REPORT TO SHAREHOLDERS

[All amounts are expressed in U.S. dollars, unless otherwise indicated]

Sino-Forest is pleased to report strong financial performance in the first quarter of 2010. Revenue from continuing operations of $251.0 million grew 41.6%, compared to last year. Overall gross profit increased 45.3% to $95.2 million, EBITDA rose 27.1% to $146.0 million and net income was up 86.0% to $42.8 million over the same period in 2009. Diluted EPS from continuing operations increased 17.8% to $0.18 in the first quarter of 2010.

Wood Fibre Operations includes plantation fibre and trading of wood logs.

- Sales of plantation fibre increased $28.8 million or 22.5% to $156.8 million in the first quarter of 2010, mainly due to an increase in the average selling price of standing timber.
- Sales from trading of imported and domestic wood products and logs increased $45.2 million or 119.7% to $82.9 million from $37.8 million, mainly due to higher volume of Russian wood logs traded.

Manufacturing and Other Operations includes engineered wood flooring, sawn timber, finger-joint board, block board, plywood, veneer and nursery businesses.

- Revenue decreased 1.9% in the first quarter of 2010 to $11.3 million.

During the first quarter of 2010, we signed our sixth long-term master agreement to acquire fibre in Guizhou Province, and added approximately 155,600 hectares of plantation trees to our portfolio by acquiring Mandra Forestry. The acquisition of HOMIX Limited in the first quarter will strengthen our research and development capabilities, thereby increasing our wood fibre usability and the versatility of our small-diameter plantation logs. We continue to transition toward our integrated plantations model by acquiring trees under our long-term fibre purchase agreements. As at March 31, 2010, approximately 447,700 hectares of trees have been acquired under our long-term agreements. Our aim is to build a strong plantation base for long-term sustainable plantation management.

Allen Chan, Chairman and CEO of Sino-Forest, said, "At the macro-economic level, the Chinese Central Government launched some measures in the beginning of the year to tighten credit lending in order to reduce the risks of speculation and over-heating of property prices, and to slow down new infrastructure investment. However, the Chinese government still intends to build 5.2 million affordable housing units by 2011."

Allen Chan continued, "We are pleased to report strong profits for the first three months of 2010 as we see domestic demand for wood fibre remains for household products and the construction sector. We anticipate that log prices will continue to rebound, especially with the Chinese government's commitment to construct low-income housing."

Outlook

Our outlook for China's economy remains positive for 2010, with strong impetus coming from domestic consumption. We anticipate demand for wood fibre will remain strong, as industrialization and urbanization continue to drive infrastructure and housing demands. And with the Central Government's intention to construct low-income housing and development of new town in inland regions, we foresee wood fibre prices continuing to firm up as demand continues to exceed domestic supply.

Allen T.Y. Chan
Chairman and Chief Executive Officer

May 12, 2010

Management's Discussion and Analysis

May 12, 2010

Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of Sino-Forest Corporation's operations for the three months ended March 31, 2010. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A should be read in conjunction with Sino-Forest's unaudited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

Additional information relating to the Company, including our annual information form and other statutory reports, are available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on the relationship with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of our provision for income and related taxes and economic, political and social conditions and government policy in the PRC, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report, except as required by law.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forest plantation operator in the PRC. As of March 31, 2010, we had approximately 694,100 hectares (including 155,600 hectares acquired from Mandra Forestry Holdings Limited and subsidiaries) of forest plantations under management which are located primarily in southern and eastern China.

Our principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments. Our **Wood Fibre Operations** is our main revenue contributor, while our **Manufacturing and Other Operations** enables us to enhance the value of our fibre operations by producing downstream products.

Revenue from Wood Fibre Operations is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantation business models in nine provinces and municipalities across China.

Trading of Wood Logs

- domestic wood logs – we source logs from PRC suppliers and sell them in the domestic PRC market; and
- imported wood products – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Manufacturing and Other Operations include:

- engineered-wood flooring produced in Jiangsu Province and distributed through more than 300 outlets nationwide in the PRC;
- sawn timber produced in Yunnan Province and Heilongjiang Province;
- finger-joint board and block board produced in Hunan Province;
- plywood and veneer products produced in Guangxi Province; and
- greenery and nursery operations based in Jiangsu Province.

Our Vision and Strategy

Our vision is to become the leading commercial forest plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices.

Our strategy is to build on our competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC. We are establishing operations in close proximity to PRC's key regional markets with the ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. We believe the following key initiatives will allow us to successfully execute our strategy:

- expand our geographical locations by investing in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufactured products;
- improve the yields of our tree plantations through continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;
- strengthen management processes and information systems to support the growth of our multi-faceted businesses; and
- maintain strategic alignment with the PRC government's plans.

Other Key Factors Affecting Our Business

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

- changes in domestic and international economic conditions;
- changes in market prices of commodities;
- interest rates;
- government regulations and policies;
- population growth and changing demographics; and
- seasonal weather cycles (e.g. dry or hot summers, wet or cold winters) and other factors affecting tree growth.

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

Our decisions and abilities to develop and operate future tree plantations are subject to various factors and uncertainties. Should we be unable to purchase the trees, exercise our rights to acquire the underlying plantation land use rights and complete the requisite governmental approval and registration procedures, or should we be unable to locate available and suitable plantation land for expansion, our business, financial condition and results of operations could be materially and adversely affected.

The success of our business depends upon the productivity of our forestry plantations and our ability to realize our expected yields. Forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease, pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain and improve our yields will depend on these factors as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus plantations. If we cannot achieve yields at expected levels, our business, financial condition and results of operations could be materially and adversely affected.

We rely on our relationships with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on a number of large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our tree plantations.

We are heavily dependent on the expertise of our senior management in relation to their expertise in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes, and the relationships cultivated by them with our major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. Violations of PRC laws or regulations that we may subject to, including PRC environmental policies and programs that apply to our tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business.

The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of our control. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our forestry plantations are located.

Our manufacturing plants are in an early stage of development and have a short operating history. Our manufacturing plants may not be profitable or successful and are subject to the risks inherent in establishing a new business, including competitive pressures, which could have a material adverse effect on our business, financial condition and results of operations.

We publish our financial statements and incur substantially all of our indebtedness in United States dollars, while substantially all of our revenue is denominated in Renminbi. Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the United States dollar, the Canadian dollar and the Hong Kong dollar, or in the United States dollar against the Renminbi, the Canadian dollar or the Hong Kong dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into United States dollars, Canadian dollars or otherwise, of our revenue and net income.

Significant Accounting Policies and Interpretation

Costs of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood products acquired in our sales and trading activities of these products; (4) the costs incurred at our manufacturing plants; and (5) depreciation of capital assets.

Depletion of Timber Holdings

Timber holdings include acquisition costs for standing timber (young and mature trees), planting and maintenance costs, which are capitalized at cost in our financial statements until the trees are sold. Planting and maintenance costs include the following: planning, operation design, site preparation, terracing, fertilization, planting, thinning, tending, protection, forestry administrative charge, overhead and lease costs. Timber holdings from plantation fibre sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer.

EBITDA

Defined as income from continuing operations for the year/period after adding back depreciation and amortization, as well as depletion of timber holdings from cost of sales, for the year/period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP.

SIGNIFICANT BUSINESS ACTIVITIES

Significant activities that occurred during the three months ended March 31, 2010 and to the date of this report were as follows:

Released Independent 2009 Forest Asset Valuation Report

In April 2010, the Company released its yearly, independent forest valuation report conducted by Pöyry Forest (Beijing) Consulting Company Limited ("Pöyry"), an international forestry consulting firm. Pöyry has estimated the value of the Company's forest assets on 491,000 hectares of area, based on a single rotation using a pre-tax discount rate of 11.5%, to be approximately $2.3 billion as at December 31, 2009.

A full copy of the valuation report is posted on our website at www.sinoforest.com under "Investor Relations, Filings" and is also available on SEDAR at www.sedar.com.

Acquisition of Mandra and Issuance of Additional 2014 Senior Notes

On December 1, 2009, the Company entered into a memorandum of understanding, as amended on February 5, 2010, with Mandra Forestry Finance Limited ("Mandra Forestry"), Mandra Forestry Holdings Limited ("Mandra") and certain holders of the $195,000,000 12% guaranteed notes due 2013 issued by Mandra Forestry and guaranteed by Mandra (the "Mandra Notes") and certain warrants issued by Mandra (the "Mandra Warrants"), regarding an exchange by the holders of Mandra Notes and Mandra Warrants for new guaranteed senior notes to be issued by the Company bearing interest at a rate of 10.25% per annum with a maturity date of July 28, 2014 (the "New 2014 Senior Notes"), subject to certain conditions, including the waiver of any defaults or events of default under the Mandra Notes and Mandra Warrants.

On February 5, 2010, the Company completed the acquisition of substantially all of the outstanding common shares of Mandra. Pursuant to the terms of a contingency payment agreement dated February 5, 2010 between the Company, Mandra Forestry Limited and Sino-Forest Investments Limited, the Company paid initial cash consideration of $2 million, and will pay an additional $2 million on August 5, 2010. Additional contingent consideration amounts of up to $5.0 million (the "First Supplemental Payment") and $5.0 million (the "Second Supplemental Payment") will be payable based on the achievement of certain agreed milestones, with (i) 50% of the First Supplemental Payment (the "Initial First Supplemental Payment") payable within ten days of June 30, 2010; and (ii) the remaining 50% of the First Supplemental Payment, together with the Second Supplemental Payment, payable within ten days of December 31, 2010. The First Supplemental Payment and the Second Supplemental Payment will be paid by the issuance of common shares of the Company at an issuance price based on the volume-weighted average price for the ten trading days preceding the date of the Initial First Supplemental Payment or the Second Supplemental Payment, as applicable, subject to a minimum per-share price of Cdn.$7.00. These amounts may be reduced by negotiation if any of the milestones are not met, subject to a maximum reduction of 50%.

Concurrently with this acquisition, the Company completed an exchange with holders of 99.7% of the Mandra Notes and 96.7% of the Mandra Warrants, for an aggregate principal amount of $187,177,375 of the New 2014 Senior Notes. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged their notes with the Company in consideration of the issuance by the Company of 2014 Senior Notes with an aggregate principal amount of $187,187,000.

On March 5, 2010, the Company made an offer to purchase the remaining 0.3% of the Mandra Notes in accordance with the terms of the indenture governing the Mandra Notes.

On April 28, 2010, the Company, through its substantially owned subsidiary, tendered an irrevocable notice of redemption of the outstanding Mandra Notes at a premium of 106%. Accrued and unpaid interest up to the redemption date will also be paid.

