



PRT Forest Regeneration Income Fund

Annual Report **2009**

**Maintaining competitiveness.
Supporting new growth strategies.**

We generated positive cash flow, maintained market share and continued to invest in new growth strategies despite declines in revenue and profitability during a challenging year.

Fund Profile

The PRT Forest Regeneration Income Fund (TSX: PRT.UN) is a publicly traded income trust. The fund owns all of the common shares and subordinated notes of Pacific Regeneration Technologies Inc. (PRT).

PRT is Canada's largest forest nursery company and the largest producer of container-grown forest seedlings in North America. The company operates 12 nurseries in Canada and the United States with an annual combined production capacity that exceeds 170 million seedlings.

We have established a leadership position in our industry by responding quickly and accurately to forest industry trends, by working closely with our customers and by providing our employees with safe work environments and opportunities to achieve success. In addition, we pursue the continued growth of our business through a strategy of managed expansion that supports our vision of being the leader in forest seedling production.

Our network of nurseries enables us to provide high levels of customer service and to optimize crop production through multiple growing methods and climates. This gives us the flexibility to grow everything from small, specialized orders to the entire annual seedling stock needs of a major forest products company. Our services include seed processing and specialized seed treatments, forest seedling and non-forestry plant propagation, seedling propagation from somatic embryos, quality testing, cold storage, shipping, tree planting, and field-performance assessment and enhancement.



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Operational Highlights

- Maintained market share under highly competitive conditions
- Achieved continued improvements in order fulfillment and crop yields
- Established first phase of demonstration-scale bioenergy plantation
- Generated positive cash flow from continuing operations
- Increased economies of scale despite lower seedling volumes
- Produced record proportion of seedlings (47%) in unheated indoor and outdoor environments

10 YEAR REVENUE AND OPERATING EARNINGS HISTORY



Financial Highlights

Figures are presented in \$000's except per Trust Unit amounts

	For the year-ended December 31,		
	2009	2008	2007
Revenues	\$ 30,062	\$ 38,789	\$ 49,486
Operating Income ^{1,3}	2,555	4,093	9,659
Net Earnings (Loss) ⁴	(1,829)	(23,191)	(7,528)
Per Trust Unit	\$ (0.19)	(2.41)	\$ (0.78)
Cash Flow from Operations	3,369	7,665	10,273
Cash Available for Distribution ³	1,816	3,602	7,491
Per Trust Unit ³	\$ 0.19	\$ 0.38	\$ 0.78
Distributions Declared per Unit ²	\$ —	0.29	\$ 0.89
Net additions to capital assets	935	1,054	1,314
Total Assets	42,895	50,269	80,553
Unitholders' Equity	32,273	33,901	59,871
Per Trust Unit	3.32	3.53	6.23
Price range per unit on the Toronto Stock Exchange:			
High	\$ 2.35	\$ 6.99	\$ 9.93
Low	\$ 0.71	\$ 1.00	\$ 6.11
Close – December 31	\$ 2.04	\$ 1.20	\$ 6.96

- 1 Defined as earnings before interest, depreciation and amortization, income taxes, gains or losses on asset sales and other non-operating income or loss items
- 2 Including dividends declared in the subsequent year on account of current year's operations (as applicable)
- 3 Operating earnings and cash available for distribution are terms which do not have standardized meaning under Canadian generally accepted accounting principles
- 4 Includes goodwill impairment charges of \$19,175 in 2008 and \$13,200 in 2007, and long-lived asset impairment charges of \$2,558 in 2009 and \$4,112 in 2008 respectively.

Report to Unitholders

An unusually sharp and protracted decline in US housing starts created difficult operating conditions for our company and our forest product industry customers in 2009, and our revenues and profitability declined. Nevertheless, we generated positive cash flow from operations, maintained our market share and continued to invest in new growth strategies that we believe will enable us to adapt to new realities in the forest products industry and to diversify our business.

We are seeing the early signs of improvement in North American housing markets and lumber prices. The strength of this recovery, however, is uncertain. Demand for forest seedlings typically lags activity in the wood products and housing markets, so we expect 2010 to be as challenging as 2009. We therefore remain focused on maximizing cash flow and on providing exceptional customer service, so we are well positioned to benefit from a future recovery in forest seedling markets.

We also believe that our actions to diversify our forest-seedling operations and to capitalize on opportunities in the bioenergy sector will enable us to develop significant new revenue streams over the long term.

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Performance: Focusing on operational efficiencies and profitability

Our main objective in 2009 was to maintain high levels of customer service while further reducing our operating costs and improving our margins. Activities in this regard included streamlining our nursery operations with lean manufacturing methods and investing in information technology to reduce our administration costs.

Our employees were instrumental in helping us to reduce our costs. Members of the BC Government Employees Union negotiated a three-year labour agreement that recognizes the difficult realities of our market conditions. Management and supervisory staff, in turn, also accepted temporary wage concessions.

Our focus on reducing costs also resulted in the regrettable decision to discontinue seedling production at PRT Kirkland Lake in northeastern Ontario until market conditions improve. We will, however, maintain cold storage operations at the nursery site to better serve local customers. We also consolidated PRT Summerland with three of our nearby nurseries in British Columbia's Okanagan region. This and the closure of our Maple Ridge, BC nursery, in early 2009, will improve our economies of scale at other nurseries. Our capacity utilization after these changes improved to 81% in 2009 from 63% the previous year.

PRT's contracted seedling block volumes in 2009 declined 27% to 1.29 million, the lowest level in 10 years; however, to the best of our knowledge, we maintained our market share in a highly competitive environment. Our operations were aided by above-average summer growing conditions in some regions.

Revenues at PRT nonetheless declined 22.5% because of lower seedling orders, to \$30.1 million. Our operating earnings fell 37.6%, to \$2.6 million. To conserve cash, we suspended our monthly distribution to unitholders in January 2009. The Board continues to monitor our operating outlook and will consider reinstating distributions when seedling orders and cash flow improve.

In early 2010, we received \$4.6 million in insurance proceeds to cover damages to greenhouses resulting from unusually heavy snowfalls in December 2008. Most of that damage occurred at our now-closed Maple Ridge nursery. The settlement allows us to reduce our bank term debt and debt service costs and to further strengthen our balance sheet. As a result, PRT now has under \$2 million in term debt and sufficient cash and available credit to fund its capital needs over the coming year.

Strategy: Capitalizing on our strengths

Our business strategy is underpinned by our belief that the downturn in demand for forest seedlings is primarily the result of cyclical rather than structural factors. We have, therefore, preserved our core human, financial and operational resources despite consolidating several nurseries. In so doing, we assure ourselves of being able to quickly and cost-effectively scale up our nursery operations when demand for forest seedlings rises.

We expect that forest seedling markets will gradually improve as US house construction returns to historical norms. In 2009, US housing starts fell to their lowest level since World War II—fully 74% below their 20-year average. Many experts believe that this level is unsustainable. A detailed outlook for the North American housing markets follows this report.

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We continue, meanwhile, to pursue several opportunities to diversify our operations that capitalize on our natural and strategic advantage in North America's emerging bio-economy. In the bioenergy sector, we are implementing a commercial-scale demonstration project at PRT Red Rock near Prince George, BC. The project will be used to confirm our preliminary economic evaluation of a sustainable carbon-neutral biofuel heating system for the nursery's greenhouses. An update on this promising project follows this report.

Building on our core expertise in plant propagation, we are also testing a new method of propagating cranberries. This lucrative food crop is usually started from cuttings pressed into the soil. We are conducting indoor, containerized growing trials of high-yield varieties of cranberries. Our goal is to confirm that transplanted seedlings grown in this manner will mature faster than traditionally propagated cranberries. A test run of approximately 1.3 million cranberry seedlings will be planted in spring 2010 in BC's Fraser Valley.

Our award-winning Global Seedlings promotional product line that we launched in 2008 continues to gain market awareness in North America. Global Seedlings are conifer seedlings that we package individually in clear tubes and biodegradable bags and brand with a sponsoring company's logo and message. The seedlings are marketed to organizations seeking to promote themselves in an environmentally friendly fashion. We anticipate increased sales of Global Seedlings to customers such as financial institutions, hospitals, government agencies and schools as the economy recovers.

Outlook: Long-term business fundamentals remain sound

The North American economy is slowly emerging from the worst recession in decades. US housing starts and Canadian lumber markets are showing encouraging signs of improvement, but we expect these markets to remain weak in 2010. Since forest seedling demand is strongly influenced by these markets, and usually lags

Report to Unitholders

housing and lumber markets by about a year, we anticipate anywhere from a 5% to a 10% decline in seedling demand for 2010.

We are, though, witnessing a large and growing reforestation backlog in British Columbia. We believe the damage caused by extensive Mountain Pine Beetle and forest-fire damage, will provide a strong underpinning for seedling demand beyond the current economic cycle.

Our short-term objectives, therefore, are unchanged: to emerge from the downturn in the forest products industry with an efficient, readily scalable organization that can capitalize on a recovery in reforestation activities and on opportunities in emerging markets such as bioenergy. PRT's multiple nursery structure gives it the scope and the capabilities to remain solidly positioned as the market leader in its industry. Our priorities are to manage our balance sheet prudently and to continue upgrading our operations.

We are encouraged by opportunities to blend our expertise in forest seedling production with new business lines for bioenergy and carbon-neutral products. We are also optimistic about our long-term prospects to

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acquire independent nurseries in the fragmented seedling industry and to create shareholder value through innovations in seedling production technology.

We thank our investors for their continued support and confidence. We also thank our employees for their hard work and dedication during an especially trying year.

On behalf of the trustees and management,
March 29, 2010

signed

Robert A. Miller

President and CEO

signed

Robert K. Withers

Board Chair and Trustee

**Maintaining Competitiveness.
Supporting new growth strategies.**

Growing clean, renewable energy

Bioenergy is emerging as one of the best ways to produce clean, renewable power. Woody biomass from purpose-grown crops, for instance, is a sustainable, carbon-neutral resource that can help to replace finite fossil-fuel supplies. Woody biomass crops can also be used as soil ameliorators and biological filters for dedicated waste-handling projects or combined energy and waste-disposal systems.

In 2009, we established a new subsidiary, Bionera Resources, to capitalize on these opportunities and leverage our expertise in forest seedling crops for the emerging bioenergy sector.

Government funding supports innovative approach

Our demonstration project will take an estimated three years to complete and has a budget of approximately \$1.3 million. One-third of this budget will be funded by British Columbia's Innovative Clean Energy Fund, which was established in 2007 to encourage the development of new sources of clean energy and technologies. Our project is also supported by the Industrial Research Assistance Program of the National Research Council of Canada.

Domestic bioenergy markets create opportunity

A growing awareness of the need to reduce greenhouse gas emissions is



Bioenergy demonstration project aims to confirm commercial viability

PRT has conducted growing trials of short-rotation intensive-culture (SRIC) woody species, such as poplar and willow, since 1999. We launched our largest project in 2009, a 75-acre crop at our Red Rock Nursery near Prince George, BC.

This commercial-scale demonstration project will be used to confirm our preliminary economic evaluation of a SRIC biofuel system. The project includes a high-efficiency, low-emission bioenergy system developed in British Columbia.

