SINO-FOREST CORPORATION

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2011

Notice of no auditor review of the condensed interim consolidated financial statements.

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") have not been reviewed by the Company's external auditors.

On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as independent accounting firm Pricewaterhouse Coopers LLP to assist with the examination.

The Company's external auditors were initially engaged to conduct a review of the accompanying Interim Financial Statements in accordance with Canadian standards for the auditor review of interim financial statements. The Company's auditors have advised that they are unable to complete a review of these financial statements until the completion of the examination and review by the Independent Committee and the auditors' consideration of the results thereof.

The Board of Directors and management believe that, based on information currently available to them, the Interim Financial Statements were compiled in accordance with International Financial Reporting Standards ("IFRS") and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in reviewing such financial statements. See Note 2.1 of the Interim Financial Statements.

SINO-FOREST CORPORATION
Condensed Interim Consolidated Income Statements

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

		For the three months ended March 31,	
		2011	2010
	Notes	**$**	$
Continuing Operations			
Wood fibre		**324,420**	239,727
Manufacturing and other		**12,854**	11,288
Greenheart		**1,650**	—
Revenue	6	**338,924**	251,015
Cost of sales		**(223,513)**	(163,219)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost		**10,389**	10,418
Gross profit		**125,800**	98,214
Other operating income		**312**	311
Selling and administrative expenses		**(30,340)**	(23,010)
Other operating expenses		**(2,461)**	(72)
Operating profit		**93,311**	75,443
Finance costs		**(44,417)**	(30,581)
Finance income		**1,548**	3,425
Profit before changes in fair value of financial instruments		**50,442**	48,287
Loss on changes in fair value of financial instruments	14, 22	**(53,040)**	(21,118)
(Loss) profit before tax from continuing operations		**(2,598)**	27,169
Income tax expense	7	**(19,786)**	(10,659)
(Loss) profit for the period from continuing operations		**(22,384)**	16,510
Discontinued operations			
Profit (loss) after tax for the period from discontinued operations		**277**	(595)
Net (loss) profit for the period		**(22,107)**	15,915
Attributable to:			
Equity holders of the parent		**(20,700)**	15,917
Non-controlling interests		**(1,407)**	(2)
		(22,107)	15,915

SINO-FOREST CORPORATION
Condensed Interim Consolidated Income Statements (cont'd)

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

	For the three months ended March 31,	
	2011	2010
	$	$
(Loss) earnings per share, attributable to equity holders of the parent		
- Basic, for (loss) profit for the period	**(0.08)**	0.07
- Diluted, for (loss) profit for the period	**(0.08)**	0.07
(Loss) earnings per share for continuing operations, attributable to equity holders of the parent		
- Basic, for (loss) profit from continuing operations	**(0.09)**	0.07
- Diluted, for (loss) profit from continuing operations	**(0.09)**	0.07
Earnings (loss) per share for discontinued operations, attributable to equity holders of the parent		
- Basic, for profit (loss) from discontinued operations	**0.00**	(0.00)
- Diluted, for profit (loss) from discontinued operations	**0.00**	(0.00)

SINO-FOREST CORPORATION
Condensed Interim Consolidated Statements of Comprehensive Income

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

	For the three months ended March 31,	
	2011	2010
	$	$
Net (loss) profit for the period	**(22,107)**	15,915
Unrealized net gains on available-for-sale financial assets, net of tax $nil	—	1,539
Unrealized exchange differences on translation of foreign operations	**39,388**	382
Other comprehensive income for the period, net of tax	**39,388**	1,921
Total comprehensive income for the period, net of tax	**17,281**	17,836
Attributable to:		
Equity holders of the parent	**18,688**	17,838
Non-controlling interests	**(1,407)**	(2)
	17,281	17,836

SINO-FOREST CORPORATION
Condensed Interim Consolidated Statements of Financial Position