Acquisition of Shares of Greenhart

On May 9, 2010, the Company, through its wholly-owned subsidiary, entered into a sale and purchase agreement with the minority interest shareholders to acquire 2,322,094,900 ordinary shares of Greenheart Resources Holdings Limited ("Greenheart"). Total consideration will be approximately $29 million (equivalent to HK$227,219,000) paid by issuance of common shares of the Company at an issuance price based on the volume weighted average price of the Company's common shares traded on the Toronto Stock Exchange for the twenty trading days ending on the second trading day (on which the Toronto Stock Exchange is open for trading) prior to the completion date, or its equivalent in HK$ calculated using the noon spot rate of the Cdn.$/HK$ exchange on the second trading day (on which the Toronto Stock Exchange is open for trading) prior to the completion date, as quoted by the Bank of Canada. The agreement is subject to a fourteen day preemptive right notice period from the date of the sale and purchase agreement. One of the vendors, Forest Operations Limited, is beneficially owned by a director of the Company, which owns approximately 5.3% of the ordinary shares of Greenheart being sold.

Acquired HOMIX Limited

On January 4, 2010, the Company acquired all of the issued and outstanding shares of HOMIX Limited ("HOMIX"), a company engaged in research and development and manufacturing of engineered-wood products in the PRC, for an aggregate consideration of $7,100,000. The acquisition included HOMIX's facilities and its patents in the PRC.

Entered into Master Agreement to Acquire 150,000 hectares of Standing Timber in Guizhou Province

In January 2010, a subsidiary of the Company entered into a master agreement with Guizhou Sen Li Industry Company Limited to acquire between 10.5 million and 16.5 million m^3 of wood fibre located in plantations in Guizhou Province over a three-year period with a price not to exceed RMB300 per m^3, to the extent permitted under the relevant PRC laws and regulations. The plantations in which such amount of wood fibre being acquired are within an area of 150,000 hectares that has an estimated average wood fibre yield of approximately 70 to 110 m^3 per hectare, and include tree species such as pine, Chinese fir and others. The agreement also provides the Company with pre-emptive rights to lease the underlying plantation land at a price not to exceed RMB450 per hectare per annum for 30 years after harvesting, and the land lease can also be extended to 50 years, as permitted under the PRC laws and regulations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

First Quarter Financial Information

The following selected financial information has been derived from our unaudited consolidated financial statements for the three months ended March 31, 2010 and 2009 and our financial positions as at March 31, 2010 and December 31, 2009:

Three months ended March 31, *(in thousands, except earnings per share)*	**2010** **$**	2009 $
Operating Results		
Revenue	**251,015**	177,234
Cost of sales	**155,811**	111,709
Gross profit (1)	**95,204**	65,525
Net income from continuing operations	**43,193**	27,922
Net income	**42,798**	23,005
EBITDA (2)	**146,044**	114,926
Earnings per share from continuing operations (3)		
Basic	**0.18**	0.15
Diluted	**0.18**	0.15
Earnings per share (3)		
Basic	**0.18**	0.12
Diluted	**0.18**	0.12

(in thousands, except cash dividends declared per share and common shares outstanding)	**As at March 31, 2010** **$**	As at December 31, 2009 $
Financial Position		
Current assets	**1,478,503**	1,586,761
Non-current assets	**2,790,012**	2,377,138
Total assets	**4,268,515**	3,963,899
Current liabilities (including current portion of long-term debt)	**402,393**	373,780
Long-term debt (net of current portion)	**1,113,927**	925,466
Total shareholders' equity	**2,711,764**	2,664,653
Cash dividends declared per share	**Nil**	Nil
Common shares outstanding	**242,521,728**	242,129,062

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2010 AND 2009

Revenue

The following table sets forth the breakdown of our total revenue for the three months ended March 31, 2010 and 2009:

	2010		2009	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**156,789**	**62.5**	127,968	72.2
Trading of Wood Logs	**82,938**	**33.0**	37,758	21.3
Manufacturing and Other Operations	**11,288**	**4.5**	11,508	6.5
Total	**251,015**	**100.0**	177,234	100.0

Our revenue increased 41.6% from $177.2 million in the three months ended March 31, 2009 to $251.0 million in the same period in 2010. The increase in revenue was mainly due to the increase in sales from our wood fibre operations.

Wood Fibre Operations Revenue

Plantation Fibre

The following table sets forth revenue from our plantation fibre operations for the three months ended March 31, 2010 and 2009:

	2010				2009			
	Hectares	**Volume of fibre sold**	**Average price per m^3**	**Total revenue**	Hectares	Volume of fibre sold	Average price per m^3	Total revenue
		'000 m^3	**$**	**$'000**		'000 m^3	$	$'000
Standing timber	**5,391**	**971**	**90**	**86,931**	15,478	2,125	60	127,968
Harvested logs	**7,010**	**890**	**79**	**69,858**	—	—	—	—
Total	**12,401**	**1,861**	**84**	**156,789**	15,478	2,125	60	127,968

Revenue from sales of plantation fibre increased 22.5% from $128.0 million in the three months ended March 31, 2009 to $156.8 million in the same period in 2010, mainly due to an increase in the average selling price of standing timber.

The increase in the average selling price of standing timber was mainly due to a difference in sales mix. The average selling price of pine and Chinese fir in the three months ended March 31, 2009 was $61 per m^3, compared to $64 per m^3 in the same period in 2010. In addition, we sold fibre in Yunnan as standing timber at an average selling price of $101 per m^3 in the three months ended March 31, 2010 compared to no sales in the same period in 2009. The standing timber plantation sales in Yunnan comprised 84.5% of revenue from standing timber sales and standing timber sales comprised 55.4% of total plantation fibre revenue in the three months ended March 31, 2010.

The average sales per hectare increased 52.9% from $8,268 per hectare in the three months ended March 2009 to $12,643 per hectare in the same period in 2010.

Plantation fibre sales comprised 62.5% of total revenue in the three months ended March 31, 2010, compared to 72.2% in the same period in 2009.

Trading of Wood Logs

Revenue from trading of imported and domestic wood products and logs increased 119.7%, from $37.8 million in the three months ended March 31, 2009 to $82.9 million in the same period in 2010. This increase was primarily due to higher volume of Russian wood logs sold.

Trading of wood logs sales comprised 33.0% of total revenue in the three months ended March 31, 2010, compared to 21.3% of total revenue in the same period in 2009.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations decreased 1.9% from $11.5 million in the three months ended March 31, 2009 to $11.3 million in the same period in 2010.

Gross Profit

Gross profit increased 45.3%, from $65.5 million in the three months ended March 31, 2009 to $95.2 million in the same period in 2010. Gross profit margin, being gross profit expressed as a percentage of revenue, increased from 37.0% in the three months ended March 31, 2009 to 37.9% in the same period in 2010, mainly due to improved gross profit margin from plantation fibre operations.

Wood Fibre Operations Gross Profit

Plantation Fibre

Gross profit margin from sales of standing timber increased from 49.8% or $30 per m^3 in the three months ended March 31, 2009 to 63.8% or $57 per m^3 in the same period in 2010, mainly due to the increase in average selling price of standing timber.

The gross profit margin from sales of harvested logs was 47.4% or $37 per m^3 in the three months ended March 31, 2010 compared to zero sales in the same period in 2009.

Trading of Wood Logs

Gross profit margin from trading of imported and domestic wood products and logs increased from 3.9% in the three months ended March 31, 2009 to 6.3% in the same period in 2010.

Manufacturing and Other Operations Gross Profit

Gross profit margin from our manufacturing and other operations increased from 2.4% in the three months ended March 31, 2009 to 12.8% in the same period in 2010. The increase was mainly due to improvement in the engineered flooring segment.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 17.6%, from $14.8 million in the three months ended March 31, 2009 to $17.4 million in the same period in 2010. The increase was in line with our business growth of the Company.

Depreciation and Amortization

Depreciation and amortization increased 8.3%, from $1.1 million in the three months ended March 31, 2009 to $1.2 million in the same period in 2010, mainly due to increased capital assets.

Income from Operations

Income from operations increased 54.4%, from $49.6 million in the three months ended March 31, 2009 to $76.6 million in the same period in 2010, due to the factors explained above. Our income from operations as a percentage of revenue increased from 28.0% in the three months ended March 31, 2009 to 30.5% in the same period in 2010.

Interest Expense

Interest expense increased 64.9%, from $16.8 million in the three months ended March 31, 2009 to $27.7 million in the same period in 2010, mainly due to the interest on the 4.25% convertible senior notes issued in the fourth quarter of 2009.

Interest Income

Our interest income increased 79.9%, from $1.9 million in the three months ended March 31, 2009 to $3.4 million in the same period in 2010, due primarily to the increase in the average deposits in 2010.

Exchange Gains (Losses)

The Company recorded an exchange gain of $72,000 in the three months ended March 31, 2010.

Loss on Changes in Fair Value of Financial Instrument

In the three months ended March 31, 2010, the Company recorded a loss of $0.7 million on the change in fair value of embedded conversion option of the convertible bonds issued by Omnicorp.

EBITDA

EBITDA increased 27.1%, from $114.9 million in the three months ended March 31, 2009 to $146.0 million in the same period in 2010, as a result of the increase in revenue in 2010.

Provision for Income Taxes

The provision for income taxes was $8.8 million in the three months ended March 31, 2010 compared to $5.9 million in 2009.

Net Income for the Period

As a result of the foregoing, net income for the period increased 86.0%, from $23.0 million in the three months ended March 31, 2009 to $42.8 million in the same period in 2010. Overall net income for the period as a percentage of revenue increased from 13.0% in the three months ended March 31, 2009 to 17.0% in the same period in 2010.

Cash Flows

The following table sets forth a condensed summary of our statements of cash flows for the three months ended March 31, 2010 and 2009:

Three months ended March 31, *(in millions)*	**2010** **$**	2009 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations (4)	**119.4**	99.2
Net change in non-cash working capital balances (5)	**(68.0)**	68.4
Total	**51.4**	167.6
Cash flows used in operating activities of discontinued operations	**(0.2)**	(2.8)
Cash flows used in investing activities	**(190.8)**	(243.4)
Cash flows from (used in) investing activities of discontinued operations	**1.5**	(1.0)
Cash flows from financing activities	**15.9**	5.7
Effect of exchange rate changes on cash and cash equivalents	**0.2**	(0.3)
Net decrease in cash and cash equivalents	**(122.0)**	(74.2)

Cash flows from operating activities of continuing operations

Net cash provided from operating activities decreased from $167.6 million in the three months ended March 31, 2009 to $51.4 million in the same period in 2010. The decrease was due to the increase in cash provided by operations, offset by cash used in working capital that mainly resulted from a decrease in accounts payables and accrued liabilities and an increase in inventories and prepaid expenses and others related to the plantation fibre operations.

Cash flows used in investing activities

In the three months ended March 31, 2010 and 2009, cash flows used in investing activities were primarily used for capital expenditures to purchase additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $233.9 million in the three months ended March 31, 2009 and $189.8 million in the same period in 2010. Our cash outlays for our manufacturing facilities and other capital assets amounted to $3.3 million in the three months ended March 31, 2009 and $2.3 million in the same period in 2010. Our cash outlays for other assets amounted to $5.3 million in the three months ended March 31, 2009 and $10.1 million in the same period in 2010. Our non-pledged short-term deposits increased by $0.9 million in the three months ended March 31, 2009 and decreased by $7.2 million in the same period in 2010. We also received $37,000 from the proceeds of disposal of capital assets in the three months ended March 31, 2010. In addition, we paid $0.2 million during the acquisition of convertible bonds of Omnicorp in the three months ended March 31, 2009 and obtained a net cash inflow of $4.2 million during the business acquisitions in the same period in 2010.

