 180 million acres), or approximately 60 percent of China's arable farm land. The stated goal of the MOA initiative is to increase the application scale of formulated fertilizer, establish demonstration fields for the high yield grain, cotton, oil and sugar fields, popularize the soil-survey based fertilization technology, and increase the proportion of formulated fertilizer to total fertilizers.

Soil-survey, or soil testing refers to the analysis of soil to determine nutrient requirements and deficiencies for specific crops. While it is a common practice in North America, it is not widely used in China. Utilizing the testing data, fertilizers can be formulated to provide the appropriate amounts of nutrients like nitrogen, phosphate, potash and medium/micronutrients like sulfur, as well as controlling the timing of release to optimize the crops growing conditions, producing higher yields, as well as eliminating over fertilization and chemical run off. In a recently released study by the Chinese government, 2007 test data found that agriculture was responsible for 43.7 percent of China's chemical oxygen demand, which is the main measure of organic compounds in water, 67 percent of the phosphorus discharges, and 57 percent of the nitrogen discharges.

Hanfeng has been working in partnership with the MOA since 2009 conducting field trials focused on soil-survey and the use of Hanfeng's sulfur coated urea and sulfur coated compound fertilizers in six provinces including Liaoning, Henan, Guangxi, Yunnan, Shandong and Shannxi. (See news release dated November 20, 2008). The adaptive trials are based on specific soil conditions and will study the response of sulfur and slow release fertilization on yield and crop quality as well as acquaint farmers with the most scientific and efficient SCU and SCF applications. The trials address many of the same concerns identified by the recently announced broader initiative, including issues related to conventional fertilizers, such as over fertilization, decreasing soil fertility, and environmental problems, including groundwater pollution and greenhouse gas (carbon dioxide, nitrous oxide, etc.) emission.

Efficiency and enhanced crop yields are a significant focus as China has the largest annual agriculture output in the world (US$361 billion in 2007), but only 7% of the arable land. By comparison, the United States, which produced US$151 billion of agricultural output in 2007, holds 13% of the arable land.

Competitive Conditions

While most fertilizer plants in China are small plants producing an average of 20,000 metric ton per annum or less, there has been a trend towards larger more efficient fertilizer production in China as the largely state owned industry is consolidating and a number of Sino-foreign joint ventures are in operation. While some of these plants produce NPK fertilizers, Hanfeng believes there is not significant market penetration of SCR fertilizers in China.

A number of international producers of SCR fertilizers have distributors in China, but have relatively low volumes due to the high prices of imported products in China, as a result of high production and transportation costs.

Hanfeng believes that its strongest potential competitors are large well capitalized foreign producers of SCR fertilizers that could build production in China or state owned conventional fertilizer producers investing in and developing competitive technology.

Environmental Position

Hanfeng designs and operates in compliance with all applicable requirements relating to the protection of the environment. Hanfeng cannot predict the changes that could be made to environmental requirements in the future, and its capital and operating costs for environmental controls would likely increase in the future, but these increases are not expected to have a material effect on the earnings or competitive position of Hanfeng.

Building the Hanfeng Brand

In order to maintain its lead position and build its brand in China's agriculture market, Hanfeng has engaged in a number of national, provincial, and local initiatives including field trials, assisting the government in the establishment of national fertilizer standards, as well as building strong working relationships with its network of accredited distributors.

National Field Trials

In March 2006, Hanfeng began a two-year field trial program in 20 provinces in China with the China National Hybrid Rice R&D Center, led by Dr. Yuan Longping, the "Father of Hybrid Rice". Dr. Yuan is widely recognized as a leader in the field of hybrid rice cultivation. His hybrid-bred rice varieties are reported to account for approximately half of China's rice production, and he has spent the last thirty years teaching his techniques to thousands of scientists and researchers in more than 25 countries in Asia, Africa and the Americas.

The results of the field trials using Hanfeng's SCU and Dr. Yuan's hybrid rice were presented in January 2008 at the 7th International Symposium on the Eco-Industry & Sustainable Development and demonstrated that SCU, used in numerous regions, in varying soil conditions, and with various types of hybrid rice, generated higher crop yields while using less nitrogen. In many cases, the effectiveness of the fertilizer was increased by more than 50% and the nitrogen requirement reduced by as much as 30%. Moreover, the field trials proved that SCU eliminated the need for multiple fertilizations, reduced the incidence of disease, and enhanced the quality of the rice crop.

In November 2008, Hanfeng signed a two-year agreement to jointly conduct soil test-based fertilization trials using Hanfeng's SCU fertilizer and sulfur coated compound fertilizer ("SCF") as part of the 2008-

2010 Sulfur Application Field Trial Plan with the National Agro-Tech Extension and Service Center, a division of the Ministry of Agriculture. The adaptive trials are based on specific soil conditions and will study the response of sulfur and slow release fertilization on yield and crop quality as well as acquaint farmers with the most scientific and efficient SCU and SCF applications.

China Industry Standards and Recognition

In support of the central government's strategy for a more scientific approach to fertilization that emphasizes efficiency, enhanced crop yields, reduced pollution, and conservation of natural resources, Hanfeng has achieved several key milestones. The first was in September 2007 when China's National Products Standard Committee (the "Committee") formally approved the Chemical Industry Standards for SCU, as well as standards for blended fertilizers that use SCU. The standards were drafted by Hanfeng and endorsed by the National Quality Supervision and Test Center ("NQSTC") of Chemical Fertilizer after two years of collaboration. Hanfeng was the only SCU producer that assisted the Committee in establishing China's standards to regulate the largest fertilizer industry in the world. In August 2009, Hanfeng was selected by the Committee again to team with NQSTC on establishing SCU national compulsory standard.

In December 2008, Hanfeng's SCU was again recognized on a national level with its inclusion in China's 2009 Torch Program, which recognizes the best in technology achievements as well as focusing on the development, promotion, and advancement of new technologies in multiple business sectors. Hanfeng's SCU was singled out as the most prominent agriculture related technology in the program. Inclusion in the Torch Program is recognized in China as one of the highest technology awards granted by the Ministry of Science and Technology.

Hanfeng's success with the SCU Chemical Industry Standards aided in its selection by China Petroleum and Chemical Industry Association to participate in establishing the national standard for Urea Formaldehyde Slow Release Fertilizer (UF) and related UF products. UF's slow release properties are produced by the chemical reaction between urea and formaldehyde, rather than using a coating material, which allows it to be produced in smaller sizes and with more precise releasing periods. UF's characteristics make it customizable depending on customer needs and has gained acceptance in both the agricultural and urban greening markets in China and internationally. The patent to protect Hanfeng's own UF production process is in process stage currently and the patent of UF tower granulation process has been granted to Hanfeng.