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

	Notes	As at March 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
ASSETS				
Current assets				
Cash and cash equivalents		**1,054,881**	1,223,352	1,102,366
Short-term deposits		**33,189**	32,101	70,387
Trade and other receivables	9	**447,904**	699,393	322,518
Prepayments	10	**92,502**	68,139	19,594
Timber holdings, measured at cost	11	**3,302,124**	2,888,556	2,074,732
Inventories	12	**52,060**	50,977	38,971
Other current financial assets	14	**—**	—	29,446
		4,982,660	4,962,518	3,658,014
Non-current assets				
Timber holdings, measured at fair value	11	**260,119**	249,090	167,990
Property, plant and equipment	15	**85,680**	82,525	47,299
Investment properties		**23,417**	23,498	22,653
Prepaid lease payment, non-current portion	13	**91,744**	90,215	64,001
Other non-current financial assets	14	**10,871**	11,153	46,637
Intangible assets and goodwill	15	**272,562**	264,217	850
Other assets	16	**138,927**	110,240	6,993
Deferred tax asset	7	**3,500**	3,500	2,900
		886,820	834,438	359,323
Total assets		**5,869,480**	5,796,956	4,017,337

SINO-FOREST CORPORATION

Condensed Interim Consolidated Statements of Financial Position (cont'd)

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

	Notes	**As at March 31, 2011**	As at December 31, 2010	As at January 1, 2010
		$	$	$
LIABILITIES AND EQUITY				
Current liabilities				
Interest-bearing loans and borrowings	14	**242,861**	241,629	103,991
Trade and other payables	14	**504,890**	522,593	280,103
Income taxes payable		**11,294**	10,979	7,346
		759,045	775,201	391,440
Non-current liabilities				
Interest-bearing loans and borrowings	14	**1,553,749**	1,541,093	793,531
Deferred tax liability	7	**49,923**	48,934	14,842
Derivative financial instrument	14	**501,366**	448,326	371,962
		2,105,038	2,038,353	1,180,335
Total liabilities		**2,864,083**	2,813,554	1,571,775
Equity				
Issued capital	17	**1,261,086**	1,261,086	1,213,483
Retained earnings		**1,517,792**	1,544,960	1,211,210
Other reserves		**155,045**	115,432	20,869
Equity attributable to equity holders of the parent		**2,933,923**	2,921,478	2,445,562
Non-controlling interests		**71,474**	61,924	—
Total equity		**3,005,397**	2,983,402	2,445,562
Total liabilities and equity		**5,869,480**	5,796,956	4,017,337

SINO-FOREST CORPORATION
Condensed Interim Consolidated Statements of Changes in Equity
[Expressed in thousands of United States dollars] [unaudited]

	Attributable to equity holders of the parent								
	Issued capital	Contributed surplus	Revaluation reserve	Foreign currency translation reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
	$	$	$	$	$	$	$	$	$
At January 1, 2011	1,261,086	11,489	640	101,315	1,988	1,544,960	2,921,478	61,924	2,983,402
Loss for the period	—	—	—	—	—	(20,700)	(20,700)	(1,407)	(22,107)
Other comprehensive income	—	—	—	39,388	—	—	39,388	—	39,388
Total comprehensive income	—	—	—	**39,388**	—	**(20,700)**	**18,688**	**(1,407)**	**17,281**
Share-based payment transactions	—	458	—	—	—	—	458	—	458
Acquisition of non-controlling interests	—	—	(233)	—	—	(6,468)	(6,701)	10,957	4,256
At March 31, 2011	**1,261,086**	**11,947**	**407**	**140,703**	**1,988**	**1,517,792**	**2,933,923**	**71,474**	**3,005,397**

SINO-FORSET CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity (cont'd)