Cash flows from financing activities

In the three months ended March 31, 2010, cash flows from financing activities consisted of net proceeds from the issuance of shares of $1.9 million, an increase in bank indebtedness of $19.7 million and a decrease in pledged short-term deposits of $0.1 million, offset by the payment on deferred financing costs from the issuance of the 2014 Senior Notes of $5.9 million. In the three months ended March 31, 2009, cash flows from financing activities consisted of a decrease in pledged short-term deposits of $0.2 million and an increase in bank indebtedness of $8.3 million, offset by the payment on derivative financial instrument of $2.9 million.

Management's Discussion and Analysis

Issued and Outstanding Share Capital

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 242,521,728 common shares are issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 284,995,765 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,725,960 outstanding stock options and the issuance of 17,007,603 and 21,740,474 common shares upon the conversion of the 2013 convertible senior notes in the aggregate principal amount of $345.0 million (the "2013 Convertible Notes") and the 2016 convertible senior notes in the aggregate principal amount of $460.0 million (the "2016 Convertible Notes"), respectively.

Liquidity and Capital Resources

Our primary sources of funding have been short-term and long-term borrowings, equity offerings and cash provided by operating activities. Our primary uses of funding have been to acquire new forestry plantations in the form of standing timber to develop our existing forestry plantations, for imported and domestic logs trading, for working capital requirements, to service our short-term and long-term borrowings and to invest in and develop our manufacturing facilities.

We expect that cash and cash equivalents of $980 million as at March 31, 2010 will allow us to manage the pace of our vision and strategies during the current global recession, the duration of which is difficult to predict. The Company continually assesses the quality of its accounts receivable, cash and cash equivalents and other assets and will take appropriate actions in response to changing market conditions.

Financing Arrangements and Contractual Obligations

As of March 31, 2010, we had secured and unsecured short-term borrowings of $124.9 million, comprising $62.4 million of short-term bank loans and $62.5 million of trust receipt loans. We had long-term debt of $1,114.5 million. Our borrowings were mainly denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of March 31, 2010, we had $317.4 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As of March 31, 2010, $124.9 million in respect of bank indebtedness and $18.1 million in respect of other bank instruments were utilized. Pursuant to the amended provisions of the indenture governing the 9.125% guaranteed senior notes due 2011 (the "2011 Senior Notes") and the indenture governing the 2014 Senior Notes, the maximum aggregate amount of the short-term borrowings which is at any time outstanding may not exceed an amount equal to 10.0% of total consolidated assets of the Company, but in any case may not exceed $400.0 million. Interest is payable on these short-term borrowings at a weighted average rate of 5.1% per annum, and the borrowings are either repayable on demand or due in less than one year. As of March 31, 2010, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $55.8 million and certain bank deposits of $30.1 million.

Other Contractual Obligations

As of March 31, 2010, we had other contractual obligations relating to: (1) approximately $31.6 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $53.0 million of capital commitments with respect to plantation investments, buildings and plant and machinery; (3) $41.1 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $160.0 million; and (5) $1,114 million long-term convertible and non-convertible guaranteed senior notes.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of March 31, 2010:

		Payment Due by Period			
	Total $'000	Within one year $'000	In the second and third year $'000	In the fourth and fifth year $'000	After the fifth year $'000
Long-term debt (6)	1,114,457	530	86,824	665,910	361,193
Capital contributions	31,550	21,150	10,400	—	—
Capital commitments (7)	53,016	53,016	—	—	—
Purchase commitments	41,063	29,063	12,000	—	—
Operating leases (8)	160,025	10,968	16,175	12,169	120,713
Total contractual obligations	1,400,111	114,727	125,399	678,079	481,906

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 356,800 m^3 of wood fibre as at March 31, 2010.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 192,529 hectares of plantation trees for $734.1 million as at March 31, 2010.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 121,182 hectares of plantation trees for $570.7 million as at March 31, 2010.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 118,856 hectares of plantation trees for $600.8 million as at March 31, 2010.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at March 31, 2010.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired 15,140 hectares of plantation trees for $39.9 million as at March 31, 2010.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, the Company has not acquired any hectares of plantation trees as at March 31, 2010.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of March 31, 2010, we had provided guarantees of approximately $126.3 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the three months ended March 31, 2010 and 2009:

	2010		2009	
	Hectares	**$ million**	Hectares	$ million
Tree acquisition	**37,778**	**183.3**	75,977	245.6
Tree acquisition – acquisition of subsidiaries	**86,786**	**283.1**	—	—
Replanting and maintenance of plantations		**7.1**		5.8
Panel manufacturing and others		**2.2**		5.2
Panel manufacturing and others – acquisition of subsidiaries		**6.6**		—
Total		**482.3**		256.6

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees, various plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labour and plantation maintenance service fees. Capital expenditures for manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our forestry plantations in the consolidated statements of cash flows and the above capital expenditure on plantations was due to non-cash transactions such as the movement of accounts payable and capitalization of deposit paid for the acquisition of plantations from other assets to timber holdings. The "Tree Acquisition – acquisition of subsidiaries" represents the number of hectares acquired upon completion of the acquisition of Mandra that were fully paid for and therefore recorded for accounting purposes in the financial statements. The difference between the 155,600 and the 86,786 above represents the number of hectares acquired and under management for which deposits on the purchase of the plantations were paid. The remaining purchase price will be paid when the hectares in question are harvested.

For fiscal 2010, capital expenditures are expected to be approximately $1.3 billion for plantation acquisitions, replanting and maintenance, and approximately $30 million for the development of manufacturing facilities integrated with plantation operations. These acquisition levels will be adjusted as necessary given future changes in the economic climate in the PRC.

Aging of Accounts Receivable

Plantation Fibre Operations

We recognize revenue from plantation fibre when the buyer has signed the sales contract and the significant risks and rewards of ownership have been transferred to the buyer. After the buyer has entered into the sales contract, we generally give the buyers of standing timber extended credit terms to log and haul the timber from the plantations. Based on a twelve-month period, on average, customers repay outstanding balances in approximately three months.

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At March 31, 2010	**187,916**	**51,480**	**25,084**	**48,085**	**63,196**	**15**	**56**
At December 31, 2009	192,674	159,636	32,749	3	—	286	—

Trading of Wood Logs Operations, Manufacturing and Other Operations

We recognize revenue from the sale of logs and other products when the significant risks and rewards of ownership of the logs and other products have been transferred to the customer, usually on the delivery of the goods. Revenue from wood product and nursery contracts are recognized based on percentage-of-completion method.

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At March 31, 2010	**85,750**	**32,728**	**15,505**	**21,756**	**12,871**	**2,588**	**302**
At December 31, 2009	89,632	38,260	25,947	16,360	6,123	2,874	68

Currently, as there is no indication that the Company's accounts receivables are non-collectible, an allowance has not been set up. To mitigate the risk on these receivables, the Company has established relationships with customers who have a very good credit rating and solid reputation.

Off-Balance Sheet Arrangements

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of March 31, 2010. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

Transactions with Related Parties

Pursuant to the respective service agreements, Sino-Forest pays the salaries of the Chairman and Chief Executive Officer and the President in the form of consultancy fees to companies controlled by the noted executive officers. The consultancy fees incurred in the three months ended March 31, 2010 amounted to $153,000 [2009 – $153,000], and were recorded at an exchange amount as agreed upon by the related parties.

In addition, as at March 31, 2010, we had an aggregate amount of $6,958,000 [December 31, 2009 – $6,958,000] accrued for consultancy fees payable to these related companies.

In February 2009, the Company acquired 55,000,000 ordinary shares and approximately $21.7 million (equivalent to approximately HK$168 million) 4% convertible bonds of Omnicorp Limited ("Omnicorp") from various vendors. The purchase price consisted of cash of approximately $4.3 million and 2,659,990 common shares of the Company. Total consideration was approximately $25.8 million (equivalent to approximately HK$201 million). Among the vendors were a director, Simon Murray, of the Company and an entity controlled by such director, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

Non-GAAP Measures

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included at the end of this MD&A is a table calculating or reconciling these non-GAAP measures where applicable.

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are included in this MD&A because these statistics are key performance indicators that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to budget and to make strategic decisions. Management believes that the inclusion of these statistics in the MD&A helps investors and analysts to assess the Company's ability to grow its timber holdings, to forecast future results, to assess our current and future operating results and to make investment decisions. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Quarterly Financial Information

Our business is seasonal. Generally, the third and fourth quarters together account for approximately 60% of annual revenue, while the first and second quarters together account for approximately 40% of annual revenue. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended March 31, 2010:

(in thousands, except per share amounts)	Revenue from continuing operations	Net Income from continuing operations	Net Income (Loss) from discontinued operations	Earnings Per Share (3) from continuing operations		Earnings (Loss) per Share (3) from discontinued operations	
				Basic	Diluted	Basic	Diluted
		$	$	$	$	$	$
2010							
March 31	**251,015**	**43,193**	**(419)**	**0.18**	**0.18**	**(0.00)**	**(0.00)**
2009							
December 31	469,570	97,349	15,350	0.43	0.43	0.07	0.06
September 30	366,962	106,497	(880)	0.48	0.48	(0.00)	(0.00)
June 30	224,419	47,019	(1,970)	0.24	0.24	(0.01)	(0.01)
March 31	177,234	27,922	(4,917)	0.15	0.15	(0.03)	(0.03)
2008							
December 31	281,873	82,266	13,224	0.45	0.44	0.07	0.07
September 30	293,696	95,237	(20,062)	0.52	0.50	(0.11)	(0.10)
June 30	184,981	46,576	(3,175)	0.26	0.25	(0.02)	(0.02)

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in note 1 to the consolidated financial statements for the year ended December 31, 2009. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber Holdings

Timber holdings represented 60.7% of the Company's consolidated total assets as at March 31, 2010. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

The Company believes that accounting estimates related to timber holding impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding timber market demand and pricing, cost of production such as harvesting costs, transportation costs, taxes and overhead costs, plantation risk such as fire, pest and disease, frost and typhoons, plantation growth and yield, future yield development and the Company's weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated income statement and the reported timber holdings amount in the Company's consolidated balance sheet.

To assist with its impairment assessments, the Company engages an outside consultant to help derive cash flow estimates and to estimate the fair value of its existing timber holdings using a discounted cash flow valuation model. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, Sino-Forest could potentially experience future impairment charges and such charges could be material.

Capital Assets

The Company evaluates the recoverability of the carrying value of its capital assets whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing capital asset. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on capital assets are measured as the amount by which the carrying value of the asset exceeds its fair value.