We plan to convert our SRIC crop and locally sourced solid-wood waste into heat for our forest-seedling greenhouses. The bioenergy system should supply approximately 60% of our annual heating requirements at our Red Rock location and replace approximately 9,000 gigajoules of natural gas consumption.

driving strong demand for clean sources of renewable energy. Industrial users are seeking to reduce the risk of energy-cost fluctuations associated with traditional fuel sources. Governments are also supporting these trends. In British Columbia, for example, the provincial government is taking action to reduce greenhouse gas emissions 33% by 2020.

In Europe, woody biomass from purpose-grown crops is commonly used as a source of renewable energy. We believe that rising interest in bioenergy projects in North America will lead to opportunities for us to supply and manage SRIC woody biomass feedstocks for power plants, district heating projects, large buildings and numerous other applications.

The road ahead

Through Bionera Resources, we are working to develop bioenergy and other markets, and to form strategic alliances that dovetail with our core business. In addition, we are building a business model for managing SRIC crops and for providing customers with an efficient and sustainable low-carbon fuel source. Our goal is to become a leader in the purpose-grown biomass industry.

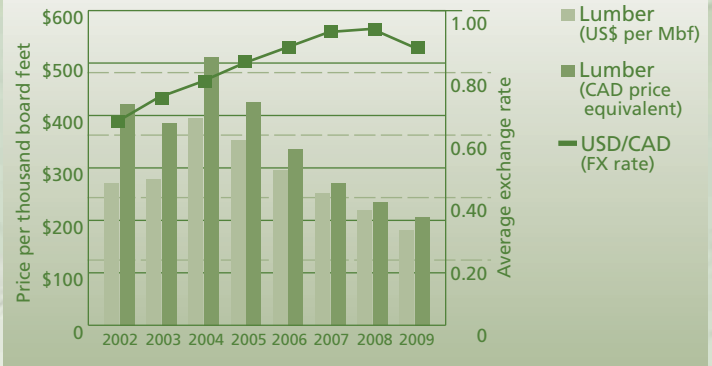
Maintaining Competitiveness.
Supporting new growth strategies.

North American Housing Market: Down but far from out

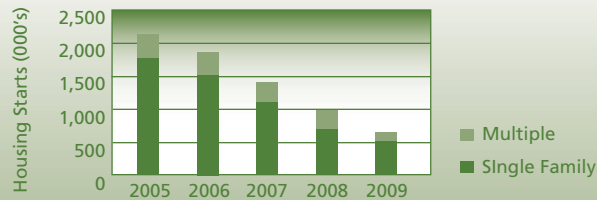
North American housing starts have long been a barometer for the health of the Canadian forest products industry. The slowing of the US housing boom in 2006 marked the end of a remarkable run and the start of an equally remarkable downturn in a market that represents 90% of all new housing starts in North America.

From an all-time high of 2.1 million units in 2005, US housing starts plummeted 73% to 554,000 in 2009, making the year the worst in housing construction cycles since World War II. The slumping housing market was a catalyst for the most painful general economic downturn since the Great Depression. Severe financial market contractions combined with an excess inventory of existing homes to push that nation into recession.

Lumber Prices 2002 – 2009

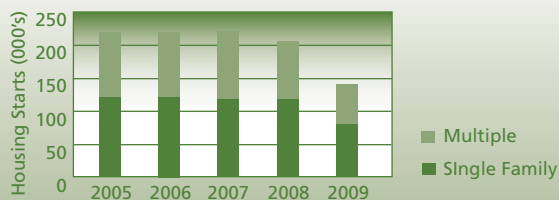


USA Housing Starts



In Canada, meanwhile, Canadian Mortgage and Housing Corporation (CMHC) statistics reveal less of a decline than in the United States. Canadian housing starts declined only 35% by comparison, to 149,100 in 2009, from their 2007 peak of 228,300.

Canada Housing Starts



Lumber manufacturers hit hard

The majority of solid wood products produced in Canada are used in home construction and renovation. Not surprisingly, sharply reduced housing starts in North America sent the Canadian forest products industry into a tailspin.

Lumber consumed in US housing construction, for example, fell 76% from a peak of 28.6 billion board feet in 2005 to 6.9 billion board feet in 2009, reports the International Wood Markets Group. And according to CIBC World Markets Inc., lumber prices tumbled 53% from an average of US\$353 per thousand board feet in 2005 to US\$182 in 2009.

The sharp dip in demand and in prices for most forest products forced hundreds of Canadian sawmills and factories to close and to lay off thousands of workers. Even the largest and most efficient of the country's mills reported significant losses.

A recovery begins to take shape

The worst of the recession in North America appeared to be over by the end of 2009, and both the Canadian and US economies are expected to continue to gain strength throughout 2010. However, the early stages of recovery will be slow.

The US housing market appears to have reached a turning point. New and existing housing inventories are falling, house prices are stabilizing in key regions and building permits are rising. These improving fundamentals are expected to lead to a rebound in housing starts, according to forecasts compiled by APA-The Engineered Wood Association. Those forecasts range from 647,000 units to 840,000 units for 2010 and from 760,000 units to 1,260,000 units for 2011.

In Canada, CMHC expects housing starts to increase 16% to 165,000 units in 2010.

Economists, nevertheless, continue to have mixed views about housing construction in the United States. They point to lingering concerns over the strength of that country's economic recovery, over high US unemployment and over elevated levels of US home foreclosures. Further, home prices are still falling in some regions as foreclosures persist, which is making buying an existing home more attractive than building a new home. Economists also question the stability of the US housing market without continued government assistance programs.

Echo boomers to reinvigorate housing demand

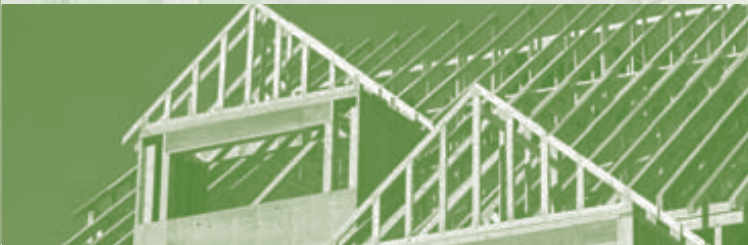
Demographic trends, however, are reason for a positive long-term outlook. Harvard University's Joint Center for Housing Studies expects aging echo boomers—mostly children of baby boomers and the largest generation to reach adulthood in US history—to reinvigorate the housing market.

The way forward

Severe economic downturns are often followed by robust recoveries. During a recession, consumers defer purchases, especially for large discretionary expenditures, and businesses delay capital spending and reduce inventories. Once the economy picks up, the gap between the required and actual inventories of capital assets and consumer goods quickly widens, leading to accelerated spending.

It is too early to determine the strength of the recovery in US housing markets; however, conditions that could support a recovery are taking shape. Canadian housing starts on the other hand clearly rebounded to a seasonally adjusted annual rate of 186,300 units in January 2010, an increase of 6% from January 2009, according to CMHC.

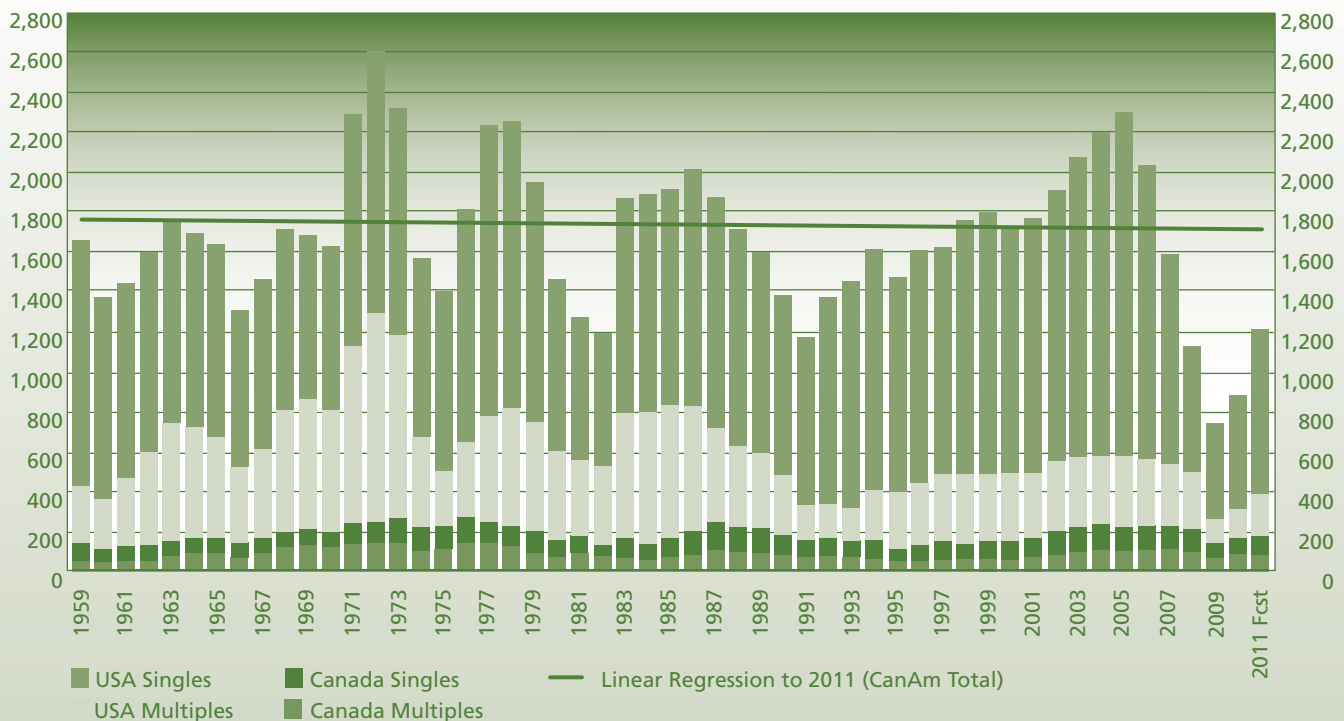
As home construction returns to normal in North America, so, too, will demand for Canadian lumber. This will lead to increased logging



The center foresees echo boomers keeping the growth in housing at least on par with 1995–2005 levels, which averaged 1.3 million new units a year. It also suggests that pent-up demand from deferred house buying and low levels of homebuilding will reduce the inventory of vacant homes, bringing markets back into balance.

activity and, in turn, higher demand for forest seedlings as reforestation activities also return to historical levels.

CanAm Housing Starts 1959 – 2011 (in thousands) (2009 based on December Seasonally Adjusted)



We are pleased to present the 2009 annual report for the PRT Forest Regeneration Income Fund (the "Fund"). This section presents management's view of the operating results, cash flows, financial position and business of the Fund, and its wholly owned operating subsidiary, Pacific Regeneration Technologies Inc. ("PRT" or the "Company").

This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations for future order volumes, pricing, operating costs and other expenditures; the outlook for future energy prices; plans and opportunities for capital spending; and other statements contained in this discussion that are not historical fact. Words such as "anticipate", "expect," "potential," "intends," "opportunity," "believes," "may," "will" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs, and actual events or results may differ materially. Risks and uncertainties include, but are not limited to, agricultural risks and crop yields, future commodity prices, exchange rate risks, customer credit risks and customer insolvency, liquidity risks, the ability of PRT to comply with its debt covenants, the outlook for the forest industry, the impact of pending changes to income trust taxation, and other risks identified from time to time in the Fund's annual report, annual information return, prospectus, and other filing documents. These documents are available in electronic form at www.sedar.com, or by contacting the Fund directly. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law. Readers are cautioned not to place undue reliance on forward looking statements.