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

	Attributable to equity holders of the parent								
	Issued capital	Contributed surplus	Revaluation reserve	Foreign currency translation reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
	$	$	$	$	$	$	$	$	$
At January 1, 2010	1,213,483	12,933	6,266	—	1,670	1,211,210	2,445,562	—	2,445,562
Profit for the period	—	—	—	—	—	15,917	15,917	(2)	15,915
Other comprehensive income	—	—	1,539	382	—	—	1,921	—	1,921
Total comprehensive income	**—**	**—**	**1,539**	**382**	**—**	**15,917**	**17,838**	**(2)**	**17,836**
Transfer from (to) retained earnings	—	—	—	—	2	(2)	—	—	—
Exercise of share options	2,631	(749)	—	—	—	—	1,882	—	1,882
Share-based payment transactions	—	583	—	—	—	—	583	—	583
Acquisition of subsidiaries (note 5)	—	—	—	—	—	—	—	4,855	4,855
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(4,000)	(4,000)
At March 31, 2010	**1,216,114**	**12,767**	**7,805**	**382**	**1,672**	**1,227,125**	**2,465,865**	**853**	**2,466,718**

SINO-FOREST CORPORATION
Condensed Interim Consolidated Statements of Cash Flows
[Expressed in thousands of United States dollars] [unaudited]

		For the three months ended March 31	
		2011	2010
	Notes	**$**	$
OPERATING ACTIVITIES			
(Loss) profit before tax from continuing operations		**(2,598)**	27,169
Loss before tax from discontinued operations		—	(153)
(Loss) profit before tax		**(2,598)**	27,016
Non-cash adjustment to reconcile (loss) profit before tax to net cash flows:			
Depreciation and amortization		**3,413**	2,194
Share-based compensation		**576**	651
Loss on change in fair value of financial instrument		**53,040**	21,118
Gain on changes in fair value of timber holdings less estimated point-of-sale costs	11	**(10,389)**	(10,418)
Unrealized exchange losses (gains)		**1,810**	(669)
Finance income		**(1,548)**	(3,425)
Finance costs		**44,417**	30,581
Other		**1,264**	1,531
		89,985	68,579
Working capital adjustments:			
Decrease in trade and other receivables		**241,514**	9,850
Increase in prepayments		**(24,060)**	(9,982)
Decrease (increase) in inventories		**391**	(15,081)
Increase in other assets		**(25,800)**	—
Decrease in non-current trade receivables		**275**	132
Decrease in trade and other payables		**(36,291)**	(59,581)
		246,014	(6,083)
Interest received		**1,645**	1,000
Income tax paid		**(249)**	(212)
Cash flows from (used in) operating activities before movement of timber holdings, measured at cost		**247,410**	(5,295)
Net increase in timber holdings, measured at cost		**(368,947)**	(116,685)
Net cash flows used in operating activities		**(121,537)**	(121,980)

SINO-FOREST CORPORATION
Condensed Interim Consolidated Statements of Cash Flows (cont'd)

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

	Notes	For the three months ended March 31 **2011** **$**	2010 $
INVESTING ACTIVITIES			
Net decrease in timber holdings, measured at fair value		**269**	5,089
Purchase of property, plant and equipment		**(3,174)**	(8,804)
Addition of investment properties		—	(243)
Payment for other assets		**(2,732)**	(169)
Payment for prepaid lease payment		**(1,615)**	(68)
Payment for intangible assets		**(5,000)**	—
Proceeds from disposal of property, plant and equipment		**80**	37
(Increase) decrease of non-pledged short-term deposits		**(681)**	7,189
Acquisition of subsidiaries, net of cash acquired	5	—	5,638
Net cash flows (used in) from investing activities		**(12,853)**	8,669
FINANCING ACTIVITIES			
Proceeds from interest-bearing loans and borrowings		**119,303**	92,604
Repayment of interest-bearing loans and borrowings		**(119,857)**	(72,878)
Proceeds from exercise of share options		—	1,882
Proceeds from exercise of share options of a subsidiary		**343**	—
Payment of deferred financing costs		—	(5,893)
Interest paid		**(34,696)**	(24,793)
(Increase) decrease in pledged short-term deposits		**(210)**	137
Net cash flows used in financing activities		**(35,117)**	(8,941)
Net decrease in cash and cash equivalents		**(169,507)**	(122,252)
Net foreign exchange difference		**1,036**	259
Cash and cash equivalents, beginning of period		**1,223,352**	1,102,366
Cash and cash equivalents, end of period		**1,054,881**	980,373

Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

1. Corporate information

The Company is a corporation continued under the *Canada Business Corporations Act* whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, Canada. The principal activities of the Company are described in note 6.