The Company believes that estimates related to capital assets impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding the impact of improvement plans on current operations, other new business opportunities, forecasted production volumes and cost of production assumptions on current and future business; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

Revenue Recognition

Standing Timber

Sino-Forest sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations. Standing timber revenue represents a significant portion of the Company's consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of the Company's contractual arrangements with its customers. To date, substantially all of the Company's standing timber revenue has been recognized when the Company and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, the Company and the buyer will have negotiated the approximate timber volume and the expected harvest yield associated with a specified plantation area. The sales agreement typically provides the buyer with a fixed period of time over which the buyer is entitled to harvest the timber on the specified plantation area and amounts due from the buyer are fixed at the time of entering into the agreement and are not subject to adjustment based on the actual amount of timber harvested by the buyer. Harvesting and all related costs have to date been the responsibility of the buyer and the Company has not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the timber on the specified plantation area over the harvest period.

A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which revenue is recognized.

Provision for Tax Related Liabilities

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at March 31, 2010 is the balance of the tax provision for the tax related contingency amounting to $107,343,000 [December 31, 2009 – $98,863,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current three months and in the four previous years.

Contingencies for Tax Related Liabilities

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that an adequate provision for tax related liabilities has been recognized in the financial statements.

Future Accounting Standards

The CICA has issued the following Handbook Sections which apply commencing with the Company's fiscal years noted below.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582 Business Combinations, replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or after January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

International Financial Reporting Standards

(1) Project Overview

Canadian reporting issuers will commence reporting under International Financial Reporting Standards ("IFRS") effective January 1, 2011, including providing IFRS-compliant comparative information for 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in many aspects of recognition, measurement and disclosures.

The Company commenced its IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. The diagnostic phase was completed during the later part of 2008, and the design and planning phase was completed during the first half of 2009. The Company is now well advanced on the solution development phase, during which issue-specific work teams are analyzing areas of possible impact, setting out options and making recommendations. This phase should be largely completed during the first half of 2010, with the implementation phase continuing through 2011 and 2012 as the Company issues its initial IFRS interim and annual financial statements. Senior management reports regularly to the audit committee on the progress of the project.

The following table summarizes the key activities of the Company's conversion project and the progress made with respect to each of these activities:

Key Activities	Milestones	Status
Accounting policies and procedures: • Identify differences between IFRS and the Company's existing policies and procedures • Analyze and select ongoing policies where alternatives are permitted • Analyze and determine whether the Company will select any of the exemptions available to first-time adopters of IFRS • Implement revisions to accounting and procedures manuals	• Senior management approval and audit committee review of accounting policy decisions by Q2 2010 • Revised accounting policy and procedures manuals in place by changeover date	• Accounting policy alternatives are being analyzed and recommendations made as work progresses in each area. As at March 31, 2010, work is well advanced in most of the areas of greatest significance. • Key accounting policy decisions are expected to be approved by senior management and reviewed by the audit committee by Q2 2010. • Revisions to accounting and procedures manuals are being drafted as work progresses in each area.
Financial statement preparation: • Prepare financial statements and note disclosures in compliance with IFRS • Quantify the effects of converting to IFRS • Prepare first-time adoption reconciliations required under IFRS 1	• Senior management approval and audit committee review of pro forma financial statements and disclosures by Q2 2010	• Draft IFRS-compliant financial statements, including required note disclosures, have been prepared and are in the process of being updated. • The effects of the conversion are quantified as work progresses in each area.
Training and communication: • Provide topic-specific training to key employees involved with implementation • Provide training on revised policies and procedures to affected personnel, and develop awareness of IFRS throughout the organization • Provide timely communication of the impacts of converting to	• Broader training and internal awareness initiatives implemented prior to changeover date • Impact of converting to IFRS communicated prior to changeover	• Broader training and internal awareness initiatives to be developed by Q2 2010. • IFRS-related MD&A disclosures will become increasingly detailed during 2010. Other possible external communication initiatives to be considered by Q2 2010.

IFRS to our external stakeholders		
Business impacts: • Identify impacts of conversion on contracts including financial covenants and compensation arrangements • Identify impacts of conversion on tax matters	• Impacts on contracts identified by Q2 2010	• Adoption of IFRS is not currently expected to have any material impact on the Company's contracts. • Work on tax-related matters is progressing as planned.
IT systems and control environment: • Identify changes required to IT systems and implement solutions • For all identified changes to policies and procedures, assess impact on internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") and implement any necessary changes	• Necessary changes to IT systems and controls implemented by changeover date	• Required changes to IT systems, data collection mechanisms and controls are being identified as work progresses in each area; these are not currently expected to be materially significant.

(2) Financial Reporting Impact

The Company has identified a variety of changes to its existing accounting policies; however, the following are the most significant:

Timber holdings Under Canadian GAAP, the Company accounts for its planted and purchased plantations on the cost basis. Under IAS 41 *Agriculture*, it will measure these holdings at their fair value less costs to sell, reflecting changes as part of profit or loss. Sino-Forest already receives IFRS-compliant fair value information through the annual valuation report prepared by Pöyry and has disclosed this value in the MD&A for previous years, without reflecting it in the financial statements. For IFRS purposes, the Company will also engage Pöyry to provide fair value information at each interim reporting date.

Tax IAS 12 *Income Taxes* differs from the Company's existing policies in several respects. Most prominently, the Company will be required for the first time to recognize deferred (future) tax assets or liabilities on temporary differences arising on translating non-monetary assets denominated in a functional currency other than US$, including standing timber and property, plant and equipment held in China and denominated in the RMB. Other differences will arise on the Company's issued convertible debt (which is a compound financial instrument) and on past inter-company transfers of assets and liabilities.

Additional tax consequences will arise from other changes in accounting policies. For example, additional temporary differences will arise from the measurement change for timber holdings described above. The Company will also disclose more tax-related information under IFRS, including information on temporary differences associated with investments in foreign subsidiaries for which it has not recognized deferred tax liabilities.

Proposed changes to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, issued for comment by the IASB in January 2010, would have an impact in particular on the Company's accounting for uncertain tax positions. These proposals may require recognizing and measuring a provision, using the probability-weighted average of the outflows for the range of possible outcomes, in various circumstances where this is not currently done (because an outflow of resources is not considered probable). The proposals are expected to be finalized later in 2010.

Impairment of long-lived assets Under Canadian GAAP, when the Company determines that an asset group's carrying amount exceeds its undiscounted estimated future cash flows, it recognizes an impairment loss, measured as the amount by which that carrying amount exceeds the asset group's fair value. The approach under IAS 36 *Impairment of Assets* does not have an initial step based on undiscounted cash flows. Where any indication of an impairment loss exists, the IFRS approach compares carrying amounts to recoverable amounts, based on the higher of fair value less costs to sell and value in use (a discounted cash flow measure). This methodology could result in recognizing additional asset impairments on transition to IFRS.

In addition, the "cash-generating units" into which assets are organized for impairment-testing purposes under IFRS might be identified at a lower level than the asset groups identified under Canadian GAAP, possibly also leading to additional asset impairments under IFRS. On the other hand, unlike Canadian GAAP, IFRS allows reversing previously-recognized impairment losses where the circumstances have changed. The Company is continuing to assess the implications of these differences for its long-lived assets.

As explained above, while accounting estimates related to timber holding impairment assessments are critical accounting estimates under Canadian GAAP, timber holdings will be measured under IFRS at their fair value less costs to sell, removing these assets from the scope of the impairment testing methodology.

Foreign currency The Company does not currently expect to identify material differences relating to foreign currency translation. However, IFRS 1 allows first-time adopters to elect that the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. If this election is selected, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition to IFRS, but includes later translation differences. The election, among other things, avoids potential considerable complexity in adjusting historical exchange calculations to reflect changes made under IFRS to the carrying values of other assets and liabilities. Sino-Forest expects it will make the election and reset the cumulative differences to zero at January 1, 2010.

Risk and Uncertainties

There are no significant changes to the risk and uncertainties as described in the most recent annual information form of the Company, which is available on SEDAR at www.sedar.com.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Senior Vice President and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. The control framework used in the design of both DC&P and ICFR is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The design and effectiveness of internal controls over financial reporting was assessed as of December 31, 2009. Based on that evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2010 to address this deficiency, management will continue to monitor and work on mitigating this weakness.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

There has been no change in the design of the Company's internal controls over financial reporting during the quarter ended March 31, 2010, that would materially affect, or is reasonably likely to materially affect, Sino-Forest's internal controls over financial reporting.

Outlook

Our outlook for China's economy remains positive for 2010, with strong impetus coming from domestic consumption. We anticipate demand for wood fibre will remain strong, as industrialization and urbanization continue to drive infrastructure and housing demands. And with the Central Government's intention to construct low-income housing and development of new town in inland regions, we foresee wood fibre prices continuing to firm up as demand continues to exceed domestic supply.

(1) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

(2) EBITDA for any period is defined as income from continuing operations for the period after adding back depreciation and amortization, as well as depletion of timber holdings in cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP.

EBITDA is calculated as follows:

	Three months ended March 31,	
	2010	2009
	$'000	$'000
Income from continuing operations	**76,565**	49,592
Add: depreciation and amortization	**1,223**	1,129
depletion of timber holdings	**68,256**	64,205
	146,044	114,926

(3) Earnings (Loss) per share is calculated using the weighted average number of common shares outstanding during each period.

(4) Represents net income as adjusted for depletion of timber holdings in cost of sales, interest earned from Mandra, depreciation and amortization, impairment of capital assets, amortization of deferred financing costs, stock-based compensation, accretion of convertible senior notes, changes in fair value of financial instrument and other assets, unrealized exchange losses and others.

(5) Represents decreases (increases) in accounts receivable, inventories, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

(6) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2011, 2013, 2014 and 2016.

(7) Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.