Cash Available for Distribution and Distributable Cash Flow are terms used throughout this discussion and that do not have standardized meaning under Canadian Generally Accepted Accounting Principles (GAAP); as such, they may not be comparable to similar measures provided by other reporting entities

This management's discussion and analysis has been prepared based on information available as at March 23, 2010.

The forest industry in Canada started to come under economic pressure early in the past decade with rising energy costs, and conditions worsened in subsequent years with the expiry of the softwood lumber trade agreement. Despite the resulting price pressures on seedling suppliers and the inability to pass on cost increases, PRT's seedling volumes continued to improve through 2006 due to the Company's acquisition strategy and high rates of logging spurred by strong demand for wood products buoyed by record levels of house construction. However, since 2007, there has been a severe downturn in the forest industry demand for seedlings. Severe financial market contractions combined with excess inventory of existing homes has led to a sharp reduction in US new house construction, which, in turn, has led to reduced lumber demand. Consequently, combined with low realized lumber prices, the diminished lumber demand led to reduced logging activity in PRT's primary markets, and lower subsequent forest seedling orders. Lumber market conditions continued to deteriorate into 2009, exacerbated by worsening economic conditions in the USA, and accordingly, seedling markets remained poor in 2009.

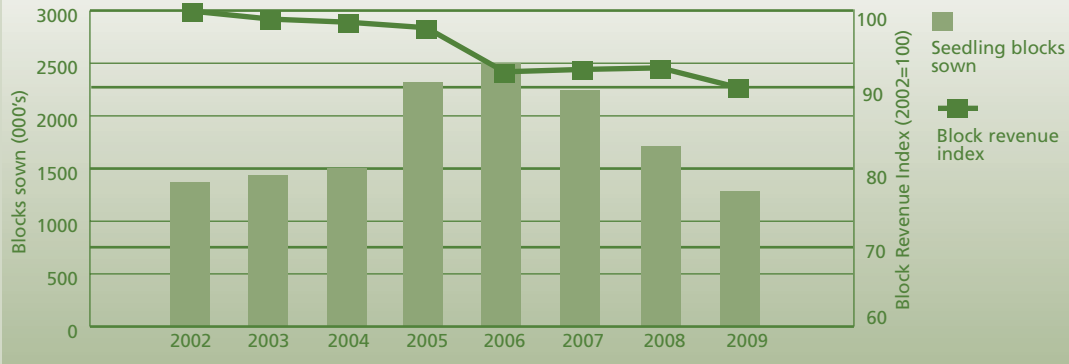
Operating Results

For the Year Ended December 31, 2009

Revenues for the year are down, mainly due to the impact of lower seedling contract volumes offset in part by greater than normal non-contract seedling sales. Specifically, revenues decreased by \$8.7 million or 22.5% relative to 2008. Lower order volumes are the result of the continuing severe downturn in the forest industry, caused by the combined effects of a sharp falloff in US housing starts, the world wide recession that began in 2008, and lower lumber prices. In 2006 PRT's order volumes peaked at approximately 230 million seedlings, corresponding with the 2005 peak in North American housing markets. In 2009 the Company grew approximately 124 million contracted seedlings which is 27% fewer than 2008. Revenue is down less than seedling volume in 2009 due to improved non-contract sales, partially offset by some pricing pressure and a move by certain customers to lower priced outdoor-grown seedlings. Some customers in recent years have also moved to smaller seedling sizes in an effort to reduce their costs. Relative to the Company's key markets as a whole, however, management estimates that PRT's market share has, at a minimum, remained stable year-over-year.

PRT measures production volumes in seedling blocks, which is a uniform measure of growing space represented by a standard Styroblock™ growing container. This measure is considered to have a more meaningful relationship to revenue than the number of trees since tree sizes vary widely between markets and customers, and tree prices vary accordingly. Revenues generated per seedling block tend to be more uniform, as the number of seedlings produced per block and price per tree will vary proportionately with the

Annual Blocks Sown & Block Revenue Index



size of the seedling. Additionally, because of the standard block size, the capacity of any particular nursery is best considered in reference to block capacity rather than seedling capacity; block capacity is discussed more in the productive capacity section of this report.

Contracted seedling block volumes were lower on a year-over-year basis in 2009 by 25.2%. Partially offsetting the effect of decreased block volumes on revenues were improved crop yields in the current period, and corresponding non-contract sales. PRT's average realized block revenue in 2009 was 2.7% lower than 2008 due to increased pricing pressure caused by industry over-capacity.

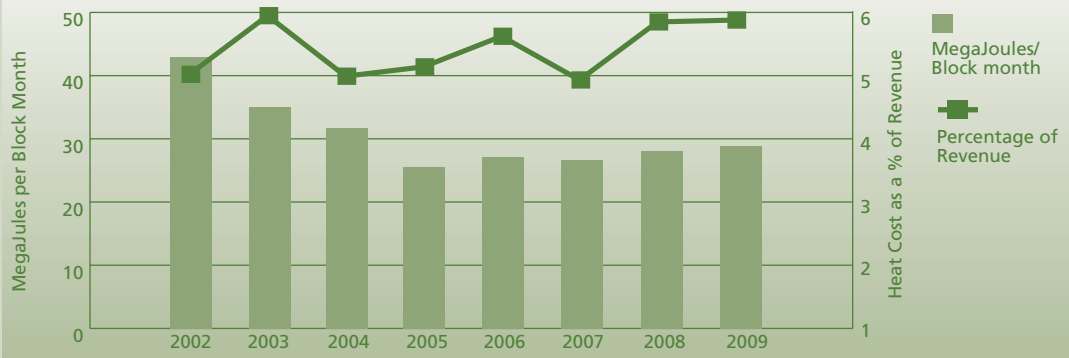
Included in overall revenue for 2009 was \$7.5 million or 25.1% from sources other than contracted seedling sales. Such revenue includes surplus and other non-contracted seedling sales, cold storage, transportation, and tree planting services. In 2008 other source revenues totalled \$7.1 million or 18.4% of total revenue.

Over the past two years PRT has taken steps to develop new markets with a goal of diversifying its revenue sources over time. This includes programs to investigate new market opportunities for seedlings arising from public concerns over climate change and the environment, and particularly opportunities to propagate plants for Bioenergy. Bioenergy is emerging as one of the best ways to produce clean, renewable power, and woody biomass from purpose-grown crops is a sustainable, carbon-neutral resource that can help to replace finite fossil-fuel supplies. In 2009, we established a new subsidiary, Bionera Resources, to capitalize on these opportunities and leverage our expertise in forest seedling crops for the emerging bioenergy sector.

Costs of production at \$19.7 million decreased by \$5.2 million but increased as a percentage of revenue to 65.5% in 2009 versus 64.2% in 2008. Nursery management has worked diligently to address the challenges of higher materials and utility costs, relative inefficiencies caused by declining volumes, and very late season order changes and cancellations; however some production costs remain relatively fixed compared to volume and some input costs have risen despite the recession. Material cost increases include the cost of fertilizer which has risen 60% or more due to global commodity price growth since 2008.

As a percentage of revenue, heating costs increased by approximately 0.5% over 2008, due to a combination of pricing and higher energy consumption. In 2009, PRT contracted forward approximately 60% of its initially estimated annual gas needs to reduce exposure to commodity price fluctuations, and at prices lower than the market price throughout most of 2008, but somewhat higher than the actual index market price in 2009. With further declines in volumes, this resulted in some energy cost penalties as surplus gas was sold back

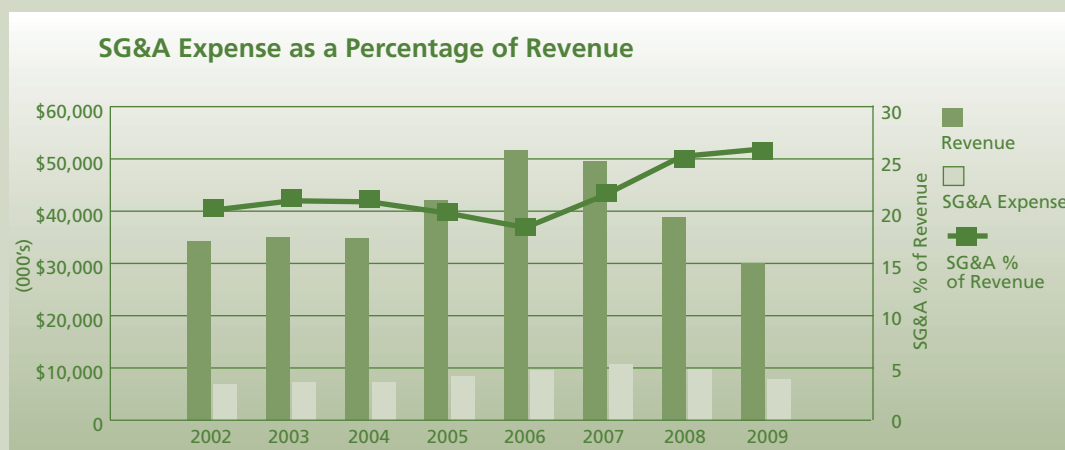
Greenhouse Heating Cost and Consumption Trend



Management's Discussion & Analysis

into the market. A forward buying strategy is also being followed for 2010 gas needs but at lower volumes (approximately 46%) in the first half of the year. More volume is expected to be added later in the 2010 season as order volumes become known and as gas index prices are expected to stabilize with the economic recovery. With this forward buying strategy in place, management estimates that the Fund's sensitivity to natural gas price changes in 2010 is slightly less than \$0.01 per-unit of cash flow for every \$1.00 per gigajoule change in the average annual cost of natural gas, and that a 10% change in consumption would impact net cash flow by approximately \$0.015 per unit.

Included in costs of production for 2009 were certain expenses related to the establishment of a biomass plantation at PRT's Red Rock nursery near Prince George, BC. During the year total costs for establishing the project totalled \$0.3 million which are spread between cost of production and capital expenditures. Of this total, slightly more than \$0.1 million was reimbursed by way of government grants.



Selling, general and administration (SG&A) costs, which include local nursery management, at \$7.9 million were lower than 2008 expenses by more than \$2.0 million (20%) due primarily to continued cost reduction efforts in a broad range of areas including nursery capacity closures, and rollbacks of management salaries and director's fees. The cost of programs to investigate new market opportunities for seedlings including biofuels were largely offset by cost reduction efforts in other areas, and will continue in 2010 as the Fund views this as a key opportunity for future market diversification and new business growth. SG&A expenses were, as a percentage of revenues, 26.3% versus 25.5% in 2008. Although management has made significant efforts to reduce SG&A costs in light of reduced orders and economic conditions, certain elements remain fixed regardless of production volume, as indicated by the relationship of SG&A costs to revenues in the chart above. Additionally, as management expects industry demand to recover in future years, it has elected to maintain certain core infrastructure in place to be able to respond more effectively to the future increases in demand.