2.1 Basis of preparation

Financial Statements

The accompanying condensed unaudited interim consolidated financial statements (the "Interim Financial Statements") have not been reviewed by the Company's external auditors.

On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as Pricewaterhouse Coopers LLP, to assist with the examination.

The Company's external auditors were initially engaged to conduct a review of the Interim Financial Statements in accordance with the Canadian standards for the auditor review of Interim Financial Statements. The Company's auditors have advised that they are unable to complete a review of the Interim Financial Statements until the completion of the examination and review by the Independent Committee and the auditors' consideration of the results thereof.

The Board of Directors and management believed that, based on information currently available to them, the Interim Financial Statements were compiled in accordance with International Financial Reporting Standards ("IFRS") and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in reviewing such financial statements.

The Interim Financial Statements are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and IFRS 1, *First-time adoption of IFRS* (collectively "IFRS 1") as issued by the International Accounting Standards Board ("IASB"), using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011.

The Interim Financial Statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2010. However, as the Interim Financial Statements are the Company's first financial statements prepared using IFRS, they include certain disclosures required to be included in annual financial statements prepared in accordance with IFRS, but that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS to make an explicit and unreserved statement of compliance with IFRS. The Company will make this statement when it issues the annual financial statements for the year ending December 31, 2011.

Note 22 sets out information on the impact of the transition from Canadian GAAP to IFRS.

Basis of consolidation

The Interim Financial Statements comprise the financial statements of Sino-Forest Corporation and its subsidiaries as at March 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2.2 Areas involving significant judgments, estimates and assumptions

Preparing the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management continually evaluates these judgments, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include the provision and contingency for tax-related liabilities, discussed in note 21. They also include, but are not limited to, the following:

Revenue recognition of plantation fibre

The Company sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations, and this represents a significant portion of consolidated revenue. The timing of recognition of revenue from plantation fibre sales depends on the terms and conditions of our contractual arrangements with customers. A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which the Company recognizes revenue.

Valuation of timber holdings

The Company measures planted plantations at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model, for which it engages an independent consultant. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, the fair value of timber holdings could potentially be reduced, generating a material loss.

Impairment of property, plant and equipment, investment properties, intangible assets and goodwill

The Company evaluates the recoverability of the carrying value of property, plant and equipment, investment properties, intangible assets and goodwill (or the cash-generating units to which they belong) whenever indicators of impairment exist. Estimates related to impairment assessments are subject to significant measurement uncertainty and are susceptible to change based on future plans and events. Any resulting impairment loss could have a material impact on the amounts reported for property, plant and equipment, investment properties, intangible assets and goodwill in the statement of financial position.

Valuation of embedded derivatives

The Company's 2013 Convertible Notes and 2016 Convertible Notes (as defined below; collectively, the "Convertible Notes") include an embedded derivative liability, measured separately at fair value at the end of each reporting period, with changes in fair value recognized in the income statement. The liability is measured using a Black-Scholes valuation model, incorporating inputs for factors which are by their nature unpredictable, and the resulting valuation of the embedded derivative will be inherently volatile. Changes in the amounts of the inputs and in the operation of the valuation model could materially increase or decrease the carrying amount of the embedded derivative liability in future periods. In particular, changes in the Company's share price will have a significant effect on the measurement of fair value, with an increasing share price generally resulting in a measurement loss and a decreasing share price generally resulting in a measurement gain.

Business acquisitions

There is significant estimation and judgment in the recording of business acquisitions. This estimation and judgment includes the determination of the purchase price and the date of the business combination, and the allocation of the purchase price among the fair values of assets acquired and liabilities assumed. The Company frequently obtains the assistance of third parties in the determination of fair values of forestry and intangible assets.