(8) These represent mainly leases of plantation land.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

[Expressed in thousands of United States dollars, except for earnings per share information] [Unaudited]

Three months ended March 31,	**2010**	2009
	$	$
Revenue	**251,015**	177,234
Costs and expenses		
Cost of sales	**155,811**	111,709
Selling, general and administration	**17,416**	14,804
Depreciation and amortization	**1,223**	1,129
	174,450	127,642
Income from operations before the undernoted	**76,565**	49,592
Interest expense	**(27,694)**	(16,795)
Interest income	**3,425**	1,904
Exchange gains (losses)	**72**	(93)
Loss on changes in fair value of financial instruments	**(709)**	(981)
Other income	**318**	221
Income before income taxes and non-controlling interests	**51,977**	33,848
Provision for income taxes *[note 14]*	**(8,784)**	(5,926)
Net income from continuing operations	**43,193**	27,922
Net loss from discontinued operations *[note 7]*	**(419)**	(4,917)
Net income before non-controlling interests	**42,774**	23,005
Non-controlling interests	**24**	—
Net income for the period	**42,798**	23,005
Earnings per share *[note 15]*		
Basic, for net income for the period	**0.18**	0.12
Diluted, for net income for the period	**0.18**	0.12
Earnings per share from continuing operations		
Basic, for net income for the period	**0.18**	0.15
Diluted, for net income for the period	**0.18**	0.15
Losses per share from discontinued operations		
Basic, for net loss for the period	**(0.00)**	(0.03)
Diluted, for net loss for the period	**(0.00)**	(0.03)
Retained earnings		
Retained earnings, beginning of period	**1,054,257**	769,557
Net income for the period	**42,798**	23,005
Transfer to statutory reserve *[note 13]*	**(2)**	—
Retained earnings, end of period	**1,097,053**	792,562

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Expressed in thousands of United States dollars] [Unaudited]

Three months ended March 31,	**2010** **$**	2009 $
Net income for the period	**42,798**	23,005
Other comprehensive income:		
Unrealized losses on foreign currency translation of self-sustaining operations	**(212)**	(736)
Unrealized gains (losses) on financial assets designated as available-for-sale, net of tax of $nil	**1,539**	(1,210)
Other comprehensive income (losses)	**1,327**	(1,946)
Comprehensive income	**44,125**	21,059

See accompanying notes

CONSOLIDATED BALANCE SHEETS

[Expressed in thousands of United States dollars] [Unaudited]

	As at March 31, 2010	As at December 31, 2009
	$	$
ASSETS		
Current		
Cash and cash equivalents	**980,373**	1,102,366
Short-term deposits *[note 4(b)]*	**63,070**	70,387
Accounts receivable	**273,666**	282,306
Inventories *[note 3]*	**66,422**	45,978
Prepaid expenses and other	**64,397**	54,747
Convertible bonds *[note 6(b)]*	**30,566**	29,446
Assets of discontinued operations *[note 7]*	**9**	1,531
Total current assets	**1,478,503**	1,586,761
Timber holdings	**2,589,362**	2,183,489
Capital assets, net *[note 5]*	**83,760**	77,377
Intangible assets *[note 8]*	**8,647**	636
Other assets *[note 6]*	**108,243**	115,636
	4,268,515	3,963,899
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 4]*	**124,906**	103,991
Current portion of long-term debt *[note 9]*	**530**	—
Accounts payable and accrued liabilities *[note 14]*	**257,432**	250,287
Income taxes payable	**7,225**	7,346
Liabilities of discontinued operations *[note 7]*	**12,300**	12,156
Total current liabilities	**402,393**	373,780
Long-term debt *[note 9]*	**1,113,927**	925,466
Future income tax liabilities	**39,222**	—
Total liabilities	**1,555,542**	1,299,246
Non-controlling interests	**1,209**	—
Shareholders' equity		
Equity portion of convertible senior notes [note 9(b) and 9(c)]	**158,883**	158,883
Share capital [note 10]	**1,216,178**	1,213,495
Contributed surplus [note 11]	**12,503**	12,200
Accumulated other comprehensive income [note 12]	**225,475**	224,148
Statutory reserve [note 13]	**1,672**	1,670
Retained earnings	**1,097,053**	1,054,257
Total shareholders' equity	**2,711,764**	2,664,653
	4,268,515	3,963,899

Commitments and Contingencies *[notes 20 and 21]*

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in thousands of United States dollars] [Unaudited]

Three months ended March 31,	**2010**	2009
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**42,798**	23,005
Net loss from discontinued operations	**419**	4,917
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**68,256**	64,205
Depreciation and amortization	**1,819**	1,129
Accretion of convertible senior notes	**6,204**	2,859
Stock-based compensation	**1,172**	1,086
Loss on changes in fair value of financial instruments	**709**	981
Unrealized exchange gains	**(1,201)**	(19)
Interest income from Mandra	**(117)**	(300)
Non-controlling interests	**(24)**	—
Other	**(629)**	1,294
	119,406	99,157
Net change in non-cash working capital balances *[note 16]*	**(67,971)**	68,428
Cash flows from operating activities of continuing operations	**51,435**	167,585
Cash flows used in operating activities of discontinued operations	**(235)**	(2,789)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(189,767)**	(233,861)
Increase in other assets	**(10,093)**	(5,257)
Additions to capital assets	**(2,299)**	(3,263)
Decrease (increase) in non-pledged short-term deposits	**7,189**	(864)
Business acquisitions *[note 8]*	**4,151**	—
Acquisition of convertible bonds	**—**	(200)
Proceeds from disposal of capital assets	**37**	—
Cash flows used in investing activities	**(190,782)**	(243,445)
Cash flows from (used in) investing activities of discontinued operations	**1,478**	(929)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on deferred financing costs	**(5,893)**	—
Payment on derivative financial instrument	**—**	(2,891)
Increase in bank indebtedness	**19,726**	8,311
Decrease in pledged short-term deposits	**137**	228
Issuance of shares, net of issue costs	**1,882**	—
Cash flows from financing activities	**15,852**	5,648
Cash flows used in financing activities of discontinued operations	**—**	(1)
Effect of exchange rate changes on cash and cash equivalents	**259**	(238)
Net decrease in cash and cash equivalents	**(121,993)**	(74,169)
Cash and cash equivalents, beginning of period	**1,102,366**	441,171
Cash and cash equivalents, end of period	**980,373**	367,002
Supplemental cash flow information		
Cash payment for interest charged to income	**24,793**	24,569
Interest received	**1,000**	681

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

1. BASIS OF PRESENTATION

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in note 1 of the notes to the consolidated financial statements for the year ended December 31, 2009. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2009.

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue is typically the lowest in the first quarter of the year and traditionally represents approximately 15% of the entire year. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

2. FUTURE ACCOUNTING STANDARDS

The CICA has issued the following Handbook Sections which apply commencing with the Company's fiscal years noted below.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582 Business Combinations, replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or after January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

3. INVENTORIES

The Company's inventories consist of the following:

	March 31, 2010	December 31, 2009
	$	$
Raw materials	**3,366**	2,411
Work in progress	**9,552**	6,641
Finished goods	**9,506**	5,793
Timber logs	**33,110**	21,675
Nursery	**10,888**	9,458
	66,422	45,978

The amount of inventories recognized as an expense and included in cost of sales for the three months ended March 31, 2010 was $87,555,000 [2009 – $47,504,000]. The amount charged to the statements of income and retained earnings and included in cost of sales for the reversal of previously recorded write-down of inventories for valuation issues for the three months ended March 31, 2010 was $369,000 [2009 – write-down of $1,311,000].

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

4. BANK INDEBTEDNESS

Certain of the Company's banking facilities are collateralized by:

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at March 31, 2010 of $55,797,000 [December 31, 2009 – $45,096,000]; and

[b] certain short-term deposits at March 31, 2010 of $30,105,000 [December 31, 2009 – $30,242,000].

Total interest expense on bank indebtedness for the three months ended March 31, 2010 was $1,280,000 [2009 – $948,000].

5. CAPITAL ASSETS

The Company's capital assets consist of the following:

	March 31, 2010		December 31, 2009	
	Cost	**Accumulated depreciation, amortization and impairment**	Cost	Accumulated depreciation, amortization and impairment
	$	**$**	$	$
Machinery and equipment	**32,494**	**14,148**	28,449	13,742
Buildings	**55,124**	**4,850**	52,072	4,213
Land-use rights	**9,819**	**1,349**	9,714	1,297
Office furniture and equipment	**4,401**	**2,222**	4,059	2,040
Vehicles	**7,698**	**3,207**	7,326	2,951
	109,536	**25,776**	101,620	24,243
Less: accumulated depreciation, amortization and impairment	**(25,776)**		(24,243)	
Net book value	**83,760**		77,377	

Buildings, machinery and equipment of $3,717,000 [December 31, 2009 – $2,533,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior periods.

6. OTHER ASSETS

The Company's other assets consist of the following:

	March 31, 2010	December 31, 2009
	$	$
Prepaid plantation costs and lease rentals [a]	**67,342**	59,172
Investment in Omnicorp and Greenheart [b]	**18,577**	17,057
Deposit for purchase of logs [c]	**8,000**	8,000
Deposit for acquisition of long-term investment/capital assets	**7,090**	6,570
Investment in Mandra	—	2
Subordinated loan and interest receivable	—	20,567
Other	**7,234**	4,268
	108,243	115,636

[a] These represented prepaid land leases of plantation land in the PRC and prepaid expenses for planted plantations.

[b] In July 2007, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart Resources Holdings Limited ("Greenheart"). In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire, through a wholly-owned subsidiary approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8,

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

2007 for consideration to the Company consisting of 7,860,000 ordinary shares of Omnicorp, 4% convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp with a maturity date of November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000).

In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders.

In February 2009, the Company acquired 55,000,000 ordinary shares of Omnicorp and approximately $21,706,000 (equivalent to HK$167,631,000) convertible bonds issued by Omnicorp. The purchase price consisted of cash of approximately $4,300,000 (equivalent to HK$33,000,000) for the Omnicorp shares and 2,659,990 common shares of the Company for the Omnicorp convertible bonds.

The face value of the above bonds are convertible into ordinary shares of Omnicorp at a conversion price of HK$2.00 per share.

On November 6, 2009, at a special general meeting, shareholders of Omnicorp approved a Supplemental Deed Poll pursuant to which the conditions of the convertible bonds were modified to the effect that (i) the maturity date of the convertible bonds was extended from November 9, 2009 to November 8, 2010 and (ii) a control restriction was uplifted such that holders of the convertible bonds are able to exercise the conversion rights attaching to the convertible bonds even if such holder and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers (“Takeovers Code”)) with it would become obliged to make a mandatory offer under Rule 26 of the Takeovers Code as a result of such conversion.

The convertible bonds were assessed under CICA Section 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset.

The derivative asset was adjusted to its fair value of $7,740,000 using the Black Scholes model as at March 31, 2010 resulting in an unrealized loss of $709,000 for the three months ended March 31, 2010 [2009 – $388,000] recorded in the statements of income and retained earnings.

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) and $21,181,000 (equivalent to HK$163,564,000) on the completion dates of November 8, 2007 and February 6, 2009, respectively. These discounts, together with the stated interest on the convertible bonds, were accreted using the effective interest rate method over the convertible bonds’ remaining term to November 8, 2009. On November 9, 2009 the fair value of the conversion option was remeasured and $10,826,000 was bifurcated from the carrying value of the convertible bond. The convertible bond was discounted at the original effective interest rate over the term to maturity to determine the present value of the convertible bond of $20,048,000 on November 9, 2009. The difference between the present value plus fair value of the conversion option and the carrying value of the convertible bond on November 9, 2009 of $3,482,000 was recognized as a gain in the statements of income and retained earnings in 2009. For the three months ended March 31, 2010, the Company recorded accretion income of $1,864,000 [2009 – $944,000] in the statements of income and retained earnings.

The following assumptions were used to estimate the fair value of the conversion options as at:

	March 31, 2010	December 31, 2009
Risk-free interest rate	**0.35%**	0.31%
Expected option life (in years)	**0.61**	0.86
Dividend yield	**0.00%**	0.00%
Volatility	**92.70%**	104.70%

[c] The amount represents a refundable deposit of $10.0 million, out of which $2.0 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million m^3 of wood fibre by the Company. The deposit will be refunded in equal instalments over five years after commencement of operations under the contract.

7. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission revenue ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations.

In March 2009, the Company committed to a plan to dispose of certain machinery and equipment of the Company's particleboard operations in Gaoyao, the PRC due to continued losses over the years. On March 30, 2009, a subsidiary of the Company entered into an agreement, as amended by a supplementary agreement in June 2009, to dispose of the capital assets of Gaoyao particleboard operation for proceeds of approximately $29,550,000 (equivalent to RMB202,000,000). The Company has recognized the sale as disposal of capital assets and the results of operations of the Company's particleboard operations are detailed below and shown as discontinued operations.

As a result, the statements of income and retained earnings and balance sheets have been reclassified from statements previously presented.

The results of the discontinued operations are as follows:

	Three months ended March 31,	
	2010	2009
	$	$
Revenue	—	173
Cost and expenses		
Cost of sales	—	415
Selling, general and administration	**153**	179
Depreciation and amortization	—	215
	153	809
Loss from operations before the undernoted	**(153)**	(636)
Interest expenses	—	(90)
Exchange gains	—	1
Impairment of assets held for sale	—	(3,487)
Loss before income taxes	**(153)**	(4,212)
Provision for income taxes	**(266)**	(705)
Net loss from discontinued operations	**(419)**	(4,917)

Assets and liabilities of discontinued operations consist of the following:

	March 31, 2010	December 31, 2009
	$	$
Assets of discontinued operations		
Accounts receivable	**9**	12
Prepaid expenses and others	—	1,519
	9	1,531
Liabilities of discontinued operations		
Accounts payable and accrued liabilities *[a]*	**12,300**	12,156
	12,300	12,156

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

The statements of cash flows of discontinued operations are as follows:

	Three months ended March 31,	
	2010	2009
	$	$
Cash flows used in operating activities	**(235)**	(2,789)
Cash flows from (used in) investing activities	**1,478**	(929)
Cash flows used in financing activities	**—**	(1)
	1,243	(3,719)

Included in the cash flows from investing activities of discontinued operations in the three months ended March 31, 2010 are receipts of $1,478,000 representing instalments received for the disposal of certain machinery and equipment of Gaoyao particleboard operation. The items of other comprehensive income of the discontinued operations for the three months ended March 31, 2010 and 2009 are insignificant.

[a] Included in accounts payable and accrued liabilities as at March 31, 2010 is the balance of the tax provision for the tax related contingency of $8,985,000 [December 31, 2009 – $8,717,000] provided on the income and commission earned from the sale of wood chips in prior years (see note 14).

8. BUSINESS ACQUISITIONS

[a] On January 4, 2010, the Company, through a wholly-owned subsidiary, acquired a 100% equity interest in Homix Limited ("Homix") and subsidiaries, which are principally engaged in the research & development and manufacturing of engineered-wood products in China, for cash of $7,100,000.

In accordance with the purchase price method of accounting, the purchase price paid has been allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The purchase price allocation is preliminary and the Company is continuing to evaluate the assets acquired and liabilities assumed, and there may be adjustments to the preliminary estimate of purchase date fair values and the identification of other intangibles as the Company completes the valuation process. The Company will finalize the purchase price allocation in 2010. The preliminary purchase price allocation based on estimated fair values of assets acquired and liabilities assumed is as follows:

	$
Cash and bank balances	2,388
Accounts receivable	159
Inventories	3,321
Prepaid expenses and others	138
Capital assets	5,363
Intangible assets	8,017
Bank indebtedness	(1,172)
Accounts payable and accrued liabilities	(10,905)
Income taxes payable	(9)
	7,300

	$
Purchase consideration	
Cash paid	7,100
Transaction costs	200
Total purchase price	7,300

The operating results of Homix from January 4, 2010 to March 31, 2010 are included in these consolidated financial statements.

[b] On February 5, 2010, the Company acquired an 84.99% equity interest in Mandra Forestry Holdings Limited ("Mandra") in which the Company previously held a 15% equity interest.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

Mandra is principally engaged in the operation of forest plantations in the PRC.

The Company paid initial consideration of $2,000,000 on February 5, 2010 and will pay an additional fixed amount of $2,000,000 on August 5, 2010. Additional contingent consideration of up to $5,000,000 (the “First Supplemental Payment”) and $5,000,000 (the “Second Supplemental Payment) will be payable based on the achievement of certain agreed milestones, with: (i) 50% of the First Supplemental Payment (the “Initial First Supplemental Payment”) payable within ten days of June 30, 2010; and (ii) the remaining 50% of the First Supplemental Payment, together with the Second Supplemental Payment, payable within ten days of December 31, 2010. The First Supplemental Payment and the Second Supplemental Payment will be paid by the issuance of common shares of the Company at an issuance price based on the volume-weighted average price for the ten trading days preceding the date of the Initial First Supplemental Payment or the Second Supplemental Payment, as applicable, subject to a minimum per-share price of Cdn.$7.00. These amounts may be reduced by negotiation if any of the milestones are not met, subject to a maximum reduction of 50%. The Company will account for the contingent amounts as an additional cost of the purchase when the contingencies are resolved and the consideration becomes issuable.

Concurrently on February 5, 2010, the Company completed an exchange with holders of 99.7% of the $195,000,000 of 12% guaranteed senior notes due in 2013 issued by Mandra Forestry Finance Limited (“Mandra Notes”) and 96.7% of the warrants issued by Mandra Holdings, for an aggregate principal amount of $187,177,375 of new guaranteed senior notes issued by the Company (the “New 2014 Senior Notes”), bearing interest at a rate of 10.25% per annum, with a maturity date of July 28, 2014. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged their notes with the Company in consideration of the issuance by the Company of additional 2014 Senior Notes with an aggregate principal amount of $187,187,000. On the acquisition date, the Mandra Notes assumed by the Company was revalued at the fair value of the 2014 Senior Notes.

The remaining 0.3%, or $530,000 principal amount of the Mandra Notes will be redeemed pursuant to the terms of the indenture governing the Mandra Notes subsequent to March 31, 2010. See note 9[d] for details.

Pursuant to the principles of purchase accounting with step acquisitions, the Company has accounted for the 15% previously owned interest in Mandra at assigned cost of identifiable assets and liabilities on February 5, 2010. Prior to February 5, 2010, the Company’s 15% interest in Mandra was accounted for on a cost basis.

The purchase price allocation for the equity interest in Mandra is preliminary and the Company is continuing to evaluate the assets acquired and liabilities assumed due to the timing of the agreement and the extensive work required to complete the independent valuation of the assets and liabilities acquired. There may be adjustments to the estimated purchase date fair values which may affect timber holdings, goodwill, non-controlling interests, income taxes and the identification and recognition of other intangibles and other liabilities. The Company will finalize the purchase price allocation in 2010. The fair values of net assets acquired were as follows:

	$
Cash and bank balances	6,683
Accounts receivable	408
Inventories	822
Prepaid expenses and others	749
Timber holdings	283,076
Capital assets	1,284
Other assets	9,873
Accounts payable and accrued liabilities	(48,775)
Future income tax liabilities	(39,222)
Long-term debt	(202,717)
Non-controlling interests	(1,233)
	10,948

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

	$
Purchase consideration	
Cash paid and payable	4,002
Issue of common shares	5,000
Transaction costs	1,946
Total purchase price	10,948

The operating results of Mandra from February 5, 2010 to March 31, 2010 are included in these consolidated financial statements.

9. LONG-TERM DEBT

The Company's long-term debt consists of the following:

	March 31, 2010 $	December 31, 2009 $
2011 Senior Notes [a]	**87,670**	87,670
2014 Senior Notes [a]	**399,518**	212,330
2013 Convertible Notes [b]	**292,747**	289,560
2016 Convertible Notes [c]	**371,782**	369,306
2013 Mandra Notes [d]	**530**	—
Unamortized deferred financing costs	**(37,790)**	(33,400)
	1,114,457	925,466
Less: Current portion	**(530)**	—
	1,113,927	925,466

[a] On August 17, 2004, the Company issued $300,000,000 non-convertible guaranteed senior notes (the "2011 Senior Notes"). The 2011 Senior Notes bear interest at a rate of 9.125% per annum and are payable semi-annually. The 2011 Senior Notes will mature on August 17, 2011. The 2011 Senior Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2011 Senior Notes, as amended) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- secured by pledge of the shares of the Subsidiary Guarantors.

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The contract matured on August 16, 2009. The loss on change in fair value of $593,000 has been recorded in losses on changes in fair value of financial instruments in the statements of income and retained earnings in the three months ended March 31, 2009.

On June 24, 2009, the Company offered to eligible holders of the 2011 Senior Notes to exchange, subject to certain conditions, any and all of the outstanding 2011 Senior Notes for up to $300,000,000 10.25% new guaranteed senior notes due 2014 (the "2014 Senior Notes"). The Company also solicited consents from holders of the 2011 Senior Notes to amend certain of the provisions of the indenture governing the 2011 Senior Notes.

On July 27, 2009, the Company completed the exchange offer and consent solicitation, issuing an aggregate principal amount of $212,330,000 of 2014 Senior Notes, representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes. The remaining principal amount of approximately $87,670,000 of 2011 Senior Notes will be repaid upon maturity in 2011. The Company received the requisite consents from holders of the 2011 Senior Notes and, as a result, the outstanding 2011 Senior Notes not tendered to the exchange offer are also subject to amended provisions of the indenture governing the 2011 Senior Notes. The 2014 Senior Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2014 Senior Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the 2014 Senior Notes).

In accordance with CICA Emerging Issues Committee Abstract – 88 "Debtors Accounting for a Modification or Exchange of Debt Instruments", the exchange offer with certain holders of the 2011 Senior Notes constitutes a modification of the 2011 Senior Notes. As a result, financing costs incurred in connection with the exchange offer were added to the unamortized deferred financing costs of the 2014 Senior Notes and will be amortized over the term of the debt using the effective interest rate method.

Total interest expense on the 2011 Senior Notes for the three months ended March 31, 2010 was $2,079,000 [2009 – $7,196,000].

Total interest expense on the 2014 Senior Notes for the three months ended March 31, 2010 was $8,872,000 [2009 – $nil].

[b] On July 17, 2008, the Company closed an offering of convertible guaranteed senior notes (the "2013 Convertible Notes") for gross proceeds of $300,000,000. The 2013 Convertible Notes will mature on August 1, 2013 and bear interest at a rate of 5.0% per annum, payable semi-annually. The 2013 Convertible Notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per $1,000 principal amount of the 2013 Convertible Notes. If a Fundamental Change, as defined in the indenture which governs the 2013 Convertible Notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the 2013 Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company and any gain or loss arising from extinguishment of the debt is recorded in the period that the extinguishment occurs.

On August 6, 2008, the Company issued an additional $45,000,000 of 2013 Convertible Notes pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to $345,000,000. The Company has allocated $272,621,000 of the face value of the 2013 Convertible Notes to the liability component and $72,379,000 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $345,000,000 face value using the estimated effective interest rate of 11.1%. The residual carrying value of $70,462,000, net of issue cost and attributed to the equity component of the 2013 Convertible Notes, was classified as equity component of the 2013 Convertible Notes. The total issue cost of $9,135,000 has been prorated against the liability and equity components. The 2013 Convertible Notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2013 Convertible Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the 2013 Convertible Notes).