In recent years PRT expanded its business into the US, and has established nursery capacity there to service customers in both Canadian and US markets. However, US sourced growing contracts currently exceed US growing capacity, resulting in a net foreign exchange exposure. To help reduce this exposure, the Company has created a natural currency hedge by financing US dollar assets with US dollar denominated debt. PRT also uses forward exchange contracts for this purpose, although none are currently in place. Accordingly, on the net exposure, the Company recorded a \$0.1 million exchange gain, as a result of the significant appreciation of the Canadian dollar over the latter half of the year and the resulting translation gains on US dollar debt more than offsetting its negative effect on US dollar working capital investments.

Foreign currency exchange gains and losses may be realized or unrealized. The Fund records realized foreign exchange gains and losses on the settlements of monetary items, and records unrealized gains and losses on the translation of foreign currency cash balances and non-cash monetary balances at the balance sheet date. Only realized foreign exchange gains and losses are included in the determination of cash available for distribution. Management estimates for 2010 that the Fund's sensitivity to the Canadian/US dollar exchange rate is approximately \$0.002 in per unit distributable cash flow for every \$0.01 annual change in relative value of the Canadian dollar.

Interest expense for the year decreased by \$0.3 million or 33.5%, primarily as a result of lower operating line requirements and lower term debt balances due to minimized capital spending during the current market downturn.

Depreciation charges decreased year-over-year by 27% mainly as a result of ceasing to depreciate certain lower mainland greenhouses damaged during unusually heavy snowfall in December 2008, as well as the relative reduction in new capital spending in 2009. Greenhouses damaged in the snowfall were insured at replacement cost, and an insurance claim for the structures was fundamentally settled at year-end as discussed in greater detail below. Amortization of intangibles remained unchanged compared to 2008.

PRT has an approximately 40% equity investment in a company involved in developing software for silviculture management by forestry companies, and is using this software to electronically provide seedling contract information to its customers. In 2009 earnings of the investee were greater than the amortization of intangible assets booked on the initial purchase; however, this is non-cash income and therefore does not impact PRT's operating cash flow.

PRT's contracted customers include more than 100 North American forest products companies and these customers have reduced purchases of seedlings due to a severe contraction in demand for lumber, which is related mainly to a sharp decline in U.S. housing starts. As a result, PRT received orders to produce approximately 127 million seedlings in 2009, down from 170 million seedlings in 2008, just over 205 million seedlings in 2007, and 230 million in 2006.

In response to this deep and prolonged forest industry downturn, PRT has taken several capacity management measures. In October 2008, the Company announced its intention to permanently close its nursery site in Maple Ridge, BC, and to relocate certain assets to other locations over time. Operations ceased in 2009, and after consideration of available capacity at other locations, a decision was made to accelerate the timeline for site decommissioning which will now occur in 2010. In November 2009, the Company announced plans to discontinue seedling production at PRT Kirkland Lake, its nursery facility in Northeastern Ontario, for an indefinite period until market conditions improve. The Company also announced that PRT Summerland, located in the Okanagan region of British Columbia, will be consolidated with PRT's three other sites in the region. Both actions were primarily completed by year-end once crops in production were finished. Cold storage operations at PRT Kirkland Lake will continue in order to serve local customers.

PRT Kirkland Lake is a comparatively high production cost facility, as it relies on relatively expensive propane fuel for greenhouse heat. The PRT Summerland nursery site is leased under a short term agreement, and current production can be readily consolidated with other nearby sites in the Okanagan valley with little disruption to customers.

The closures and site consolidation are expected to improve economies of scale in light of the continued downturn in demand for tree seedlings across PRT's market areas, while still allowing the Company to provide a high level of localized customer service. Following the closures, management expects the Company will be able to increase overall efficiency because new orders will be produced in lower cost unused capacity at other sites. Further, without the nursery closures, PRT's surplus capacity would have exacerbated the industry-wide excess supply of seedlings. However, management believes PRT is well positioned for growth when markets recover because of its strong balance sheet and its seedling growing technology.

Expenditures incurred during 2009 from the announced closures totalled approximately \$0.6 million out of the \$0.8 million overall spent in both years. The costs are classified as "Exit activity charges" in the financial statements. Overall, the remainder of the exit activity costs are expected to mostly relate to deactivation of facilities, together with some employee costs and dismantling and relocation of long-lived assets. These costs are expected to be financed by net cash flow from operations generated in 2009 with expected costs for deactivation, dismantling and relocation of an additional \$0.6 million expected to be mostly incurred in 2010.

Canadian GAAP recommends that a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. As a result of the announced nursery closures, including the advanced departure from the Maple Ridge site, management reviewed both the long-lived assets specific to the affected sites as well as to the Company as a whole. Management concluded that "Primary Assets" for PRT, as defined in CICA HB 3063, are greenhouses and related structures (e.g. shade houses and blackouts) for the consideration of impairment. Greenhouses with an appropriate maintenance program together with sustaining capital expenditures for infrastructure can be extremely long-lived and are therefore the most appropriate primary asset of the asset group. The nature of the PRT business is that, within the current or operating year, specific cash flows can be identified with specific locations and therefore the assets at that location. However, from year to year the market environment changes enough that we cannot specifically identify which types of crops (e.g. species, crop rotation, age, etc.) will be grown at any particular location, and capacity is managed on a pooled basis so that site by site analysis would be inappropriate. Therefore the most appropriate asset grouping over a number of years for an impairment analysis is the entire Company. Where a location is being closed, such as Summerland and Maple Ridge, we are able to identify the specific cash flows

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to be associated with the long lived assets at that location in that year, and, where those long-lived assets are not planned to be reused at other nurseries in future years, we can identify the appropriate impairment charge for those assets.

As a result of the impairment analysis, management concluded that an impairment charge against long-lived assets currently situated at the Maple Ridge and Summerland sites was appropriate; this amount was a non-cash provision of \$2.6 million. Analysis of future cash flows required under GAAP, as discussed above for the Company as a whole, indicated no other impairment of long lived assets was evident.

In late December 2008, two nurseries located in the Lower Mainland of British Columbia experienced several days of extremely heavy snowfall followed by rain. As a result of this extremely unusual weather event for the locations, several greenhouse structures collapsed under the weight of the wet snow. The loss was insured at replacement cost subject to an insurance deductible of \$0.1 million which was charged to earnings in 2008. During 2009, the Company salvaged some of the affected crops and completed demolition of the collapsed structures. Throughout the year, management worked with the insurer to negotiate a fair settlement of the claim in three parts: structures, crop losses and salvage and demolition. At the end of 2009, the Company had agreed on settlement for the first two parts for \$4.7 million which was recorded as receivable at December 31, 2009. The settlement proceeds were received subsequent to year-end, resulting in a gain of \$1.8 million over the depreciated or net book value of the damaged facilities and a reduction in the balance of property, plant and equipment of \$2.9 million. In light of the current surplus greenhouse capacity available to the Company, and other scale-up options available in the future, management elected not to rebuild the damaged greenhouses and instead the cash received (subsequent to year-end) has been used to repay Canadian bank term debt.

Under Canadian GAAP, goodwill is not amortized but is subject to an annual impairment test which management performs in the third quarter; this test is referenced to the Fund's unit trading price. After making a preliminary adjustment of \$13.2 million to the carrying value of goodwill at December 31, 2007 for an estimated impairment, management completed its evaluation of goodwill impairment as part of its annual impairment test for 2008. As a result of the further declines in the Fund's unit price and other factors, management determined that the remaining value of goodwill had been impaired and recorded a further goodwill impairment charge of \$19.2 million. This impairment was a non-cash charge and had no impact on Standardized Distributable Cash or Cash Available for Distribution. During our ongoing evaluation no impairment to the value of other identifiable intangible assets or property, plant and equipment has been identified other than those discussed related to the Summerland and Maple Ridge closures.

Losses before income taxes totalled \$2.2 million compared to a loss of \$24.4 million in 2008. The prior year loss included a goodwill impairment charge of \$19.2 million and a long-lived asset impairment charge of \$4.1 million, and as such, the normalized decline year-over-year was due to the lower contract volumes.

The Fund recorded a tax recovery in the current period of \$0.4 million. The tax recovery for the year ended December 31, 2009 is net of SR&ED tax credits booked in the period. The income tax recovery has declined by \$0.8 million year-over-year as a result of lower losses, valuation allowances, and the lack of deductible distribution payments in 2009.

Net loss for the year decreased by \$21.4 million. Excluding the non-cash charges, insurance settlement gain and other typically non-recurring items, net loss would be \$0.5 million compared to net earnings of \$0.4 million in 2008 – a decline of \$0.9 million. Earnings improved by \$2.23 per Unit to a loss of \$0.19 per Unit. Excluding the non-cash charges, insurance settlement gain and non-recurring items, earnings declined by \$0.10 per Unit to a loss of \$0.05 per Unit.

Standardized Distributable Cash & Cash Available for Distribution

The Fund follows the recommendations provided in CICA's interpretive release: *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities – Guidance on Preparation and Disclosure*, and this MD&A, in all material respects, is in accordance with the guidance. In the guidance, sustainability concepts are discussed and standardized distributable cash is strictly defined as cash flow from operating activities after adjusting for capital expenditures, restrictions on distributions arising from compliance with financial covenants restrictive at the time of reporting, and minority interests.

The Fund has no minority interests, and has adjusted its distributions, in compliance with PRT's term debt facility letter. In late December 2008 the Board announced the intention to suspend distributions in 2009 in light of anticipated lower order volumes and in order to preserve cash flow for debt coverage. The cash available for distribution generated over the course of the year is temporarily held in working capital and will be used to fund capital expenditures and exit activity charges which are items that historically would be financed by term debt. As such, cash generated to date is not expected to be available for distribution in 2009. The Fund calculates Standardized Distributable Cash as follows:

Definition and Disclosure of Standardized Distributable Cash

In \$000's except per unit amounts	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Cash Flow from operating activities	\$ (2,275)	\$ (2,544)	\$ 3,369	\$ 7,665
Less adjustment for:				
Capital Expenditures	(121)	(65)	\$ (935)	(1,054)
Financing restrictions caused by debt	—	—	—	—
Standardized Distributable Cash	\$ (2,396)	\$ (2,609)	\$ 2,434	\$ 6,611
Standardized Distributable Cash per unit	\$ (0.25)	\$ (0.27)	\$ 0.25	\$ 0.68

The Fund determines Cash Available for Distribution by further adjusting Standardized Distributable Cash for the cash flow impacts of working capital loans and term financings, and such other reserves as the board of PRT and the Trustees of the Fund may consider appropriate. The Fund calculates Cash Available for Distribution as follows:

Definition and Disclosure of Cash Available for Distribution¹

In \$000's except per unit amounts	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Standardized Distributable Cash (from above)	\$ (2,396)	\$ (2,609)	\$ 2,434	\$ 6,611
Operational Financing: changes in non-cash working capital	3,552	3,543	(1,190)	(3,034)
Expenditures anticipated to be financed:				
Earnings enhancing capital expenditures	4	16	250	174
Exit activity charges	78	348	566	352
Repayment of long-term debt (net of realized foreign exchange)	(58)	(63)	(244)	(501)
Cash Available for Distribution	\$ 1,180	\$ 1,235	\$ 1,816	\$ 3,602
Deficiency (excess) of cash flow to distributions declared, applied from (to) working capital	(1,180)	(659)	(1,816)	(798)
Distributions declared	\$ —	\$ 576	\$ —	\$ 2,804
Cash Available for Distribution per unit	\$ 0.12	\$ 0.13	\$ 0.19	\$ 0.38
Distributions declared per unit	\$ —	\$ 0.06	\$ —	\$ 0.29

¹ Cash Available for Distribution is a term that does not have a standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Certain expense items which are incurred as part of earnings enhancing capital projects may be excluded from the determination of Cash Available for Distribution if the overall project return meets internal investment hurdle rates to be eligible for funding from external sources, such as term debt or equity financing. The Fund considers Cash Available for Distribution as defined above to be a useful measure of the free cash flow from operations available for making unitholder distributions, as it is determined after providing for the maintenance and replacement of PRT's underlying asset base, as well as providing for the financing of expansionary project spending.