In August 2009, Hanfeng was once again selected by the Standardization Administration of the People's Republic of China ("Standardization Committee") to establish the National Compulsory Standard for sulphur coated urea ("SCU"), as well as the standards for blended fertilizers where SCU is used. Hanfeng will team with the National Quality Center to further refine and improve the specifications and provisions provided in the Chemical Industry Standard for SCU, which Hanfeng and the National Quality Canter established previously, to form the national standard to be enforced nation-wide, no later than 2011. The SCU National Compulsory Standard will control technical specifications including the amount of nitrogen and sulfur contained in SCU, as well as the dissolution criteria for its slow-release characteristics. Once established and approved, all SCU producers in China will be required to qualify their product to this standard. Hanfeng was selected by the Standardization Committee to participate in the establishment of the National Compulsory Standard due to its position as the only large scale SCU producer in China. The application and enforcement of the new standard is expected to improve the quality of the SCU market in China, and further enhance Hanfeng's first mover advantage.

Sales, Distribution and Customer Service

Hanfeng sells its products through a sales team of over 70 professionals that support over 300 accredited distributors. The Company has adopted a strategy of supporting and servicing its distributors instead of competing with them. The alliance benefits Hanfeng as it reduces the cost of sales by utilizing the distributor's infrastructure and networks. In addition to the multiple local distributors, Hanfeng has been successful in forming alliances with larger distributors, like the Heilongjiang Agriculture Company ("HAC"). HAC is the largest state-owned agricultural company and one of the most technically advanced operators in China. It has access to significant, well-established distribution networks, and supplies its own land and promotes fertilizer efficiency to other farms.

Other Markets

Southeast Asia

Hanfeng has expanded into Southeast Asia by exporting its patented and proprietary technology and process know-how and partnering with established market participants that have committed to either consuming or distributing 100% of the available production from the joint venture. The Southeast Asia region is the largest producer of oil palm in the world. As a major source of bio-diesel fuel, policies have been implemented in Indonesia, Malaysia and other countries to encourage farmers to plant oil palm. It is estimated that the current 4 million hectares of oil palm plantations in Indonesia will grow to over 9 million hectares by 2015.

The Company is moving forward on its first Southeast Asia joint venture project in Indonesia, a 150,000 MTPA fertilizer production facility, which it expects to commission in October 2010. The partners in the joint venture are the Makin Group, a major Indonesian palm oil and tobacco producer, and the Sejahtera Group, the largest agricultural distributor in Indonesia. With the ownership percentage of Hanfeng 34%, Makin Group 30%, and Sejahtera Group 36%, the new joint venture will primarily manufacture slow release NPK fertilizers for oil palm and tobacco. Hanfeng has conducted extensive field trials in the region for over two years.

The Company has successfully completed the first phase of fertilizer field trials jointly conducted with Malaysia's Ministry of Agriculture (MMOA). The trials were carried out on rice crops in Perak State, Malaysia using Hanfeng slow-release fertilizers. The field trials produced exceptional results with crops treated with a variety of Hanfeng's formulated slow and controlled release fertilizers producing higher yields and better quality rice crops with fewer applications. Additionally, the products improved the soil quality by providing micronutrients such as sulfur, which similar to China, is deficient in Malaysian soil. The trials also revealed a decrease in nutrient residue, which is attributable to the slow release characteristics of Hanfeng fertilizers.

The field trials were conducted from November 2009 to February 2010 on fields of similar size and soil type. The field trials compared the effectiveness of conventional fertilizers (nitrogen, phosphate, potash or collectively NPK) to Hanfeng's formulated slow and controlled release fertilizers. The results were jointly observed and audited by officials from the MMOA and the local agricultural ministry, Hanfeng, and other Malaysian organizations such as the Rice Research Institute. The field trial results showed that Hanfeng's formulated slow-release fertilizers produced a 24.6 percent increase in yield (9.5 tons per hectare versus 7.6 tons per hectare) over crops treated with conventional NPK based fertilizers. Furthermore, Hanfeng products proved significantly more effective, requiring 40 percent fewer applications (three versus five) as well as 51 percent less fertilizer (445 kilograms per hectare versus 912 kilograms per hectare). The exceptional results have prompted the MMOA to expand the demonstration field trial area and have requested that Hanfeng assist in new trials in other states in Malaysia.

While over 65 percent of Malaysia's arable land is dedicated to oil palm, rice represents the major grain crop in the country, utilizing over 1 million hectares, or 15 percent of the arable land. Current rice production is below domestic demand making Malaysia a net importer and prompting the Malaysian government to seek new means to increase production and crop yields including purchasing fertilizers for distribution to farmers in the country. Domestic fertilizer production is predominately focused on conventional products making the government dependent on imported slow and controlled release fertilizers.

Distribution

In 2008, Hanfeng announced that it intended to establish its own bulk blending/distribution network in key agricultural regions in China in order to further extend its brand and drive additional demand. The Company has experienced a strong increase in demand for its SCR products independent of the establishment of a bulk blending/distribution network, and has elected not to initiate the project at this time.

III. RISK FACTORS

There are a number of risk factors that could materially affect the business of Hanfeng, which include but are not limited to the risk factors set out below.

Risks Associated with China and SE Asia

Hanfeng’s subsidiaries (“Subsidiaries”) carry on their business in China and Indonesia and Hanfeng derives most of its profit from the activities of the Subsidiaries. As such, Hanfeng’s results of operations, financial position and prospects are subject to a significant degree to economic, political, social and legal developments in China and SE Asia.

The Chinese and SE Asia economies differ from the economies of most developed countries in a number of respects, including:

- its structure;
- the level of government involvement;
- the level of development;
- the control of foreign exchange; and
- the allocation of resources.

Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time the Chinese government has been reforming the economic system. Nonetheless, government policies relating to currency conversion, taxation, import restrictions and the trading of imported goods, among others, continue to have a significant impact on the overall economy, as does the presence of the government as a market participant as well as the market regulator. Many of the policy changes initiated since 1978 are unprecedented in China and experimental in nature, and are frequently refined and readjusted. Political and social factors may also lead to further refinements and readjustments. Any changes (i) in Chinese political, economic or social conditions; or (ii) to the current laws and regulations or their interpretation may adversely affect Hanfeng’s profitability and prospects.