Total interest expense of the 2013 Convertible Notes for the three months ended was $7,697,000 [2009 – $7,290,000].

[c] On December 17, 2009, the Company closed an offering of convertible guaranteed senior notes (the "2016 Convertible Notes") for gross proceeds of $460,000,000. The 2016 Convertible Notes will mature on December 15, 2016 and bear interest at a rate of 4.25% per annum, payable semi-annually. The 2016 Convertible Notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 47.2619 common shares per $1,000 principal amount of the 2016 Convertible Notes. If a Fundamental Change, as defined in the indenture which governs the 2016 Convertible Notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the 2016 Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company and any gain or loss arising from extinguishment of the debt is recorded in the period that the extinguishment occurs.

The Company has allocated $368,893,000 of the face value of the 2016 Convertible Notes to the liability component and $91,107,000 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $460,000,000 face value using the estimated effective interest rate of 8.5%. The residual carrying value of $88,421,000, net of issue costs and attributed to the equity component of the 2016 Convertible Notes, was classified as equity component of the 2016 Convertible Notes. The total issue cost of $13,564,000 has been prorated against the liability and equity components. The 2016 Convertible Notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2016 Convertible Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the 2016 Convertible Notes).

Total interest expense of the 2016 Convertible Notes for the three months ended March 31, 2010 was $7,584,000 [2009 – $nil].

[d] The Mandra Notes were issued by a substantially-owned subsidiary of the Company, which was acquired during a business acquisition in the three months ended March 31, 2010.

The Mandra Notes mature on May 15, 2013, unless earlier redeemed pursuant to the terms of the indenture governing such notes. The Mandra Notes bear interest at a rate of 12% per annum and are payable semi-annually. The Company is planning to redeem the outstanding $530,000 principal amount of the Mandra Notes pursuant to the above indenture. See "Subsequent Events" for details.

[e] Under the terms of the above debt agreements in [a], the Company has met the financial and non-financial covenants affecting the Company and the restricted subsidiaries (as defined in the debt agreements), including limitations on dividend and other payment restrictions, short-term borrowings and letters of credit or similar instruments not to exceed the lesser of $400,000,000 and 10% of the total consolidated assets of the Company.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

10. SHARE CAPITAL

The Company's share capital consists of the following:

	Three months ended March 31, 2010		Twelve months edned December 31, 2009	
	Number of Common Shares	**Common Share Capital $**	Number of Common Shares	Common Share Capital $
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of period	**242,129,062**	**1,213,495**	183,119,072	539,315
Issue of shares	—	—	59,009,990	674,180
Exercise of options	**392,666**	**1,882**	—	—
Transfer from contributed surplus *[note 11]*	—	**801**	—	—
Balance, end of period	**242,521,728**	**1,216,178**	242,129,062	1,213,495

During the three months ended March 31, 2010, 392,666 common shares were issued upon the exercise of stock options for proceeds of $1,882,000.

As at March 31, 2010, options to purchase 1,007,041 common shares remain available to be granted.

For the three months ended March 31, 2010, $68,000 was recorded in selling, general and administrative expenses as compensation expense for the re-measurement of Deferred Stock Units ("DSUs") (including $2,000 related to the revaluation to the market value of the underlying shares as at March 31, 2010). As at March 31, 2010, there were an aggregate of 11,768 DSUs with a market value of $230,000 recognized and outstanding.

11. CONTRIBUTED SURPLUS

The contributed surplus represents stock-based compensation and options granted over the vesting period which was charged to the statements of income and retained earnings.

	Three months ended March 31, 2010 $	Twelve months ended December 31, 2009 $
Balance, beginning of period/year	**12,200**	7,599
Stock-based compensation	**1,104**	4,601
Transfer to share capital *[note 10]*	**(801)**	—
Balance, end of period/year	**12,503**	12,200

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

Three months ended March 31,	**2010** **$**	2009 $
Balance, beginning of period	**224,148**	211,831
Other comprehensive income (losses)	**1,327**	(1,946)
Balance, end of period	**225,475**	209,885

As at the balance sheet dates, accumulated other comprehensive income comprises the following amounts:

	March 31, **2010** **$**	December 31, 2009 $
Unrealized gains on translation of financial statements of self-sustaining foreign operations	**217,670**	217,882
Unrealized gains on financial assets designated as available-for-sale, net of tax of $1,403 (December 31, 2009: $1,403)	**7,805**	6,266
Balance, end of period/year	**225,475**	224,148

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. For the three months ended March 31, 2010, the Company incurred unrealized foreign currency translation losses of $212,000 [2009 – $736,000], primarily from the strengthening of Renminbi against U.S. dollars.

13. STATUTORY RESERVE

Pursuant to PRC regulations, the Company's subsidiaries in the PRC are required to make appropriation to the reserve fund based on after-tax net income determined in accordance with PRC generally accepted accounting principles ("PRC GAAP"). Appropriation to the reserve must be at least 10% of after-tax net income determined in accordance with PRC GAAP until the accumulative total of the reserve is equal to 50% of the subsidiaries' registered capital. The allocation of the reserve must be made before the distribution of dividends to shareholders. The reserve is not available for distribution to shareholders other than in liquidation and is recorded as a component of shareholders' equity.

	Three months ended **March 31,** **2010** **$**	Twelve months ended December 31, 2009 $
Balance, beginning of period/year	**1,670**	—
Transfer from retained earnings	**2**	1,670
Balance, end of period/year	**1,672**	1,670

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

14. PROVISION FOR TAX RELATED LIABILITIES

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax on a deemed profit basis. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities, including discontinued operations, as at March 31, 2010 is the balance of the tax provision for the tax related contingency amounting to $107,343,000 [December 31, 2009 – $98,863,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current three months and in the four previous years.

15. EARNINGS PER SHARE

The Company's earnings per share from continuing operations are calculated as follows:

Three months ended March 31,	**Earnings $'000**	**2010 Weighted average no. of shares '000**	**Earnings per share $**	Earnings $'000	2009 Weighted average no. of shares '000	Earnings per share $
Net income from continuing operations	**43,193**			27,922		
Weighted average number of shares outstanding		**242,190**			184,715	
Basic earnings per share from continuing operations	**43,193**	**242,190**	**0.18**	27,922	184,715	0.15
Effect of dilutive securities:						
- stock options	**—**	**1,909**		—	1,005	
- 2013 Convertible Notes	**7,697**	**17,008**		7,290	17,008	
- 2016 Convertible Notes	**7,584**	**21,740**		—	—	
	58,474	**282,847**		35,212	202,728	
Deduct anti-dilutive impact:						
- 2013 Convertible Notes	**(7,697)**	**(17,008)**		(7,290)	(17,008)	
- 2016 Convertible Notes	**(7,584)**	**(21,740)**		—	—	
Diluted earnings per share from continuing operations	**43,193**	**244,099**	**0.18**	27,922	185,720	0.15

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

16. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances comprises the following:

Three months ended March 31,	**2010**	2009
	$	$
Cash (used for) provided by:		
Accounts receivable	**9,399**	94,133
Inventories	**(15,915)**	(3,765)
Prepaid expenses and other	**(8,758)**	(5,629)
Accounts payable and accrued liabilities [a]	**(52,566)**	(16,555)
Income taxes payable	**(131)**	244
	(67,971)	68,428

[a] As at March 31, 2010, the Company had an aggregate amount of $37,982,000 [December 31, 2009 – $39,273,000] payable in respect of timber holdings during the period which was included in accounts payable and accrued liabilities. In addition, certain additions of capital assets and plantation investments of approximately $1,875,000 were transferred from other assets during the three months ended March 31, 2010.

17. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	March 31, 2010	December 31, 2009
	$	$
Held for trading [a]	**1,043,443**	1,172,753
Loans and receivables [b]	**307,312**	334,454
Available for sale assets [c]	**18,577**	17,059
Other financial liabilities [d]	**1,377,689**	1,168,025
Embedded derivative [e]	**7,740**	8,459

[a] Cash and cash equivalents and short-term deposits, measured at fair value.

[b] Accounts receivable in continuing and discontinued operations, subordinated loans and interest receivable, convertible bonds receivable, and deposit for the purchase of logs are measured at amortized cost.

[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.

[d] Bank indebtedness, accounts payable and accrued liabilities in continuing and discontinued operations, excluding provision for tax related liabilities, and long-term debts are measured at amortized cost.

[e] Conversion option embedded in convertible bonds is measured at fair value.

Fair Value of Financial Instruments

The Company's financial instruments as at March 31, 2010 are cash and cash equivalents, short term deposits, accounts receivable, convertible bonds receivable, deposit for the purchase of logs, available for sale assets, bank indebtedness, accounts payable and accrued liabilities, long-term debt, and the embedded derivative.

The financial instruments recorded at fair value on the balance sheet are cash and cash equivalents, short-term deposits, investment in Omnicorp (included in available for sale assets) and embedded derivative. These have been categorized into one of three categories, based on a fair value hierarchy, in accordance with CICA Handbook Section 3862. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are either directly or indirectly observable. Level 3 valuations are based on significant inputs that are unobservable (not based on observable market data). All of the Company's financial assets and liabilities recorded at fair value are included in Level 1 except the embedded derivative that was designated within Level 2. The Company did not move any instruments between levels of the fair value hierarchy during the three months ended March 31, 2010.

The fair value of cash and cash equivalents and short-term deposits are determined using quoted market prices in active markets for foreign denominated cash and cash equivalents and short-term deposits.

The fair values of the embedded derivative instrument of $7,740,000 [December 31, 2009 – $8,459,000] are determined using the Black-Scholes pricing model.

The investment in Omnicorp, included in available for sale assets, is recorded at fair value based on quoted prices.

The carrying value of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their fair value due to the short-term maturity of these investments.

The fair values of the 2011 Senior Notes, 2014 Senior Notes, 2013 Convertible Notes and 2016 Convertible Notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts, excluding deferred financing costs, of the 2011 Senior Notes as at March 31, 2010 were $93,281,000 and $87,670,000, respectively [December 31, 2009 – $92,054,000 and $87,670,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2014 Senior Notes as at March 31, 2010 were $446,061,000 and $399,517,000, respectively [December 31, 2009 – $231,334,000 and $212,330,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2013 Convertible Notes as at March 31, 2010 were $420,253,000 and $292,747,000, respectively [December 31, 2009 – $407,747,000 and $289,560,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2016 Convertible Notes as at March 31, 2010 were $537,913,000 and $371,782,000, respectively [December 31, 2009 – $502,838,000 and $369,306,000, respectively]. The fair value of the Mandra Guaranteed Senior Notes as at March 31, 2010 approximated the carrying amount of $530,000.

Foreign currency swap contract and convertible bonds

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the 2011 Senior Notes, the Company previously entered into a currency swap agreement to meet interest payments at $27.4 million per annum. The agreement matured on August 16, 2009. The Company does not otherwise engage in other hedging transactions with respect to its foreign exchange risk or interest rate risk.