Cash Available for Distribution for the year was \$1.8 million lower than in 2008 as a result of diminished cash flow from operations and higher exit activity charges, partially offset by lower term debt repayment. Reduced cash flow from operations was attributable to lower order volumes, slightly offset by increased non-contract sales, and lower production costs and SG&A. On a per unit basis, Cash Available for Distribution fell by \$0.19 per unit year-over-year.

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The following is a summary of Standardized Distributable Cash, Cash Available for Distribution, and per unit and ratio disclosures:

Standardized Distributable Cash and Cash Available for Distribution Per Unit and Ratio Disclosures

In \$000's except per unit amounts	Three months ended December 31		Year ended December 31		Cumulative Amounts since Trust Inception (July 11, 1997)
	2009	2008	2009	2008	
Standardized Distributable Cash	\$ (2,396)	\$ (2,609)	\$ 2,434	\$ 6,611	\$ 44,050
Standardized Distributable Cash per unit	\$ (0.25)	\$ (0.27)	\$ 0.25	\$ 0.68	\$ 5.01
Distributions declared per unit	\$ —	\$ 0.06	\$ —	\$ 0.29	\$ 10.28
Standardized Distributable Cash Payout Ratio	0%	-22%	0%	43%	168%
Cash Available for Distribution	\$ 1,180	\$ 1,235	\$ 1,816	\$ 3,602	\$ 73,868
Cash Available for Distribution per unit	\$ 0.12	\$ 0.13	\$ 0.19	\$ 0.38	\$ 10.46
Distributions declared per unit	\$ —	\$ 0.06	\$ —	\$ 0.29	\$ 10.28
Cash Available for Distribution Payout Ratio	0%	46%	0%	76%	98%

The cumulative Standardized Distributable Cash Payout Ratio has exceeded 100% as, by definition, this measure does not take into account the effect of debt or equity raised to finance capital expenditures including acquisitions. Cumulatively, the actual payout ratio from Cash Available for Distribution is 98% after consideration of suspension of distributions for 2009.

Productive Capacity

PRT measures production volumes in seedling blocks, which is a uniform measure of growing space represented by a standard 14" x 24" styrofoam growing container ("block"). The block measure is considered more meaningful than the number of trees since tree sizes vary widely between markets, species and customers, and tree prices vary accordingly. PRT's productive capacity is defined by the number of blocks by facility type – greenhouse or open-compound. As such, block capacity is a more appropriate measure of productive capacity than space (acres) or building area (greenhouses). Many of PRT's nurseries have the capacity to grow trees in either greenhouse or open compound with the current strategy being to move more production to open compound due to its important cost and quality benefits for PRT and its customers.

Productive capacity history is as follows:

Productive Capacity History and Usage

# of styroblocs	2009 ²	2008 ³	2007	2006	2005
Greenhouse capacity	927,206	1,428,240	1,485,676	1,519,265	1,075,751
Open Compound capacity	881,864	1,653,384	1,695,394	1,716,375	779,764
Total Productive Capacity	1,809,070	3,081,624	3,181,070	3,235,640	1,855,515
Maximum Blocks on Site ¹	1,469,952	1,949,794	2,579,903	2,803,719	1,630,806
Capacity usage	81%	63%	81%	87%	88%

1 Maximum Blocks on Site is the maximum number of blocks in production through the course of the year, and is affected by the amount of multi-cropping and crops that take more than one season to produce. It is the benchmark measure for capacity usage as it shows how many blocks hold crops at some point in the year.

2 With the permanent closure of Summerland and temporary closure of Kirkland Lake at December 31, 2009, the total productive capacity was reduced by 153,856 blocks. Without those closures the capacity usage would have been approximately 75% at December 31, 2009.

3 Includes capacity from Maple Ridge nursery which was announced in October 2008 to be closed in 2009. If the Maple Ridge capacity is removed from the calculation for 2008, the capacity usage would be approximately 94%.

Improved capacity usage in 2009 reflects the impact of the Maple Ridge, Summerland and Kirkland Lake closures partially offset by a further decline in overall volumes. Management evaluates capacity regularly against expectations of future demand for existing and new products, and prospected market recovery. In addition to the above capacity, PRT expects to reinstate certain other decommissioned capacity at other nursery sites once markets recover. The closures in total reduced existing greenhouse capacity by 473,606 blocks, and open compound capacity by 770,250 blocks. As the Kirkland Lake closure is temporary, its 69,500 greenhouse block capacity may be added back as markets recover.

Capacity usage in 2008 also reflected temporarily discontinued production at the Coldstream, BC nursery site. Orders normally grown at the Coldstream location were relocated to PRT's other BC Okanagan region nurseries for 2008. The Coldstream location operated in 2009.

Three Months Ended December 31, 2009 compared to Three Months Ended December 31, 2008

Revenues in the quarter decreased by \$2.5 million or 25% relative to the same period last year for reasons noted in the annual section, specifically lower overall order volumes offset partially by improved crop yields and non-contract sales, as well as differences in crop-mix and seedling size over the course of the year.

Costs of production declined in the fourth quarter by \$1.9 million – a decrease of 30.2% over the same period in 2008. This change reflects the full effect of cost saving measures implemented earlier in the year partially offset by lower scale efficiencies as discussed in the full year section above.

SG&A costs were 36% or \$1.1 million lower than the same period in 2008, and 4.5% better as a percentage of revenue. SG&A has declined in the quarter relative to 2008 due to the full effects of cost saving measures implemented in 2009 as continued cost reduction efforts in response to lower volumes this year, but they still remain somewhat fixed compared to revenue.

Financing costs were relatively stable in the fourth quarter as a result of increased working capital requirements tempered by reduced operating and term debt interest rates.

Depreciation and amortization expenses were \$0.3 million lower in the period as a result of write-downs recorded in 2008 for certain assets retired from service or acknowledged as impaired, as well as relative reductions in new capital spending in 2008 and 2009.

The gain on disposal of property, plant and equipment, as discussed in greater detail in the annual section above, was recorded in the fourth quarter.

The Fund recorded a \$0.2 million income tax expense in the quarter for the reasons previously identified.

Net earnings for the quarter improved by \$0.1 million after excluding the affects of non-recurring items outlined in the twelve month discussion above.

Liquidity and Cash Flow

For the Year Ended December 31, 2009

Non-cash working capital changes improved cash flow by \$1.2 million in 2009 versus the \$3.0 million improvement in 2008. This was primarily due to enhanced turnover of inventory and unbilled revenue year over year, offset by usage of cash for accounts payable reduction.

With the non-cash working capital changes above, cash flows from operating activities decreased by \$4.3 million in the year, which was the result of lower contract volumes and net earnings as well as increased non-cash working capital investments, as detailed in the operating results discussion previously.

Due to suspension of distributions commencing with the January 2009 distribution, the only related disbursement in the period occurred in January as payment of the December 2008 distribution. Distributions were suspended to address the expected cash flow decline arising from lower seedling orders during the current forest industry and general economic downturn.

As a result of improved working capital requirements on lower volumes and reduced distributions the Company was able to reduce its operating line balance by \$2.5 million or 41% in 2009. PRT has up to \$13.0 million available under this facility, subject to certain margin requirements. At year-end, the entire \$13.0 million was available against which a net \$3.6 million had been drawn.

During the year, PRT purchased property, plant and equipment totalling \$0.9 million, a decrease of \$0.2 million from the prior year. Capital needs were reduced with the lower order volumes this year, and consisted primarily of sustaining capital spending including seedling containers. Earnings enhancing expenditures increased slightly in 2009 primarily due to the biomass plantation project at our Prince George nursery. The Company categorizes its capital purchases as follows::

Capital Spending	2009	2008
Earnings-enhancing capital projects	\$ 250,470	\$ 174,342
Sustaining capital projects	348,602	345,586
Seedling containers	335,921	533,512
Total	\$ 934,993	\$ 1,053,440

The Fund determines its purchase breakdown between “sustaining” and “earnings enhancing” capital expenditures on a transaction by transaction basis. The consideration is whether the asset purchased replaces

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productive capacity which previously existed in PRT ("sustaining"), or whether the asset expenditure is being made to enhance future earnings, either through increased revenue potential or by lowering operating costs ("earnings enhancing"). Certain rate-of-return benchmarks are applied to the evaluation of earnings enhancing capital projects, and if these are not expected to be achieved then the Fund considers the expenditure to be sustaining. Sustaining capital expenditures are typically less than depreciation charges due to the long lived nature of greenhouse assets, which can be extended through a regular repair and maintenance program, and the Company's strategy to improve returns on capital by moving production into lower capital cost growing facilities.

Sustaining capital spending including seedling containers is financed from operating cash flow. Earnings-enhancing capital has historically been financed from periodic draws against the Company's bank term debt facilities, when available. Only earnings-enhancing investments are financed from the Company's term debt facilities. The balance of term debt, to finance previous expansionary capital spending, was \$5.2 million at December 31, 2009. There were no new term debt drawings the year, and changes over the period reflect payment on US dollar denominated debt and some minor foreign exchange differences. Of note also is that, subsequent to December 31, 2009, the Company repaid its Canadian bank term debt, at \$3.7 million, in full, from the proceeds of the above noted insurance settlement.

Contractual Obligations at December 31, 2009

(in 000's)	Total	Payments Due by Period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long Term Debt	\$ 5,154	1,698	2,778	678	—
Operating Leases	1,496	535	396	175	391
Other	652	356	296	—	—
Total Contractual Obligations	\$ 7,302	\$ 2,588	\$ 3,470	\$ 854	\$ 391

With the repayment of Canadian bank term debt discussed previously, the contractual obligation for long term debt reported in the table above has accordingly been reduced from \$5.2 million at December 31, 2009 to approximately \$1.5 million in March 2010.

Contractual obligations under operating leases and other areas have declined by \$5.1 million year-over-year primarily as a result of the termination notice of the Maple Ridge nursery lease with effect at May 1, 2010, and the reduction in forward purchase agreements for natural gas.

Over the past three years the Fund has completed no new acquisitions.

Management has discussed the outlook for 2010, later in this MD&A. On the basis of the outlook previously presented for 2009, the Company had forecast financial results and cash flows for 2009 using its best estimates of market and operating conditions. The Company's five bank covenants include a requirement to maintain a ratio of total debt (excluding the Notes issued under the Trust Deed) to EBITDA less cash taxes and sustaining capital expenditures not to exceed 3.5:1 ("debt to adjusted EBITDA"). Based on forecasted financial results for 2009, it was earlier determined the Company may not generate sufficient adjusted EBITDA over the remainder of 2009 to maintain the required debt to adjusted EBITDA ratio. As a result, management met with PRT's lender and negotiated a waiver to the covenant for 2009; this waiver was not required in 2009 and has consequently expired. However, as a condition of the waiver, the lender indicated that no new term debt advances will be authorized, which could require management to seek other credit facilities or capital sources should that become necessary. As noted above, the Company is currently using cash generated from operating activities to fund on-going capital spending in lieu of making distributions. As detailed in note 21 to the annual financial statements, the Company is currently in compliance with all externally imposed capital requirements.