The Chinese government introduced macro-economic control measures in 2004 in order to try and control the rate of economic growth. Certain measures were put in place to restrict bank lending. There is no assurance that any of the macro-economic control measures already implemented and any that may be implemented in the future will not have an effect, whether direct or indirect, on the operations of

Hanfeng. Such macro-economic control measures may have a general adverse impact on the Chinese economy that would, in turn, be likely have an adverse impact on Hanfeng.

Repatriation of Profit and Currency Conversion

Hanfeng earns all of its revenue in RMB. Under current regulations, there is no restriction on foreign exchange conversion on the current account, although any foreign exchange transaction on the capital account is subject to prior approval from the State Administration of Industry and Commerce ("SAFE"). However, even on the current account the RMB is not a freely convertible currency. The Subsidiaries may pay dividends to the Company or pay outstanding current account obligations in foreign exchange but must present the proper documentation to a designated foreign exchange bank in order to do so. There can be no assurance that the availability of foreign currency will be sufficient for the Subsidiaries to pay dividends to the Company or to satisfy their other foreign currency obligations. There is also no guarantee that foreign exchange control policies will not be changed so as to require government approval to convert RMB into foreign currency on the current account. In addition, failure to obtain approval from SAFE for currency conversion on the capital account may impact Hanfeng's capital expenditure plans and its ability to expand in accordance with its wishes and objectives.

Shareholder's Rights and Enforcement of Judgments

As Chinese legal entities, the Subsidiaries are subject to Chinese company law and regulations. Company law in general and, in particular, provisions for the protection of shareholder's rights and access to information are less developed than those applicable to companies in other countries. Substantially all of Hanfeng's assets, through the Subsidiaries, are located in China. China does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgments of courts and as such, recognition and enforcement in China of judgments of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgments rendered against the Company and/or the Subsidiaries would likely not be enforceable in China.

Legal System

The PRC legal system is based on written statutes that are often incomplete or drafted ambiguously. Prior court decisions may be cited for reference, but have limited precedential value. There are a limited number of written decisions of the courts available in any event. The body of corporate law that has been developed in China is relatively new. Because of these factors, interpretation and enforcement of these laws involves uncertainties. In addition, many judges in the PRC take a pragmatic view of the law and seek to resolve problems without necessarily enforcing the legal rights of aggrieved parties.

Permits and Business Licenses

The Subsidiaries hold various permits, business licences and approvals authorizing their operations and activities, which are subject to periodic review and reassessment by the Chinese authorities. Standards of compliance necessary to pass such reviews change from time to time and differ from jurisdiction to jurisdiction, leading to a degree of uncertainty. If renewals, or new permits, business licenses or approvals required in connection with existing or new facilities or activities, are not granted or are delayed, or if existing permits, business licenses or approvals are revoked or substantially modified, Hanfeng could suffer a material adverse effect to its business. If new standards are applied to renewals or new applications, it could prove costly to Hanfeng to meet any new level of compliance.

Appropriation

The Subsidiaries have purchased certain land use rights in China. Under Chinese law, land use rights can be revoked and the tenants forced to vacate at any time when re-development of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation in China may be less than transparent.

Tax Practices

Hanfeng pays income taxes based on a combination of local and federal tax incentives. There can be no guarantee that this favourable tax treatment will continue following the applicable exemption periods, or at all. Effective January 1, 2008, China has officially removed tax incentives provided to foreign invested enterprises and has created a unified tax rate for both foreign companies (such as Hanfeng) and private Chinese companies. As the new adoption will be implemented gradually, a complete understanding of such reform may take time and is subject to further interpretive rules to be issued by the Chinese authorities. This could create uncertainty related to tax matters for Hanfeng. Hanfeng has been granted certain tax exemptions and rate reductions that were extended for a period of time. Due to the tax reform in China, there is a risk that the extended incentives that have been previously granted by the local state tax authorities may not continue and/or may be retroactively revoked. The amount of the benefit to the Company from the extended tax incentives on a cumulative basis to June 30, 2010 is $9.5 million.

Protection of Intellectual Property Rights

Intellectual property rights in China are still developing, and there are uncertainties involved in their protection and the enforcement of such protection. Hanfeng will need to pay special attention to protecting its intellectual property and trade secrets. Failure to do so could lead to the loss of a competitive advantage that could not be compensated by a damages award.

Foreign Exchange Risk

As Hanfeng reports financial results in Canadian dollars but earns most of its revenue in RMB, growth rates reported in Hanfeng's financial statements could be negatively impacted by an appreciation in the Canadian dollar relative to the RMB.

Risks Associated with Expansion

The success of Hanfeng's expansion strategy will depend on a number of factors. There can be no assurance that Hanfeng will be able to achieve planned growth. There can be no assurance that Hanfeng's expansion strategy will be successful, that modifications to its strategy will not be required or that Hanfeng will be able to effectively market and/or manage and enhance profitability. Hanfeng may experience periods of rapid growth including increased staffing levels. Such growth could place a significant strain on its management, operational, financial and other resources. Hanfeng's ability to manage its growth effectively will require it to develop its management information systems capabilities and improve its operational and financial systems. Moreover, Hanfeng will need to train, motivate and manage its employees and attract senior managers and technical professionals. Any failure to expand these areas and implement and improve such systems, procedures and controls in an efficient manner at a pace consistent with Hanfeng's business could have a material adverse effect on Hanfeng's business, financial condition and results of operations.

Hanfeng has targeted the value added fertilizer markets primarily in China and SE Asia. There can be no assurance that these markets will develop and, given Hanfeng's limited experience and operating history in this market, that Hanfeng's investment and efforts in these markets will be successful. As a result, not all production capacity may be utilized or sold. Failure to succeed in the value added fertilizer market in China may adversely affect Hanfeng's future business, financial condition and operating results.

Hanfeng plans to expand into the Southeast Asian market, including Indonesia. By entering into a new market in new countries, Hanfeng is exposed to the risks related to a different business operational environment, different government regulatory conditions, and different business relationships with local partners. Failure to succeed in this market may result in material impact to Hanfeng's overall business.

Future Capital Requirements/Chinese Monetary Policy

Hanfeng's future capital requirements will depend upon many factors, including the expansion of its sales and marketing efforts and the status of competition. There can be no assurance that any additional financing will be available to Hanfeng on acceptable terms, or at all. Lending may be obtained from Canadian banks, China local banks or other debt markets.