As at March 31, 2011, the Company has completed the allocation of the fair values of the identifiable assets and liabilities for the acquisition of Mandra Forestry Holdings Limited (see note 5[b]). As part of the fair value allocation, the Company has requested a valuation by an independent valuation consultant to assist in determining the fair values of the assets and liabilities acquired. The final report of the consultant has not yet been made available to the Company and the Company is relying on preliminary estimates of value provided from the consultant as at the acquisition date. Significant risk exists that the values used by the Company may differ from those calculated by the independent valuation consultant. Any material differences between those amounts used by management and those calculated by the independent valuation consultant will be adjusted in these financial statements as the information becomes available to the Company.

2.3 Future accounting standards

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted:

The IASB issued IFRS 9, *Financial Instruments* in November 2009 as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*; in particular, it introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 before its effective date to add new requirements for classifying and measuring financial liabilities, derecognizing financial instruments, impairment and hedge accounting.

IFRS 10, 11, 12 and 13 were all issued in May 2010. IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 *Joint Arrangements* introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 *Disclosure of Interests in Other Entities* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

The Company has not yet determined the impact of these standards on its financial statements.

3 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in selling and administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

b) Foreign currency translation

The Company's consolidated financial statements are presented in US dollars, which is also the Company's functional currency. Each subsidiary of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Company and its subsidiaries at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into US dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

c) Revenue recognition

Revenue is recognized when it is probable that economic benefits will flow to the Company and these can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duties. The following specific recognition criteria must also be met before recognizing revenue. For contracts subject to extended payment terms, the Company discounts future receipts to their fair value using an imputed rate of interest, and recognizes the difference between fair value and the nominal amount of the consideration as interest income over the contract period.

Sale of goods

Revenue from the sale of plantation fibre is recognized when a contract is entered into which establishes a fixed and determinable price with the customer, collection is reasonably assured and the significant risks and rewards of ownership have been transferred to the customer.

Revenue from the sale of logs and other products is recognized when the significant risks and rewards of ownership of the logs and other products have transferred to the customer, usually on the delivery of the goods.

Contract revenue

Revenue from the landscaping and wood products contracts is recognized based on the percentage-of-completion method, to the extent that the contract outcome can be estimated reliably. The stage of completion is measured either by comparing total costs incurred to the expected total cost of the project, or by reference to surveys of work performed. Where the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent of expenses recognized that are recoverable. Any expected loss on a contract is recognized immediately in the income statement.

Interest income

Interest income is recognized on an accrual basis using the effective interest rate method, by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments or over a shorter period, where appropriate, to the net carrying amount of the financial asset.

Rental income

Rental income arising from operating leases on investment properties is recognized on a straight line basis over the lease terms.

d) Income Taxes

The Company applies IAS 12, *Income Taxes.* Income tax consists of current and deferred income tax. Income tax is recognized in the income statement except to the extent that it relates to a business combination, or items recognized directly within equity or in other comprehensive income. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the reporting date.

The Company recognizes provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of prior taxation years. Provisions for uncertain tax positions are based upon management’s assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, and the possible disallowance of tax credits and penalties. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Deferred tax assets and liabilities are recognized, using the liability method of IAS 12, for the expected tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is

not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries or associates, to the extent that they probably will not reverse in the foreseeable future and their timing of the reversal can be controlled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized before applicable expiry dates. Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future. Change in tax rates are reflected in the period when the change has been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realized or liability is settled, based on tax rates and laws that been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

e) Plant and equipment and construction in progress

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Land is measured at fair value less impairment losses recognized after the date of the revaluation and is not depreciated. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, other than properties under construction, as follows:

Buildings	20 years
Machinery and equipment	15 years
Office furniture and equipment	5 to 10 years
Vehicles	5 to 10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes purchase price of raw materials, consumables used, direct labour and other costs directly attributable to constructing the assets. For qualifying assets, which are assets necessarily requiring a substantial period of time to get ready for their intended use or sale, borrowing costs directly attributable to acquiring, constructing or producing, the assets are added to their cost, until the time when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the

income statement as incurred. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

f) Leases

The Company classifies leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. It classifies all other leases as operating leases.