Three Months Ended December 31, 2009 compared to Three Months Ended December 31, 2008

Cash flow from operating activities was negative \$2.3 million in the fourth quarter of 2009 compared to negative \$2.5 million in 2008. Typically the fourth quarter is a much busier operating period than the third quarter so it is expected that there will be negative operating cash flow in the last three months of the year due to non-cash working capital investments. The non-cash working capital changes were made up of higher proportional investments in accounts receivable offset partially by reductions in unbilled revenue, and lower accounts payable balances as well as a lower inventory investment. All differences reflect a lower base level of operations as a result of the decrease in business year-over-year.

There were no distributions declared on trust units during the fourth quarter of 2009 versus \$0.06 per unit in 2008. This corresponds to the suspension of distributions as discussed in the Standardized Distributable Cash and Cash Available for Distribution section above.

PRT incurred \$0.1 million in capital spending in the quarter, which is similar to the same quarter in 2008. The expenditure related to completion of earnings enhancing and sustaining capital projects, and was financed from the Fund's working capital.

There were no term debt drawings during the quarter in either 2009 or 2008, in keeping with the conditions of obtaining the term debt covenant waiver.

Financial Position

At December 31, 2009, working capital, excluding the current portion of long-term debt, was \$9.3 million compared to \$3.5 million at the end of 2008, an increase of \$5.8 million. After allowing for the insurance claim receivable of \$4.7 million the increase was \$1.1 million. The change is the net effect of operating cash flow retained due to the suspension of distributions being partially offset by capital spending and exit activity charges. The Fund suspended distributions due to weak markets and in order to retain cash flow to ensure adequate debt coverage. In addition, the working capital used to fund capital expenditures and exit activities related to the Maple Ridge and Summerland closure will be replaced with cash generated from future operations, and from other sources as may be prudent at the time. With these financing strategies, existing credit lines and at the reduced distribution level, the Fund's working capital position is expected to be adequate relative to its operating needs.

Property, plant and equipment was \$26.7 million at December 31, 2009 compared to \$35.2 million at the end of 2008, a net decrease of \$8.4 million. The decrease is attributable to the write-off of collapsed greenhouses covered under the insurance settlement and non-cash impairment charges discussed previously in the operating results section combined with current period capital expenditures being less than total depreciation charges.

As expansionary capital spending has been minimal and credit availability under term debt facilities has been reduced, there have been no term debt drawings in either 2009 or 2008. Additionally, commencing in August 2008, the Company negotiated amendments to its Canadian banking facilities to allow principal payments on Canadian term debt to be deferred for a period of two years, and refinanced a maturing loan segment for an additional five year term. The maturities of the term debt covered under the deferral were also extended under the amendments to the credit agreement; as such there were no maturing term debt segments in 2009. The Canadian banking facilities are subject to annual review, and the credit agreement was renewed effective July 1, 2009. As a result of the insurance settlement, the Company elected to pay down the term debt under the Canadian banking facilities, and this was performed subsequent to year-end.

A portion of term debt maintained with our US lender, will mature at the end of April 2010, and is now shown as a current liability in our annual financial statements as required under GAAP. However, it is managements' intention to seek refinancing of this debt in the normal course of business.

Unitholders' Equity at December 31, 2009 was \$32.3 million, a decrease of \$1.6 million since the end of 2008. Non-cash impairment charges against long-lived assets (discussed under Operating Results above), exit activity charges and other unusual items offset by gains on disposal of property, plant and equipment account for the bulk of the decline. The remaining difference in equity was due to operating losses caused by the significantly diminished order volumes during the current forest industry downturn.

Outstanding Unit Data

The Fund has one class of voting equity securities, of which 9,715,858 units are outstanding; this is an increase of 112,742 units since 2008 due to the Treasury issuances under the Employee Unit Purchase Plan (ESOP) program. Issuances under the Fund's ESOP may be made from treasury or market based purchases, and, due to the need to maintain access to capital through the market downturn, the Fund has elected to use treasury based purchases in 2009.

Up to 560,572 units have been reserved for issuance under the Fund's Unit Option Plan, and during 2008, the Board of Trustees approved the grant of 355,600 unit options to various members of senior management and to eligible directors of PRT. During the 2009 year 78,900 unit options vested and 40,000 unit options were forfeited; no options vested or were forfeited in the fourth quarter. As at December 31, 2009 there were 78,900 unit options exercisable under the plan at an average exercise price of \$3.14.

In connection with a transaction to internalize PRT's management in 2007, the Fund issued a contingent right to 14,000 units which expired, without claim, December 31, 2009. There are no other securities currently outstanding which may be converted into units of the Fund.

Financial Instruments

PRT may use interest rate swap contracts to fix interest rates on its variable rate long-term debt. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

Swap terms are matched to the maturity of the underlying loan obligation. However, the Company could incur a gain or loss on the contract in the event the swap was cancelled before the scheduled maturity date. PRT periodically obtains mark-to-market valuations on its swap contracts. At December 31, 2009 the fair value of the Company's outstanding interest rate swaps was lower than their carrying amount based on reference to current market interest rates, and the difference has accordingly been charged to earnings in the period.

PRT may use foreign currency forward sales contracts to manage currency exposure on net US dollar cash flows (see discussion of Foreign Exchange Risks below). The terms of such contracts are designed to match the expected receipt of US dollars under seedling sales contracts. Outstanding foreign currency forward sales contracts are revalued on a mark-to-market basis at the end of each reporting period, and any resulting gains or losses are recorded in income during the period. At December 31, 2009 there were no foreign currency forward sales contracts outstanding.

Accounting Policy Changes

The CICA has issued the following new standard which affects the financial disclosures and results of operations of the Company:

Section 3064 – Goodwill and Intangible Assets: This section supersedes Sections 3062 and 3450, and primarily addresses intangible assets and treatment of research and development costs. This section was adopted effective January 1, 2009. No significant changes in amounts or disclosures were required.

International Financial Reporting Standards (IFRS)

In 2008 the Canadian Accounting Standards Board (AcSB) confirmed its decision to replace Canadian GAAP with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises. As the implementation of IFRS will require retroactive application, the comparative figures for the year commencing January 1, 2010 will be required to be reported under IFRS. The Company will adopt IFRS according to the requirements outlined by the AcSB, and is in the process of preparing for its adoption, including qualitative disclosure throughout 2009 and 2010, and with adoption of IFRS on January 1, 2011.

Key areas where changes in accounting policies are expected under IFRS are as follows:

Property, plant and equipment

Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment ("PP&E") are recognized initially at cost. Under International Accounting Standards ("IAS") 16, Property, Plant and Equipment, an entity is required to choose, for each class of PP&E, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of PP&E is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. Increases in fair value will be recorded in a revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account, related to the asset, with any excess recognized in income.

For major maintenance, IFRS requires for major inspections and overhauls to be accounted as a separate component of PP&E if the component is used for more than one period. This treatment is only intended for use for major expenditures that occur at regular intervals over the life of the asset as costs of routine repairs and maintenance will continue to be expensed as incurred. Major maintenance required on the Company's plant and equipment would likely qualify for treatment under this standard and would allow for additional amounts to be capitalized and amortized.

Impairments

Under Canadian GAAP for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets is less than their carrying value as has been the case for certain assets of the Company in both 2008 and 2009. Under IAS 36, Impairment of Assets, a write-down is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell, or value in use, is less than carried value. Consistent with Canadian GAAP, impairments are measured at the amount by which carried value exceeds fair value less costs to sell.

Currently Canadian GAAP requires a two-step impairment test in which the Company must first compare undiscounted cash flows to the carrying value of the assets, and only if the cash flows are below the

carrying value does management need to discount the cash flows to calculate impairment. Under IFRS the impairment calculation is a one-step process in which discounted cash flows are compared to the carrying value of assets. This may lead to additional write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

IFRS also requires the reversal of any previous impairment losses where circumstances have changed such that the impairments have reduced. Canadian GAAP prohibits reversal of impairment losses. This could result in greater variability in earnings, carrying values of PP&E, and balances in Unitholders' equity.

Share-based payments

The Fund has issued stock-based awards in the form of unit options that vest over a three-year period. Under Canadian GAAP, the Company recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the three-year vesting period. Under IFRS the fair value of each tranche of the award is considered a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, this will result in a higher amount of each grant being recognized in income at a faster rate than under Canadian GAAP.

Asset retirement obligations

Under Canadian GAAP the Company would only record an asset retirement obligation ("ARO") if there was a legal requirement to incur restoration costs. Under IFRS the threshold for recognizing a liability is a legal or constructive obligation. The difference in standards may require the Company to review plans for each nursery to determine if there are any actions planned by management that would create a constructive obligation to record an ARO upon adoption of IFRS such as for disposal of seedling blocks at the end of their useful life.

Provisions

IAS 37, Provisions, Contingent Liabilities and Contingent Assets, requires a provision to be recognized when there is a present obligation as a result of a past transaction or event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. Probability is based on a "more likely than not" threshold. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold. It is possible that there may be some legal, bad debt or contingent provisions which would meet the recognition criteria under IFRS that were not previously recognized under Canadian GAAP.

First-time adoption of IFRS

Adoption of IFRS requires the application of First-time Adoption of International Financial Reporting Standards ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 lists specific exemptions the Fund may use when first adopting IFRS. The most significant exemptions to the Company are as follows:

Business combinations

For business combinations that occurred before the transition date, the Company has the choice to restate all of these business combinations to IFRS standards, restate all business combinations after a particular date, or not to restate any of the business combinations. Assets and liabilities acquired in an un-restated business combination that were recognized under Canadian GAAP and do not qualify for recognition under IFRS are then derecognized. The decision to restate previous business combinations is currently under review.

Fair-value or revaluation as deemed cost

IFRS requires PP&E to be measured at a cost in accordance with IFRS (breaking down material items into components and amortizing each one separately). However, upon transition, IFRS 1 permits an asset to be recorded at deemed cost which is the fair value at date of transition, or an event-driven valuation (i.e., when an entity was privatized). The exemption noted above may be applied to individual items of PP&E. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation reserve. As discussed further below, this area is considered the most significant IFRS transition issue to the Company.

IAS 1, outlines changes to financial reporting terminology, the ordering of assets, liabilities and equity, and various other options for first time adoption. The objective will be to choose the most relevant presentation available under the guidelines for the users of the Fund's financial statements.

During 2008, the Company reimplemented its accounting system and part of the focus was to ensure the ability to report under IFRS. Further updates to the accounting system, Epicor, are planned for the second

Management's Discussion & Analysis

quarter of 2010 in part to further enhance the reporting ability under IFRS. Additionally, key team members have attended and continue to attend training on various aspects of IFRS. During the first half of 2009 management continued to evaluate the implications of IFRS adoption, and has prepared a detailed scoping analysis of existing and future IFRS standards compared to GAAP to further enhance the high level scoping work already completed. In September 2009, management implemented specialty software, IFRS Partner, to further aid in documenting the transition to IFRS, to assist with accounting policy changes and to model financial statements under IFRS.