The Company has no loans outstanding as at June 30, 2010. There is no assurance that the Company's business will generate sufficient cash flow from operations in the future to service its debt and make necessary capital expenditures, in which case the Company may seek additional financing, dispose of certain assets or seek to refinance some or all of its debt. There is no assurance that new working capital loans or obtaining additional financing, refinancing or asset disposals could be affected, if at all, on satisfactory terms. This could materially adversely affect the Company's financial position.

Although Chinese banks are in the midst of reform, the basis on which they can lend money is not transparent and their lending attitude towards foreign invested enterprises could change based on the tone of the Chinese government. Obtaining financing from a Chinese bank will, to a certain extent, involve leveraging personal relationships. There is no guarantee that Hanfeng will have the right relationships if and when it requires further financing. The Chinese government may sometimes exercise control to monitor the rate of economic growth in China and therefore set out stricter lending policies. This as well could affect Hanfeng's ability to obtain future bank financing.

If additional funds are raised by issuing equity securities, further dilution to the existing stockholders may result. If adequate funds are not available, Hanfeng may be required to delay, scale back or eliminate its programs. Accordingly, the inability to obtain such financing could have a material adverse effect on Hanfeng's business, financial condition and results of operations.

Risk Associated with Joint Venture Partners

One of Hanfeng's growth strategies is to leverage its relationship with existing China urea producers to construct and operate new value added fertilizer plants at the location of the urea production. Hanfeng will also work with well-established distributors and operators in Southeast Asian countries to construct and operate value added fertilizer plants locally. A significant negative impact to the business of these joint venture partners may adversely impact Hanfeng's business and financial conditions.

In addition, Hanfeng's proprietary technologies may not be protected to the same degree as Hanfeng's wholly owned sites. There may not be compensation for material damage should adverse conditions develop.

Competition

Hanfeng expects to encounter competition from other entities having a business objective similar to its own. Many of these entities are well established and have extensive experience in connection with identifying and affecting business acquisitions directly or through affiliates. Many of these competitors possess greater financial, technical, personnel and other resources than Hanfeng and there can be no assurance that Hanfeng will have the ability to compete successfully. Competitors may introduce technological innovation in Hanfeng's business, resulting in increased competitive pressures. Hanfeng's financial resources will be relatively limited when contrasted with those of many of its competitors. Although Hanfeng's projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact the future revenues of Hanfeng. China can be a fiercely competitive market and small price differentials between otherwise competitive goods and services can make an enormous difference to the consumer.

Reliance on the Chinese Market

A significant portion of Hanfeng's products and services are sold in China. Any events resulting in an adverse impact on the Chinese agricultural sector will have an adverse effect on Hanfeng's profitability and prospects unless it is able to divert its sales to markets outside China.

Materials and Product Price Volatility

Various commodity raw materials are used in the products manufactured by Hanfeng. Commodity prices are subject to volatile price changes resulting from a variety of factors including international economic trends, global and regional demand, interest rates and global and regional consumption patterns. Accordingly, Hanfeng is exposed to market risk from fluctuating market prices of certain commodity raw materials. There is also a risk that market prices of other inputs required for Hanfeng's business, such as electricity and natural gas, may fluctuate, exposing Hanfeng to market risk. In addition, if temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors require Hanfeng to secure its raw materials or other inputs from other sources than its current supplier, there can be no assurance that Hanfeng will be able to do so on terms as favourable as its current terms or at all.

Hanfeng's financial performance is also linked to the selling prices of its products. Historically, prices for fertilizer products have been volatile. The price at which Hanfeng sells its value added fertilizer products and other products could fall or fluctuate unpredictably in the event of changes in industry supply and demand conditions. Hanfeng is not able to predict future market conditions and selling prices of its products with any certainty. Any price volatility in raw materials, other inputs, or in Hanfeng products may have a material adverse effect on Hanfeng's business results of operations, cash flow and its ability to satisfy its debt obligations and capital expenditure requirements. There is a potential risk that the Chinese government may impose price controls on Hanfeng's products, which could have a material adverse effect on Hanfeng's results of operations.

Risk Associated with Suppliers and Customers

Hanfeng has a good track record of managing its customer and supplier relationships. It has no bad debt expenses. Hanfeng is also able to secure preferred raw material pricing through advancing payments to its suppliers. However, there is no guarantee that the current economic condition will not impact Hanfeng's suppliers and customers. Any significant negative impact to the business of Hanfeng's suppliers and customers may have an adverse affect on Hanfeng's business and financial condition. The Company does a significant amount of purchases and sales through a relatively small number of suppliers and customers.

Weather Conditions and Natural Disasters

Weather conditions affect the demand for Hanfeng's products and the availability of raw materials and other inputs. For example, weather conditions such as floods, drought or frost can cause crop failures, which in turn affect the demand for fertilizer and seeds. The occurrence of any such event may adversely affect Hanfeng's business, financial condition and results of operations.

Seasonality

Hanfeng is exposed to some seasonality risk due to factors including, but not limited to, the nature of its products, weather conditions, and the buying patterns of major customers. These potential seasonality factors should also be considered together with the growth of the business. While some factors are not within its control, Hanfeng can mitigate the risk by negotiating purchasing times with major customers, and establishing a sales network across the country to cover different regions and weather conditions.

Marketing and Distribution Expertise and Dependence on Third Parties

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers, including third party distributors, of the distinctive characteristics and benefits of Hanfeng's products and services. Hanfeng's long-term success may also depend, to a significant extent, on its ability to expand its present internal marketing organization. Hanfeng will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that Hanfeng will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

Credit Risks

To the extent that customers delay, reduce or cancel orders or are unable or refuse to pay for products and services purchased from Hanfeng in a timely fashion or at all, Hanfeng's business, financial condition and results of operations could be adversely affected.

Operating Plant Risk

Hanfeng's manufacturing plants are in the early stages of development and use, and have short operating histories. There is a risk that Hanfeng's manufacturing plants may not be profitable or successful. There can be no assurance that the production lines at Hanfeng's plant under construction will commence commercial operation on schedule or at all, or that Hanfeng's existing fertilizer plants will operate at planned operating capacity. There are many risks associated with operating facilities, including the ability to secure raw materials and components, utility prices, the failure or substandard performance of equipment, hiring and maintaining a productive and reliable workforce, labour disputes, natural disasters, suspension of operations and compliance with existing and new governmental statutes, regulations and policies. The occurrence of material operational problems, including but not limited to the events described above, could have a material adverse effect on Hanfeng's business, financial condition and results of operations.