The Company has convertible bonds issued by Omnicorp which will mature on November 8, 2010. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The change in fair value of these financial instruments for the three months ended March 31, 2010 was an unrealized loss of $709,000 [2009 – $388,000] which has been recorded in the statements of income and retained earnings.

Risks arising from financial instruments and risk management

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates and the prices of wood-based products and standing timber, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Euro. In the three months ended March 31, 2010, 70.3% and 29.7% of the revenue from continuing operations were received in Renminbi and U.S. dollars/Euro, respectively. In the three months ended March 31, 2009, 77.6% and 22.4% of the revenue from continuing operations were received in Renminbi and U.S.

dollars/Euro, respectively. It is expected in the future that substantially all of the sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. A fluctuation of +/-1%, provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything else being equal, have an effect on net income after tax and other comprehensive income in the three months ended March 31, 2010 of approximately $1.6 million and $0.8 million, respectively.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of March 31, 2010, the Company had Renminbi denominated bank accounts of RMB508.9 million (equivalent to $74.6 million) [December 31, 2009 – RMB621.2 million, equivalent to $91.0 million], U.S. dollar denominated bank accounts of $960.7 million [December 31, 2009 – $1,071.8 million], Canadian dollar denominated bank accounts of Cdn.$7.1 million (equivalent to $6.9 million) [December 31, 2009 – Cdn.$9.8 million, equivalent to $9.3 million], Hong Kong dollar denominated bank accounts of HK$8.6 million (equivalent to $1.1 million) [December 31, 2009 – HK$4.1 million, equivalent to $0.5 million] and Euro denominated bank accounts of €113,000 (equivalent to $151,000) [December 31, 2009 – €113,000, equivalent to $161,000]. The Company also had U.S. dollar denominated accounts receivable of $54.3 million [December 31, 2009 – $58.2 million] and Renminbi denominated accounts receivable of RMB1,495.7 million (equivalent to $219.1 million) [December 31, 2009 – RMB1,530.1 million, equivalent to $224.1 million].

The Company mainly incurred U.S. dollar denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

Credit Risk

The Company is exposed to credit risk with respect to accounts receivable from customers. Accounts receivable from continuing operations as at March 31, 2010 included $99,903,000 due from three customers [December 31, 2009 – $108,327,000 due from three customers] representing 36.5% [December 31, 2009 – 38.4%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle accounts payable on behalf of the Company for the purchase of additional standing timber. As at March 31, 2010, $79,028,000 [December 31, 2009 – $9,351,000] or 28.9% [December 31, 2009 – 3.3%] of accounts receivable from continuing operations, were aged more than 90 days. The Company has no significant allowance for doubtful accounts in the three months ended March 31, 2010.

The Company is exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

The cash equivalents consist mainly of short-term investments, such as money market deposits. The Company has deposited the cash equivalents in banks that meet the requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at March 31, 2010, the Company was holding cash and cash equivalents of $980,373,000. The Company expects that continued cash flow from operations in 2010 together with the cash and cash equivalents from previous financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at March 31, 2010:

	Payment Due by Period				
	Within one year $	In the second and third year $	In the fourth and fifth year $	After the fifth year $	Total $
Bank indebtedness	**124,906**	—	—	—	**124,906**
Accounts payable and accrued liabilities [1][2]	**138,326**	—	—	—	**138,326**
Long-term debt [3]	**530**	**86,824**	**665,910**	**361,193**	**1,114,457**
Interest obligations of long-term debt	**85,768**	**159,500**	**109,150**	**39,100**	**393,518**
	349,530	**246,324**	**775,060**	**400,293**	**1,771,207**

(1) Including continuing and discontinued operations.
(2) Excluding provision for tax related liabilities.
(3) Including current portion of long-term debt.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at March 31, 2010, $65.3 million or 5.3% of the Company's total debt is subject to variable interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $0.2 million. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk. The Company minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the sales of standing timber and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber and wood-based products have a significant effect on the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales or purchases of standing timber and wood-based products.

18. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital and to safeguard the Company's ability to continue to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes bank indebtedness of $124,906,000, long-term debt, including current portion of $1,114,457,000 and total shareholders' equity of $2,711,764,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities and senior notes and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As of March 31, 2010, the Company has retained earnings of approximately $1,097 million in the PRC which may be restricted.

19. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segments. The segments were organized to reflect the Company's role as a key wood fibre supplier and provider of value-added wood products through its manufacturing operations. Summary details of the industry segments are as follows:

[a] the plantation fibre segment engages in the sale of standing timber and harvested logs;

[b] the trading of wood logs segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operations' products and other.

Corporate assets, corporate income and costs are included in the Company's corporate segment to differentiate its risks and returns from other business segments.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

By Industry Segment

	March 31, 2010				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	**156,789**	—	—	—	**156,789**
Trading of imported and domestic wood products and logs	—	**82,938**	—	—	**82,938**
Sale of manufacturing operations' products and other	—	—	**11,288**	—	**11,288**
	156,789	**82,938**	**11,288**	—	**251,015**
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	**85,751**	**1,987**	**(2,616)**	**(8,557)**	**76,565**
Net loss from discontinued operations	—	**(266)**	**(153)**	—	**(419)**
Interest income	**19**	**23**	**208**	**3,175**	**3,425**
Interest expense	**234**	**538**	**228**	**26,694**	**27,694**
Depreciation and amortization	**142**	**99**	**1,389**	**189**	**1,819**
Provision for income taxes	**8,214**	**555**	**7**	**8**	**8,784**
Identifiable assets	**2,894,727**	**214,641**	**232,496**	**926,651**	**4,268,515**
Depletion of timber holdings included in cost of sales	**68,256**	—	—	—	**68,256**
Additions to timber holdings and capital assets	**474,959**	**207**	**6,780**	**289**	**482,235**

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

	March 31, 2009				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	127,968	—	—	—	127,968
Trading of imported and domestic wood products and logs	—	37,758	—	—	37,758
Sale of manufacturing operations' products and other	—	—	11,508	—	11,508
	127,968	37,758	11,508	—	177,234
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	62,189	897	(4,934)	(8,560)	49,592
Net loss from discontinued operations	—	(705)	(4,212)	—	(4,917)
Interest income	37	279	276	1,312	1,904
Interest expense	194	373	289	15,939	16,795
Depreciation and amortization	101	56	925	47	1,129
Provision for income taxes	5,283	546	97	—	5,926
Identifiable assets	2,003,114	284,409	294,173	74,487	2,656,183
Depletion of timber holdings included in cost of sales	64,205	—	—	—	64,205
Additions to timber holdings and capital assets	251,512	80	4,946	21	256,559

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the three months ended March 31, 2010, sales to customers, including discontinued operations, in the PRC amounted to approximately $247,561,000 [2009 – $176,189,000].

During the three months ended March 31, 2010, sales to customers in other countries, including discontinued operations, amounted to approximately $3,454,000 [2009 – $1,218,000].

As at March 31, 2010, all of the Company's timber holdings and approximately $83,022,000 [December 31, 2009 – $76,472,000] of the Company's capital assets were located in the PRC.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated] [Unaudited]

20. CAPITAL CONTRIBUTIONS AND COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

As at March 31, 2010, the Company has capital commitments in respect of capital contributions to its PRC wholly owned foreign enterprises of $31,550,000 [December 31, 2009 – $15,450,000].

[b] Capital commitments

As at March 31, 2010, the Company has capital commitments with respect to plantation investment, buildings and plant and machinery of $53,016,000 [December 31, 2009 – $8,703,000].

[c] Purchase commitments

As at March 31, 2010, the Company has purchase commitments mainly regarding logs of $41,063,000 [December 31, 2009 – $26,687,000].

[d] Operating leases

Commitments under operating leases for land and buildings are payable as follows:

	$
Within 1 year	10,968
In the second year	8,345
In the third year	7,830
In the fourth year	7,650
In the fifth year	4,519
Thereafter	120,713
	160,025

[e] Wood fibre

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 356,800 m^3 of wood fibre as at March 31, 2010.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 192,529 hectares of plantation trees for $734,092,000 as at March 31, 2010.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 121,182 hectares of plantation trees for $570,667,000 as at March 31, 2010.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 118,856 hectares of plantation trees for $600,810,000 as at March 31, 2010.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at March 31, 2010.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired 15,140 hectares of plantation trees for $39,884,000 as at March 31, 2010.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, the Company has not acquired any hectares of plantation trees as at March 31, 2010.

21. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material impact on the Company's tax expense. The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

The Company's BVI subsidiaries deriving income from sources in the PRC are subject to PRC enterprise income tax on a deemed profit basis. The deemed profit percentage applied by the Company to plantation fibre sales is 10% for 2009 and prior years. The PRC tax authorities issued a Circular in February 2010 which states that the deemed profit percentage for certain activities should be a minimum of 15%. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. The scope of the application of this provision is uncertain.

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that adequate provision for tax related liabilities has been recognized in the financial statements.

22. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the three months ended March 31, 2010 amounted to $153,000 [2009 – $153,000] and were recorded at an exchange amount as agreed by the related parties.

[b] In addition, as at March 31, 2010, the Company had an aggregate amount of $6,958,000 [December 31, 2009 – $6,958,000] accrued for consultancy fees payable to these related companies. The amount was included in accounts payable and accrued liabilities in the financial statements.

[c] On February 6, 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21,706,000 (equivalent to approximately HK$167,631,000) 4% secured convertible bonds of Omnicorp from various vendors. Total consideration was approximately $25,775,000 (equivalent to approximately HK$200,631,000). Among the vendors were a director of the Company and an entity controlled by such director, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

23. SUBSEQUENT EVENTS

On April 28, 2010, the Company, through its substantially owned subsidiary, tendered an irrevocable notice of redemption of the outstanding Mandra Notes at a premium of 106%. Accrued and unpaid interest up to the redemption date will also be paid.

On May 9, 2010, the Company, through its wholly-owned subsidiary, entered into a sale and purchase agreement with the minority interest shareholders to acquire 2,322,094,900 ordinary shares of Greenheart. Total consideration will be approximately $29,000,000 (equivalent to HK$227,219,000) paid by the issuance of common shares of the Company at an issuance price based on the volume weighted average price of the Company's common shares traded on the Toronto Stock Exchange for the twenty trading days ending on the second trading day (on which the Toronto Stock Exchange is open for trading) prior to the completion date, or its equivalent in HK$ calculated using the noon spot rate of the Cdn.$/HK$ exchange on the second trading day (on which the Toronto Stock Exchange is open for trading) prior to the completion date, as quoted by the Bank of Canada. The agreement is subject to a fourteen day preemptive right notice period from the date of the sale and purchase agreement. One of the vendors, Forest Operations Limited, is beneficially owned by a director of the Company, which owns approximately 5.3% of the ordinary shares of Greenheart being sold.

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the consolidated financial statements for the three months ended March 31, 2010.