In the latter part of 2009 the focus was and will continue to be on updating reporting capabilities of Property Plant and Equipment, and revaluation of certain capital assets as permitted under IFRS 1 (First Time Adoption) which currently is considered to be the most time consuming portion of the conversion. This is anticipated to be completed by the end of the first quarter of 2010. The Company has implemented a new Asset Manager module under its Epicor upgrades; this will allow us to track both GAAP balances and IFRS balances and is expected to be completely implemented by the second quarter of 2010.

Management is also continuing to further develop and amend accounting policies to allow for IFRS implementation, and development of an opening comparative IFRS balance sheet as at January 1, 2010. Over the course of 2010, as policies and practices are finalized for IFRS, they will be added to our internal control database, GRC, to be maintained and tested under NI 52-109. For example, as part of the revaluation of capital assets, management is developing new policies for approval of capital expenditures and projects, and for review of repairs and maintenance expense for items that may require capitalization under those new IFRS policies.

It is management's intention to produce model IFRS financial statements using IAS1, internally, commencing in the second quarter for comparison by management and the Board to current Canadian GAAP, and we will engage with our external auditors to monitor the progress of our transition. Management plans on working with its bankers at the time of the annual credit review in July, to determine the effect of IFRS reporting to them and whether any changes in the credit facility and related covenants are required. It is anticipated for example that tangible net worth will increase as capital assets are revalued which could affect the Total Debt to Tangible Net Worth covenant.

Internal Controls over Financial Reporting (52-109)

During the year and the quarter ended December 31, 2009, the Company did not make any changes to its internal controls over financial reporting that would have materially affected, or would reasonably likely to materially affect, those controls.

Critical Accounting Estimates

Revenue Recognition

PRT accounts for revenue under seedling contracts based on percentage completion contract accounting. Percentage completion is determined as the ratio of direct growing expenses incurred to total expected direct growing costs over the crop cycle. While most crops are completed by the end of the Fund's fiscal year, during interim periods management must make estimates of total expected direct growing costs for the fiscal year. In addition, total annual revenue under growing contracts is estimated based on expected annual crop yields. To increase the accuracy of these estimates, PRT has internal policies and procedures which require periodic revisions to cost forecasts and crop yield forecasts whenever a material variance is known or expected. The potential for errors in estimation is greater in interim periods, as in most instances final crop yields and costs are known by the end of the fiscal year.

Future Income Taxes

In accordance with CICA recommendations, the Fund recognizes future income tax assets when it is more likely than not that the future income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the future income tax assets could be reduced or increased by applying valuation allowances, resulting in an income tax expense or recovery. The Fund re-evaluates its future income tax assets on a regular basis.

Impairment of Long-lived Assets

CICA recommendations include standards for the recognition, measurement, and disclosure of impairment of long-lived assets by profit-oriented companies. As a result of the announcement in November 2009 to close the PRT Summerland nursery, as well as further assessment of the PRT Maple Ridge nursery closure in 2009, management reviewed the long-lived assets at those sites for evidence of impairment.

Management concluded that the carrying value of certain assets not planned to be used in future operations may not be recoverable and recognized an impairment charge against the affected assets in the fourth

quarter of 2009 (see discussion in operating results above). The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of those assets may not be recoverable, and at December 31, 2009 no additional changes in circumstances have been identified.

Impairment of Goodwill

Goodwill, which is the excess of the purchase price paid for an acquisition over the fair value of the net identifiable assets acquired, is not amortized but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. An estimated impairment in value was recognized in 2007, which was finalized in the 2008 as part of the management's annual impairment test (see discussion of operating results, above).

Selected Annual Information

Figures are presented in \$000's except number of Units and per Trust Unit amounts

	2005	2006	2007	2008	2009
Operating Statistics					
Revenues ¹	\$ 42,097	\$ 51,574	\$ 49,486	\$ 38,789	\$ 30,062
Revenue Growth Rate (Year over Year)	21.1%	22.5%	-4.0%	-21.6%	-22.5%
Gross Margin percentage	43.0%	40.1%	40.8%	35.8%	34.5%
Operating Income ²	9,699	11,229	9,659	4,093	2,555
% of revenue	23.0%	21.8%	19.5%	10.6%	8.5%
Net Earnings ¹	6,008	7,365	(7,528)	(23,191)	(1,829)
Basic and Fully Diluted Earnings per Unit	\$ 0.79	\$ 0.77	\$ (0.78)	\$ (2.41)	\$ (0.19)
Standardized Distributable Cash	2,914	10,496	8,959	6,611	2,434
Standardized Distributable Cash per Unit	\$ 0.30	\$ 1.09	\$ 0.93	\$ 0.69	\$ 0.25
Cash Available for Distribution ²	7,456	9,099	7,491	3,602	1,816
Cash Available for Distribution per Unit ²	\$ 0.98	\$ 0.95	\$ 0.78	\$ 0.38	\$ 0.19
Distributions Declared	6,685	8,862	8,547	2,804	—
Distributions Declared per Unit ¹	\$ 0.88	\$ 0.93	\$ 0.89	\$ 0.29	\$ —
Return on Average Equity	8.8%	9.6%	-11.1%	-49.5%	-5.5%
Cash Available for Distribution Yield (on closing unit price)	9.7%	11.5%	11.2%	31.3%	9.2%
Capex Spending:					
Sustaining Capital (excludes reserves)	462	478	382	346	349
% of revenue	1.1%	0.9%	0.8%	0.9%	1.2%
Earnings enhancing	1,639	539	265	174	250
Subtotal	2,101	1,017	647	520	599
Seedling Containers	1,015	1,550	667	534	336
Total	3,116	2,567	1,314	1,054	935
Acquisitions	19,233	—	—	—	—
Maintenance expenditures	2,523	3,609	3,391	2,899	2,184
Maintenance & Sustaining Capital expenditures as a percentage of revenue	7.1%	7.9%	7.6%	8.4%	8.4%
Financial Position					
Working Capital	3,586	3,419	1,566	3,503	9,319
Interest Bearing Debt Position					
Operating	10,203	9,445	9,340	6,055	3,566
Term (including current portion)	7,826	7,178	5,736	5,744	5,154
Total	18,029	16,623	15,076	11,799	8,720
Term Debt to Equity	0.101	0.095	0.096	0.169	0.158
Total Assets	104,663	99,472	80,553	50,269	42,895
Market Capitalization (based on closing unit price)	96,833	79,114	66,838	11,524	19,820
Units Outstanding at End of Period	9,587,414	9,601,216	9,603,116	9,603,116	9,715,858
Unit Price Range					
High	\$11.57	\$11.94	\$9.93	\$6.99	\$2.35
Low	\$9.07	\$7.76	\$6.11	\$1.00	\$0.71
Close – December 31	\$10.10	\$8.24	\$6.96	\$1.20	\$2.04
Volume	2,919,041	4,040,401	4,988,939	5,836,425	3,613,080

Note 1. This summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles.

Note 2. Cash Available for Distribution and Operating Income are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Management's Discussion & Analysis

Discussion of Historical Annual Results:

In 2005 the Fund recorded a gain on sale of a closed nursery site of \$0.5 million. In 2007 operations were affected by increasingly difficult market conditions for the forest industry. During that year the Fund closed its Nevada nursery and internalized its management, resulting in charges to earnings of \$0.2 million and \$0.4 million respectively. There were also certain non-recurring costs totaling \$0.9 million incurred relating to proxy solicitation and a strategic review. In addition, with weakening market conditions the Fund recognized a \$13.2 million impairment of its goodwill. In 2008 the forest industry weakened even further as a result of the continuing housing slump in North America. Evaluation of ongoing market conditions and capacity in the nursery seedling industry, combined with analysis of ongoing production costs, led management to conclude that the closure of the Maple Ridge site once crops were completed in 2009 was the most prudent strategy. This closure announcement, as well as finalization of the Nevada closure, resulted in charges to earnings of \$0.3 million for exit activities and a non-cash impairment charge to long-lived assets of \$4.1 million. In 2008, the Fund also completed the two-part evaluation of goodwill commenced in 2007, and recognized a further non-cash impairment charge of \$19.2 million which eliminated goodwill from the balance sheet.

Further evaluation of continuing market conditions in 2009, led the Fund to conclude that additional capacity rationalization was necessary and it announced the permanent closure of the Summerland site and temporary closure of the Kirkland Lake nursery until market conditions improve. Those closures combined with a decision to accelerate the withdrawal from the Maple Ridge site led to exit activity charges of \$0.6 million and a charge to earnings of \$2.6 million for non-cash impairment of long-lived assets. Finally, at the end of 2009 the Fund reached a settlement with its insurer related to greenhouse collapses in a highly unusual snow event in the Lower Mainland of BC at the end of 2008; as such an insurance receivable was booked for \$4.7 million at December 31, 2009.

Over the Fund's operating history there have been no adjustments to earnings for discontinued operations or extraordinary items.

Summary of Quarterly Results

Figures below are presented in \$000's, except for per trust unit figures.

	2009				
	1st Q	2nd Q	3rd Q	4th Q	Jan 1 – Dec 31
Operating Results					
Revenues	\$ 6,342	\$ 10,693	\$ 5,555	\$ 7,472	\$ 30,062
Net earnings ²	\$ (667)	\$ 754	\$ (1,404)	\$ (512)	\$ (1,829)
Per Unit ¹	\$ (0.07)	\$ 0.08	\$ (0.14)	\$ (0.05)	\$ (0.19)
Cash Available for Distribution	\$ 26	\$ 1,372	\$ (762)	\$ 1,180	\$ 1,816
Per Unit	\$ —	\$ 0.14	\$ (0.07)	\$ 0.12	\$ 0.19
Distributions declared	\$ —	\$ —	\$ —	\$ —	\$ —
Per Unit	\$ —	\$ —	\$ —	\$ —	\$ —
	2008				
	1st Q	2nd Q	3rd Q	4th Q	Jan 1 – Dec 31
Operating Results					
Revenues	\$ 9,102	\$ 12,824	\$ 6,931	\$ 9,932	\$ 38,789
Net earnings ²	\$ 251	\$ 966	\$ (20,217)	\$ (4,191)	\$ (23,191)
Per Unit ¹	\$ 0.03	\$ 0.10	\$ (2.11)	\$ (0.44)	\$ (2.41)
Cash Available for Distribution	\$ 1,064	\$ 1,587	\$ (296)	\$ 1,247	\$ 3,602
Per Unit	\$ 0.11	\$ 0.17	\$ (0.03)	\$ 0.13	\$ 0.38
Distributions declared	\$ 1,076	\$ 576	\$ 576	\$ 576	\$ 2,804
Per Unit	\$ 0.11	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.29

1 Basic and Fully Diluted

2 Net Earnings in Q3-08 include non-cash goodwill impairment charges of \$19,175. Additionally, Q4-08 and Q4-09 include non-cash write-downs of property, plant and equipment of \$4,112 and \$2,575 respectively.