Dependence on Key Personnel

Due to the specialized and sophisticated nature of Hanfeng's business, it is highly dependent on the continued service of, and on its ability to attract and retain, qualified technical, marketing and managerial personnel, particularly highly skilled fertilizer and equipment engineers and technicians involved in the development of new products and processes and test technicians involved in the quality of existing products. This is a particular concern in China for a number of reasons. First, intellectual property rights are not as well protected or highly valued in China as in other countries, and it is not uncommon for employees to take trade secrets and confidential information with them to new employers. This could have an adverse impact on Hanfeng's competitiveness. Second, when senior managers quit or are terminated, it is not uncommon for the employees they supervised to leave with them, taking significant institutional knowledge. Finally, with the growth of China's economy has come new-found mobility for employees such that many employees switch jobs on a regular basis. Hanfeng will need to provide incentives to retain its key personnel and such incentives could decrease profit.

Environmental Regulation

Hanfeng's operations are subject to various environmental laws, which regulate matters such as health, safety, treatment of waste and land use. At present, all of the facilities are located in China and are in compliance with the China environmental regulations. Failure to comply with applicable laws, regulations and licensing requirements may result in enforcement actions thereunder. Penalties could include suspension or revocation of necessary licenses or permits, civil liability or the imposition of fines. The cost of compliance, remediation or liability could materially affect future operating results. Furthermore, the operational or financial impact of new or amended laws or regulations cannot be predicted and could have a material adverse impact on Hanfeng's financial condition and operating results.

Key Relationships

To date, the success of Hanfeng has been, in part, dependent on personal and corporate relationships with government officials. The alteration or termination of these relationships could have an impact on the future success of Hanfeng.

Interest Risk

Hanfeng is exposed to interest risk arising from its bank loans. Unfavourable changes in the applicable interest rate may result in an increase in interest expense.

Insurance

Hanfeng maintains property and casualty insurance on certain of its assets and directors' and officers' liability insurance. However, not all risks are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis. Hanfeng may also elect not to be insured against certain liabilities due to high premium costs or for other reasons. Furthermore, although Hanfeng maintains insurance against such claims and in such amounts it considers adequate in the circumstances, there can be no assurance that such insurance policies will be sufficient to cover each and every claim or loss involving Hanfeng. In the event Hanfeng was to suffer an uninsured loss, its business, financial condition and results of operations could be materially adversely affected.

Share Price Volatility

The market price of the Common Shares is likely to be highly volatile and may be significantly affected by factors such as actual or anticipated fluctuations in Hanfeng's operating results, announcements of technological innovations, changes in estimates or analysis by securities analysts, new contracts by Hanfeng, its competitors or their customers, government regulatory action, general market conditions and other factors.

Internal Controls

The Company has identified certain material weaknesses in its internal control over financial reporting, as described elsewhere in this MD&A, and currently has remediation plans with respect to those deficiencies. Although the Company believes that such deficiencies are not material to the fair presentation of its financial results and that its remediation plans will be effective, it is possible that these remediation plans may not fully address these material weaknesses and therefore there is a risk of potential inaccuracy or lack of timeliness in reporting and other disclosure until such deficiencies are fully resolved.

IV. GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares and an unlimited number of preference shares issuable in series. As at June 30, 2010, there were 61,592,307 Common Shares outstanding, 480,000 unexercised options to purchase Common Shares, and no preference shares issued and outstanding. Note 9 (a) to the Company's annual consolidated financial statements as at June 30, 2010 is hereby incorporated by reference.

A. COMMON SHARES

The holders of Common Shares are entitled to one vote per share at meetings of the shareholders of the Company, and to receive dividends if, as and when declared by the Board of Directors of the Company. Holders of Common Shares will participate, *pro rata* to their holding of Common Shares, in any distribution of the assets of the Company upon its liquidation, dissolution or winding-up.

B. PREFERENCE SHARES

The preference shares may be issued from time to time in one or more series. The Board of Directors of the Company shall fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the shares of each series. The preference shares of each series rank on a parity with the preference shares of every other series and are entitled to preference over the Common Shares and any other shares ranking junior to the preference shares with respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding up of the Company. If any cumulative dividends or amounts payable on a return of capital are not paid in full, the preference shares of all series participate rateably in accordance with the amounts that would be payable on such shares if all such dividends were declared and paid in full or the sums which would be payable on such shares on the return of capital if all amounts so payable were paid in full, as the case may be.

V. DIVIDENDS

Since December 31, 2001, the Company has not paid any cash dividends. The Company does not currently have a policy with respect to the payment of dividends. For the foreseeable future, the Company anticipates that it will retain future earnings and other cash resources for the operation and development of its business. The payment of dividends in the future will depend on earnings, if any, and the Company's financial condition and such other factors as the directors of the Company consider appropriate.

VI. MARKET FOR SECURITIES

A. TRADING PRICE AND VOLUME

The Common Shares are listed and posted for trading on the Toronto Stock Exchange, under the symbol "HF". The following table sets forth information relating to the trading of the Common Shares for the periods indicated.

Month	High ($)	Low ($)	Close ($)	Volume (Shares)
Jun 2010	6.32	5.73	5.81	2,321,459
May 2010	7.30	5.68	6.24	2,797,858
Apr 2010	8.05	6.99	7.26	3,045,337
Mar 2010	8.24	7.25	7.81	3,479,462
Feb 2010	7.45	6.63	7.32	3,414,266
Jan 2010	7.98	7.11	7.16	2,536,595
Dec 2009	7.70	6.27	7.39	4,903,967
Nov 2009	6.47	5.86	6.30	3,271,030
Oct 2009	7.10	5.83	5.95	3,110,784
Sep 2009	6.43	5.35	6.06	3,091,645
Aug 2009	6.18	5.30	5.50	4,147,081
July 2009	6.44	5.51	6.06	2,216,897

VII. DIRECTORS AND OFFICERS

The names and provinces and countries of residence of the directors and executive officers of the Company, positions held by them with the Company and their principal occupations for the past five years are as set forth below.

Name and Place of Residence of Directors and Executive Officers	Current Office with the Company	Principal Occupation[1]	Director /Officer Since
Robert J. Beutel Ontario, Canada	Director and Chairman of the Board	President, Oakwest Corporation Ltd. (investment holding company)	January 2005
Paul Davis [2] [3] Ontario, Canada	Director	Counsel, Lang Michener LLP	March 2009
Lei Li Ontario, Canada	Director	Consultant	March 2008

Name and Place of Residence of Directors and Executive Officers	Current Office with the Company	Principal Occupation[1]	Director /Officer Since
Andrew Mittag [2] Alberta, Canada	Director	Senior Vice President, Agrium Inc., President, Agrium Advanced Technologies (agriculture nutrients company)	April 2007
Joni Paulus[3] Alberta, Canada	Director	General Counsel, Agrium Inc. (agriculture nutrients company)	November 2009
David Thomson[2] Ontario, Canada	Director	Retired executive	August 2005
Joanne Yan[3] British Columbia, Canada	Director	President, Brazilian Gold Corporation (mining exploration company)	June 2004
Xinduo Yu Ontario, Canada	Chief Executive Officer & President	Chief Executive Officer and President of the Company	June 2003
Paul Begin Ontario, Canada	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary of the Company	September 2009

Notes:

(1) During the past five years each of the foregoing directors has been engaged in the principal occupation shown below his or her name, except as follows: From December 2007 to February 2010, Mr. Davis was an independent business consultant who served in various capacities, including being the President of GPEC Global Corp. (waste-to-energy company); from February 2005 to December 2007, Mr. Davis was the Chief Operating Officer of MedcomSoft Inc. (software developer); from December 2003 to October 2007, Ms. Li was executive vice president of Hanfeng; prior to December 2005, Mr. Mittag was President & CFO of Rockland Capital Partners, L.L.C. (private advisory firm); Ms. Yan was Managing Director and Corporate Secretary of Golden China Resources Corp. and Vice-President of its predecessor, APAC Minerals Inc., during the period of 1997 – 2005; prior to January 2008, Mrs. Paulus was a partner at Blakes LLP.; between February 2004 and August 2009, Mr. Begin was the Vice President and the Chief Financial Officer of Trilliant Incorporated (formerly OZZ Corporation) (smart metering company).

(2) Member of the Company's Audit Committee.

(3) Member of the Company's Compensation Committee.

As at September 28, 2010, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 13,516,674 Common Shares, representing 22.0% of the total number of outstanding Common Shares.

Each director will hold office until the next annual meeting of shareholders or until they are removed or their successors are elected or appointed in accordance with applicable law and the by-laws of the Company.

VIII. MATERIAL CONTRACTS

On April 1, 2007, Hanfeng entered into an agreement with 2089259 Ontario Ltd. ("Agrium AT") (a wholly-owned subsidiary of Agrium), Oakwest Corporation Limited ("Oakwest") and Mr. Mr. Xinduo Yu, with the following material terms. Agrium AT subscribed for 11,959,000 common shares of Hanfeng, purchased for cash at $6.22 per share. Agrium AT will be entitled to maintain board representation proportionate to its ownership (currently two nominees). If Hanfeng issues shares in the future, Agrium AT will have the right to subscribe to maintain its proportionate interest in the Company. Each of Agrium AT and Mr. Yu have granted the other a right of first refusal if either wishes to sell their Hanfeng shares in any significant quantity over the five year period following the date of the agreement. Each of Agrium AT and Mr. Yu have also agreed to a provision preventing either of them from acquiring more than 25% of the outstanding shares of Hanfeng, except pursuant to an offer for all shares. Oakwest, a company of which Robert Beutel, Hanfeng's Chairman, is a principal, also agreed to a provision not to increase its ownership beyond 5% for the two year period following the date of the agreement. Each of Mr. Yu and Oakwest agreed not to dispose of more than 25% of their shares without Agrium AT's consent, for five years from the date of the agreement in Mr. Yu's case and two years from the date of the agreement in Oakwest's case. Agrium AT and Hanfeng amended their existing exclusive licensing agreement in place regarding production technologies for SCU. Hanfeng granted Agrium AT an option to acquire 50% of Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd., Ltd., which option may be exercised by Agrium AT at any time between six and 24 months after the date of the agreement. This option was exercised by Agrium AT in May 2009. On July 16, 2010 Hanfeng re-purchased Agrium's ownership in Hanfeng Slow-Release Fertilizer (Canada) Co. Ltd. Hanfeng re-purchased Agrium's 50 percent ownership in Subco for $2.3 million in cash and 100,000 common shares valued at the closing price of $6.22 per share for total consideration of $2.9 million. As a result, Agrium's ownership in Hanfeng increased from 19.4 percent to 19.6 percent effective July 16, 2010.

IX. TRANSFER AGENT AND REGISTRAR

The Company's registrar and transfer agent for its Common Shares is Equity Transfer & Trust Company at its principal offices in Toronto, Canada.

X. EXPERTS

The Company's audited consolidated financial statements for the financial periods ended December 31, 2008, June 30, 2009 and June 30, 2010 were audited by KPMG LLP, Chartered Accountants.

XI. AUDIT COMMITTEE

A. COMPOSITION OF AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of the following directors:

David Thomson (Chair)
Andrew Mittag
Paul Davis

The Board of Directors has determined that each of the Audit Committee members is independent and financially literate within the meaning of Multilateral Instrument 52-110 - *Audit Committees*.

B. RELEVANT EDUCATION AND EXPERIENCE

David Thomson

Mr. Thomson has over 30 years of experience in real estate management and development, having served as President of Great West Life Properties from 1988 to 2004 and as Vice President of Oxford Development Group prior to 1988. Mr. Thomson also has several years of government experience, including four years as Special Assistant to former Prime Minister Trudeau. Mr. Thomson holds a B.A. in Economics from the University of Alberta and an MBA from the University of Western Ontario. He has also attended continuing education seminars with the Institute of Corporate Directors. He brings to Hanfeng his knowledge of financial and debt markets as well as his expertise in managing projects and large organizations.

Andrew Mittag

Mr. Mittag has over 25 years experience in corporate strategy and development, investment banking and commercial banking. He is currently Senior Vice President of Agrium Inc. ("Agrium") and President of Agrium Advanced Technologies. Agrium is a major retail supplier of agricultural products and services. Before joining Agrium, Mr. Mittag was President and Chief Financial Officer as well as co-founder of Rockland Capital Partners in Dallas, Texas. Prior to Rockland, Mr. Mittag led Corporate Strategy and Development for both TXU Corporation and Koch Industries. Mr. Mittag holds an MBA in Accounting and Finance from Columbia University.