The above summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles, with the exception of distributable cash amounts. Cash Available for Distribution is a term which does not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Discussion of Quarterly Results:

The Fund's operating results are seasonal, driven by the varying levels of activity required throughout the seedling growing cycle, as well as the seasonal nature of silviculture services. Revenues and cash flow are affected by PRT's seedling crop cycles, crop mix, and by the seasonality of PRT's customers' planting seasons. PRT recognizes revenue under contracts on a percentage completion basis with costs incurred as a base. Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered. As such, fluctuations between quarters occur depending upon the activities in the quarter. Comparatively high cost activities, such as harvesting, typically occur in the second and fourth quarters, and accordingly these quarters normally reflect a higher proportion of annual revenues. Operating results in the fourth quarter of 2009 were higher than the same period of 2008 due to the net difference between the exit activity charges and non-cash impairment charges booked in the respective periods. On a normalized basis, operating results were lower in 2009 due to lower volumes. Historically, distributions declared in the first quarter period may include a top-up distribution declared from available distributable cash flow of the prior year. Such was not the case in 2008, as distributions were reduced during the first quarter to reflect the worsening market conditions, and were ultimately suspended after the end of 2008 to preserve funds to help maintain debt covenant ratios and fund ongoing necessary capital expenditures.

Risks and Risk Management**Agricultural**

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows crops at multiple sites with diverse locations, with the major proportion of the crops grown in climate-controlled greenhouses. Trained growing personnel monitor the growing conditions in both greenhouses and outdoor compounds with the aid of computerized environmental control, alarm and other management systems. These systems are an integral part of the Company's formalized crop risk management plans, and the Company also maintains insurance over indoor crops against certain types of physical damage. Additionally as a result of the 2008 greenhouse collapse in a highly unusual snow event, the Company is has not been able to obtain reasonable snow loss coverage for structures in 2010. Accordingly, the Company has revised its risk management plan to reduce the exposure.

Commodity Costs

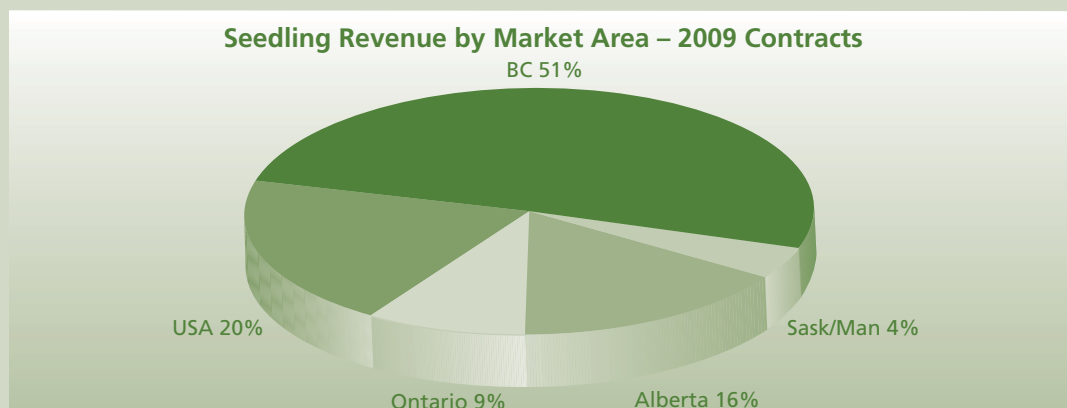
Some of PRT's costs are subject to variations caused by movements in commodity prices. For example, energy prices have been volatile in recent years which has adversely impacted PRT's operating margins and may continue to do so. The Company typically prices its products under annual sales contracts, and is generally not able to revise its sales prices in the short-term to offset commodity price volatility. To reduce this risk, PRT purchases energy from a variety of regulated and non-regulated sources, which diversifies the timing and effect of short-term changes in commodity prices. The Company also enters into forward purchase contracts for a portion of future energy requirements where management considers it advantageous to do so, and may enter into US dollar denominated energy contracts as a further risk reduction strategy for foreign exchange as discussed below.

Foreign Exchange

The Company enters into seedling growing contracts in both Canadian and US dollars. Exchange rates have been, and may continue to be volatile. Additionally, as stated above, the Company typically prices its products under annual sales contracts, and is generally not able to revise its sales prices in the short-term to offset exchange rate volatility. To reduce this risk, PRT has established a US based production facility which is financed with US dollar denominated debt, and may purchase other production inputs in US dollars in order to provide some offsetting exchange rate exposure against the US dollar revenue stream. PRT may also enter into forward currency exchange contracts to further hedge exposure on net US dollar cash flows.

Industry Risk

The business of PRT is highly dependent on the forest industry in Canada, which is currently experiencing a significant industry downturn. While the Company is not materially dependent on any one customer, regional markets may also be impacted by changes in global markets, government regulations, and by more consolidated buying decisions by larger customers. PRT has taken steps to diversify its operations across a wider variety of customers and provincial and state jurisdictions, in order to reduce such short-term impacts. The Company also receives progress payments under seedling contracts as a way to finance growing costs and reduce credit risk.



Interest Rates

The Company has historically used term debt financing to fund earnings-enhancing capital expenditures in the periods of low interest rates, and subject to availability, may do so again in the future. Interest rate risk is managed, as warranted, by fixing term debt rates for varying terms using interest rate swaps. Operating or working capital loans are short-term in nature, and, accordingly, PRT does not hedge interest rate risk on this debt.

Environmental

The production of forest seedlings has limited impact on the environment. Seedlings are grown in controlled greenhouses or in defined open compounds. To manage any potential environmental risks, PRT has established an Environmental Management System (EMS). The EMS consists of an environmental policy, codes of conduct, periodic site audits, employee training and awareness, environmental monitoring, emergency prevention and response procedures, and periodic reporting.

Income Trust Taxation

On October 31, 2006 the Canadian Federal Government announced proposed plans to apply a tax on publicly traded income trusts, such as the Fund. These plans have now been passed into law. For existing income trusts, there is a four-year transition period, until the 2011 taxation year, before the tax would be applicable. The changes also outline certain provisions to limit the "undue expansion" of income trusts during the transition period; if the Fund were to exceed these limits the consequence would be a loss of the grandfathered tax status during the transition period.

At the time that the tax is applied, the Fund will be subject to entity level taxation which will reduce the amount of cash made available to the Fund for distribution and may result in lower distributions being made to unitholders. Recent budget amendments have set the proposed rate of taxation on certain receipts by the trust at 29.5% for 2011 and 28% thereafter. Distributions by the trust that are made from such taxed receipts would be treated as eligible Canadian dividend income by unitholders who are Canadian individual taxpayers. Assuming such unitholders are subject to the highest marginal rate of federal and provincial income tax, they would receive an after-tax return from their now reduced distribution of income approximately equal to the after-tax return if pre-tax income of the income trust had been distributed directly to the investor and taxed in the hand of the investor. However, reduced distributions will be an absolute cost to other types of investors including pension funds, Registered Retirement Savings Plans and non-residents who would not benefit from characterization of the distribution as dividends.

No assurance can be given that the Fund will maintain its current grandfathered status until January 1, 2011.

Disclosure Controls and Internal Controls over Financial Reporting

The Fund has established disclosure controls and procedures (DC&P) to ensure that any material information is properly recorded, processed, summarized and reported to the Board of Trustees and the Audit Committee.

The Fund has established internal control over financial reporting (ICFR), and the CEO and CFO confirm that there were no changes in these controls that occurred during the year ended December 31, 2009 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

PRT's chief executive officer (CEO) and chief financial officer (CFO) have evaluated and are satisfied with the effectiveness, at the reasonable assurance level, of DC&P and ICFR procedures and controls for the year ended December 31, 2009.

Outlook

The forest industry is being impacted by the combined effects of a sharp falloff in US housing starts, and low realized lumber prices; this has resulted in mill closures, forest company insolvencies, reduced logging activity and silviculture cost reduction initiatives, which in turn reduces the demand for seedlings. In this challenging environment, our focus has been on carefully managing our risks, balance sheet, market share, capacity and cash flow to maximize our opportunity to sustain our business and to thrive over the long-term.

Forest seedling demand is strongly influenced by US house construction and with continued weakness in US housing markets in 2009 we have experienced some further decline in seedling demand for 2010. Seedling demand is expected to be down approximately 6% from 2009, which will be approximately 50% off its peak in 2006. There is also a risk that the pace of the US housing market recovery could be slow. Accordingly, in 2009 we took further steps to improve our capacity utilization, production costs and efficiency, and selected two sites for closure based on anticipated customer needs over the next few years. We have also taken extensive action to reduce costs, resulting in our continuing to generate positive cash flow from ongoing operations despite sharply lower volumes.

However, despite a weak market outlook for 2010, we expect seedling demand to improve over time as US housing starts recover. US housing starts, which have recently fallen to severe lows, are expected to gradually return to the normalized long-term trend level once the US economy, housing inventories and credit markets recover. Recovery will spur additional demand for lumber, and seedling demand will follow suit. Seedling demand may also strengthen if jurisdictions across North America invest in tree planting to combat global warming, and if British Columbia and Alberta implement more significant programs to replant forests devastated by the Mountain Pine Beetle. To ensure we can address these future opportunities, PRT has retained certain nursery assets from the closed facilities in order to reinstate capacity to meet demand as markets recover.

During the current industry cycle we are constantly reviewing our capacity, structure, and spending plans, with a long-term focus, in order to maintain the human, production and financial resources necessary to take advantage of the expected recovery of our markets. Our multiple nursery structure gives us the scope and capabilities to take advantage of recovery in our markets, and remain solidly positioned as the market leader in our industry.

The impact of lower volumes over the past three years has reduced cash available for distribution, and accordingly the Fund temporarily suspended the monthly distribution commencing in January 2009. The Board will continue to monitor results throughout the year and thereafter, and will consider reinstating distributions when orders, operating plans and cash flow expectations warrant.

We remain optimistic about our long-term prospects including our opportunity to further consolidate our fragmented seedling industry, and to capitalize on emerging markets for seedlings driven by concerns over the environment. Despite the current downturn we have maintained a strong balance sheet and have added increased management focus to investigate opportunities in emerging markets. We also continue to review further opportunities to take our expertise to new market areas, and with these strategies expect that we can create long-term value for our customers and unitholders alike.

On behalf of the Trustees and Management

signed

Robert K. Withers

Board Chair and Trustee
PRT Forest Regeneration Income Fund

signed

Robert A. Miller

President and CEO
Pacific Regeneration Technologies Inc.

Corporate Information

PRT Forest Regeneration Income Fund

Board of Trustees

Robert K. Withers

John G. Taylor CA

Stuart E. Wolfe

J. Mark Gardhouse

Robert A. Miller CA

Board of Directors and Officers

Robert K. Withers, Chairman & Director

Robert A. Miller, CA, President & CEO & Director

John G. Taylor, CA, Director

Stuart E. Wolfe, Director

J. Mark Gardhouse, Director

Antony A. Pollard, CA, V.P. Finance & Administration,
CFO & Secretary

Herb Markgraf, V.P. Marketing

Robert Maxwell, V.P. Production

John Kitchen, V.P. Business Development

Annual Meeting

The annual meeting of Unitholders will be held at 10:00 a.m., June 8, 2010 at the offices of Davis & Company, 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia

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Registrar and Transfer Agent

Valiant Trust Company

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol: PRT.UN

www.prt.com



Left to right: Rob Withers, Stuart Wolfe (sitting), Rob Miller, Mark Gardhouse, John Taylor (sitting).



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