Paul Davis

Mr. Davis has extensive experience in operational, mergers and acquisitions and financial matters as a corporate officer, lawyer and investment banker. Mr. Davis has served as a director of several public companies, including being the Chair of the Audit Committee of other TSX and TSX Venture Exchange listed companies. Mr. Davis has held senior executive positions in public and private companies, including being Director, Investment Banking of Octagon Capital Canada Corporation, a Toronto-based broker, from June 1995 to May 1997; and Senior Vice President, Administration and Human Resources, General Counsel and Secretary of Slater Steel Inc. from 1999 to 2004. Currently, Mr. Davis is counsel at Lang Michener, LLP. Mr. Davis studied Economics at Carleton University and obtained a Bachelor of Laws (LL.B.) degree from the University of Toronto Law School in 1986.

C. AUDIT COMMITTEE CHARTER

The text of the Audit Committee Charter is set out in Appendix "A" to this Annual Information Form.

D. PRE-APPROVAL POLICY

The Company has in place a pre-approval policy which provides for the Audit Committee's approval of any non-audit services to be rendered by the outside auditors. The Audit Committee is required to consider whether the provision of non-audit services is compatible with maintaining the outside auditors' independence, including, but not limited to, the nature and scope of the specific non-audit services to be performed and whether the audit process would require the outside auditors to review any advice rendered by the outside auditors in connection with the provision of non-audit services.

E. External Auditor Service Fees

The Company paid the following fees to its external auditors for the periods indicated:

Audit Fees

Hanfeng has incurred audit fees for fiscal 2010 of $362,000 (2009 - $285,000). Included in the above figures is $108,000 (2009 - $36,000) incurred for quarterly reviews.

Tax Fees

Hanfeng incurred from its external auditors $22,000 (2009 - $20,000) in fees for tax return preparation and tax planning services for fiscal 2010.

Audit related fees

Hanfeng incurred from its external auditors $15,000 (2009 - $15,000) in fees for work related to the International Financial Reporting Standard conversion project for fiscal 2010.

XII. CHANGE OF YEAR END

On March 9, 2009, Hanfeng announced its decision to change its fiscal year end from December 31 to June 30, effective from June 30, 2009. The primary reasons for the change of year-end are that the Chinese New Year falls in the middle of the prior audit process, and the focus of the Company during late January and early February is on building inventory before the spring delivery season.

XIII. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's management proxy circular for its most recent annual meeting of shareholders held on November 12, 2009. Additional financial information is provided in the Company's comparative financial statements for the financial year ended June 30, 2010, and management's discussion and analysis ("MD&A") of such financial results. Additional information relating to the Company may be found on SEDAR at www.sedar.com.

APPENDIX A

AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Hanfeng Evergreen Inc. (the "Company"). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through:

1. overseeing management's conduct of the Company's financial reporting process and systems of internal accounting and financial controls;
2. monitoring the independence and performance of the Company's outside auditors; and
3. providing an avenue of communication among the outside auditors, management and the Board.

COMPOSITION

1. The Committee shall have at least three (3) members at all times, each of whom must be independent of management, as well the Company and each of its affiliates. A member of the Committee shall be considered independent if:
    a) in the sole discretion of the Board, it is determined that he or she has no relationship that may interfere with the exercise of his or her independent judgment; and
    b) he or she meets the applicable stock exchange or other regulatory requirements regarding the independence of audit committee members.
2. If any member of the Committee develops a "conflict of interest" (as that term is defined in an applicable stock exchange or other regulatory requirement), that member shall have an affirmative obligation to promptly disclose such relationship to the Board.
3. No member of the Committee shall accept any consulting, advisory or other compensatory fee from the Company other than in connection with serving on the Committee or as a member of the Board.
4. All members of the Committee shall have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements or be able to do so within a reasonable period of time after appointment to the Committee.
5. At least one member of the Committee shall have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment.
6. Each member of the Committee shall be appointed by the Board and shall serve until the earlier to occur of the date on which he or she shall be replaced by the Board, resigns from the Committee, or resigns from the Board.

MEETINGS

1. The Committee shall meet as frequently as circumstances dictate, but no less than four times annually. The Board shall name a chairperson of the Committee, who shall prepare and/or approve an agenda in advance of each meeting. A majority of the members of the Committee shall constitute a quorum. The Committee shall maintain minutes or other records of meetings and activities of the Committee.
2. The Committee shall, through its chairperson, report regularly to the Board following the meetings of the Committee, addressing such matters as the quality of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance

and independence of the outside auditors, the performance of the internal audit function or other matters related to the Committee's functions and responsibilities.

RESPONSIBILITIES AND DUTIES

The Committee's principal responsibility is one of oversight. The Company's management is responsible for preparing the Company's financial statements and the outside auditors are responsible for auditing and/or reviewing those financial statements.

While the Committee has the powers and responsibilities set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements present fairly the financial position, the results of operations and the cash flows of the Company, in conformity with Canadian generally accepted accounting standard. This is the responsibility of management and the outside auditors. In carrying out these oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the outside auditors' work.

The Committee's specific responsibilities are as follows:

General

1. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall have unrestricted access to members of management and other employees of the Company, as well as all information relevant to the carrying out of its responsibilities.
2. The Committee shall, with the assistance of management, the outside auditors and legal counsel, as the Committee deems appropriate, review and evaluate, at least annually, the Committee's:
    a) charter;
    b) powers and responsibilities; and
    c) performance.
3. The Committee shall report and make recommendations to the Board with respect to the foregoing, as appropriate.
4. The Committee shall ensure inclusion of its then-current charter in the proxy statement for the Company's annual meetings of shareholders, in accordance with the regulations of the applicable stock exchange or other regulatory requirements.
5. The Committee shall prepare annual Committee reports for inclusion in the proxy statements for the Company's annual meetings, as required by the applicable stock exchange or other regulatory requirements.
6. The Committee shall, in addition to the performance of the duties described in this charter, undertake such additional duties as from time to time may be:
    a) delegated to it by the Board;
    b) required by law, a stock exchange or other regulatory authority; or
    c) deemed desirable, at the Committee's discretion, in connection with its functions described in this charter.
7. The Committee shall be empowered to retain, at the Company's expense, independent counsel, accountants or other advisors for such purposes as the Committee, in its sole discretion, determines to be appropriate to carry out its responsibilities. The Company will provide appropriate funding, as determined by the Committee, for payment of compensation to the

independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

Internal Controls and Risk Assessment

1. The Committee shall review annually, with management and the outside auditors, if deemed appropriate by the Committee, the effectiveness of or weaknesses in the Company's internal controls, including computerized information system controls and security, the overall control environment and accounting and financial controls.
2. The Committee shall obtain from the outside auditors their recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the Company.
3. The Committee shall establish procedures for:
    a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
    b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
4. The Committee shall review major financial risk exposures and the guidelines and policies which management has put in place to govern the process of monitoring, controlling and reporting such exposures.

Outside Auditors; Their Performance and Independence

1. The outside auditors are ultimately accountable to the Board and the Committee, as the representatives of the shareholders of the Company. The Committee shall evaluate and recommend to the Board the selection and, where appropriate, the replacement of the outside auditors. The Committee shall recommend to the Board the outside auditors to be proposed for shareholder approval in any proxy statement.
2. The Committee shall:
    a) confer with the outside auditors concerning the scope of their examinations of the books and records of the Company and its subsidiaries;
    b) review the scope, plan and procedures to be used on the annual audit, as recommended by the outside auditors;
    c) review the results of the annual audits and interim financial reviews performed by the outside auditors, including:
        (1) the outside auditors' audit of the Company's annual financial statements, accompanying footnotes and its report thereon;
        (2) any significant changes required in the outside auditors' audit plans or scope;
        (3) any material differences or disputes with management encountered during the course of the audit (the Committee to be responsible for overseeing the resolution of such differences and disputes);
        (4) any material management letter comments and management's responses to recommendations made by the outside auditors in connection with the audit;
        (5) matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees), relating to the conduct of the audit;
    d) authorize the outside auditors to perform such supplemental reviews or audits as the Committee may deem desirable; and
    e) obtain from the outside auditors assurance that they have complied with any applicable stock exchange or other regulatory requirements.

3. The Committee shall inquire into any accounting adjustments that were noted or proposed by the outside auditors but were “passed” as immaterial or otherwise.
4. The Committee shall inquire as to any matters that were referred to the outside auditors’ national office relating to accounting policies and/or financial statement disclosure within the Company’s financial statements and, to the extent deemed appropriate, request an opportunity to address such issues directly with a representative of such national office.
5. Pre-approval by the Committee shall be required with respect to the fees for all audit and other services performed by the outside auditors as negotiated by management.
6. The Committee’s approval of any non-audit services to be rendered by the outside auditors must be obtained in advance of engaging the outside auditors to render such services. The Committee shall not approve the engagement of the outside auditors to render non-audit services prohibited by law or rules and regulations promulgated by an applicable stock exchange or other regulatory authority. The Committee shall consider whether the provision of non-audit services is compatible with maintaining the outside auditors’ independence, including, but not limited to, the nature and scope of the specific non-audit services to be performed and whether the audit process would require the outside auditors to review any advice rendered by the outside auditors in connection with the provision of non-audit services.
7. The Committee shall receive from the outside auditors on a periodic basis a formal written statement delineating all relationships between the outside auditors and the Company, regarding relationships and services, which may impact the objectivity and independence of the outside auditors, and other applicable standards. The statement shall include a description of all services provided by the outside auditors and the related fees. The Committee shall actively engage in a dialogue with the outside auditors regarding any disclosed relationships or services that may impact the objectivity and independence of the outside auditors and shall evaluate, after gathering information from management, and other Board members, the performance of the outside auditors and recommend that the Board take action to satisfy itself of the independence of the outside auditors.
8. The Committee shall establish written hiring policies for current and former employees of the outside auditors.
9. The Committee shall consider whether it is appropriate to adopt a policy of insisting upon the rotation of the outside auditors’ lead audit partner or rotating the outside auditors on a periodic basis. Based upon its evaluation, the Committee shall take, or recommend that the Board take, appropriate action to monitor the independent status of the outside auditors.

Financial Reporting

1. The Committee shall review and discuss with the outside auditors and management the Company’s audited annual financial statements that are to be included in the Company’s annual report and the outside auditors’ opinion with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application of such accounting principles; and determine whether to recommend to the Board that the financial statements be included in the Company’s annual report for filing with an applicable stock exchange or other regulatory authority.
2. The Committee shall review and discuss with the outside auditors and management, and require the outside auditors to review, the Company’s interim financial statements to be included in the Company’s quarterly reports prior to filing such reports with an applicable stock exchange or other regulatory authority. The Committee shall review and discuss:

a) the existence of significant estimates and judgments underlying the financial statements, including the rationale behind those estimates as well as the details on material accruals and reserves and the Company's accounting principles;
b) all critical accounting policies identified to the Committee by the outside auditors;
c) major changes to the Company's accounting principles and practices, including those required by professional or regulatory pronouncements and actions, as brought to its attention by management and/or the outside auditors; and
d) material questions of choice with respect to the appropriate accounting principles and practices to be used in the preparation of the Company's financial statements, as brought to its attention by management and/or the outside auditors.

3. The Committee shall review and discuss the Company's disclosure under "Management's Discussion and Analysis" included in any annual or quarterly report, or other report or filing filed with an applicable stock exchange or other regulatory authority.
4. The Committee shall discuss generally with management earnings press releases of the Company, as well as financial information and earnings guidance provided by the Company to analysts and rating agencies.
5. The Committee shall review and discuss with outside auditors any related party transactions and relationships that could enable the negotiation of terms on other than an independent, arms - length basis.
6. The Committee shall discuss with the outside auditors any item not reported as a contingent liability or loss in the Company's financial statements as a result of a determination that such item does not satisfy a materiality threshold. The Committee shall review with the outside auditors the quantitative and qualitative analysis applied in connection with such assessment of materiality, including, without limitation, the consistency of such assessment with the requirements.
7. The Committee shall review and consider other matters in relation to the financial affairs of the Company and its accounts, and in relation to the internal and external audit of the Company as the Committee may, in its discretion, determine to be advisable.
8. The Committee shall meet at least annually with management, and the outside auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

Compliance with Laws, Regulations and Policies

1. The Committee shall review with management actions taken to ensure compliance with any code or standards of conduct for the Company which may be established by the Board.
2. The Committee shall review with the Company's legal counsel any legal compliance matters, including securities trading practices and any other legal matters that could have a significant, adverse impact on the Company's financial statements.
3. The Committee shall review with the Company's counsel and others any federal, tax or regulatory matters that may have a material impact on the Company's operations and the financial statements, related Company compliance programs and policies, and programs and reports received from regulators, and shall monitor the results of the Company's compliance efforts.
4. The Committee shall periodically review the rules promulgated by the applicable stock exchange or other regulatory authority relating to the qualifications, activities, responsibilities and duties of audit committees and shall take, or recommend that the Board take, appropriate action to comply with such rules.