The Company recognizes operating lease payments as an operating expense on a straight-line basis over the lease term. Amounts paid in advance for land leases in the PRC are recorded as prepaid lease rentals.

For arrangements where it acts as a lessor, the Company recognizes lease income from operating leases in income on a straight-line basis over the lease term.

g) Investment properties

Investment properties are stated at cost, including transaction costs, net of accumulated depreciation and/or accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the investment properties of 20 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

A summary of the policies applied to the Company's intangible assets is as follows:

	Licenses	**Patents**	**Operating lease contracts**	**Timber concession licenses and cutting rights**
Useful lives	Indefinite	Finite	Finite	Finite
Amortization method used	No amortization	Amortized on a straight-line basis over the shorter of the useful life and the period of the patent	Amortized on a straight-line basis over the lease terms	Amortized on a unit of production basis over the estimated life of the timber concession licenses and cutting rights
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired

i) Financial assets and financial liabilities

Financial Assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. It does not currently have any financial assets classified as held-to-maturity or derivatives designated as hedging instruments.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognized in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in the income statement.

Financial liabilities

Financial liabilities within the scope of IAS 39 are recognized initially at fair value (and in the case of loans and borrowings, directly attributable transaction costs) and are then classified either as financial liabilities at fair value through profit or loss, or as financial liabilities measured at amortized cost using the effective interest rate method.

The Company's financial liabilities include trade and other payables, bank overdraft and loans and borrowings, all classified as measured at amortized cost using the effective interest rate method, and the derivative financial instrument embedded within the convertible notes is classified as a financial liability through profit or loss.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the end of each reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization or observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not subsequently reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

j) Timber holdings

Timber holdings include both planted and purchased plantations of young and mature plantations. The Company recognizes timber holdings when the Company controls the assets as a result of past events, it is probable that future economic benefits will flow to the Company, and it can measure the assets reliably.

The Company measures planted plantations in accordance with IAS 41 *Agriculture* ("IAS 41") at initial recognition and at the end of each reporting period, at fair value less costs to sell, by referring to valuations using a discounted cash flow model. Changes in the fair value less costs to sell are included in the income statement. The Company measures purchased plantations in accordance with IAS 2 *Inventories* ("IAS 2") at the lower of cost and net realizable value. Timber holdings that are sold or harvested are derecognized when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of plantation sold or harvested. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

l) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

m) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts.

n) Short-term deposits

Short-term deposits comprise cash at banks with an original maturity over three months.

o) Convertible notes

The Company's convertible notes contain an embedded derivative, since not all the settlement alternatives attaching to the holder's conversion option result in the Company delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset. Because it is not closely related to the underlying notes, the embedded derivative is measured separately at fair value at the end of each reporting period, with changes in fair value recognized in the income statement. On initial recognition, for each series of notes, the Company measured the derivative liability at fair value, and measured the carrying value of the underlying convertible notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, it measures the derivative liability at fair value, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying notes to their face value using the effective interest method. The transaction costs incurred for the insurance of the convertible notes are charged to the income statement.

p) Provisions, including reforestation and restoration obligations

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Where a provision is measured using the estimated future cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

In particular, as a result of its ordinary activities relating to purchased and planted plantations, the Company may incur legal or constructive obligations in relation to reforestation costs or to carry out other restoration activities. It measures these obligations as provisions at its best estimate of their present value.

q) Share-based payment transactions

Certain employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees and senior executives render services as consideration for equity instruments (equity-settled transactions). Non-employee directors are granted deferred stock units that are intended to be settled in cash (cash-settled transactions) or in the form of common shares of the Company.

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense

not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at the end of each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

4. Seasonality of operations

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.

5. Business combinations and acquisition of non-controlling interests

[a] **Acquisition of Homix Limited**

On January 4, 2010, the Company acquired a 100% equity interest in Homix Limited and subsidiaries ("Homix") for cash consideration of $7,100,000. Homix is principally engaged in the research & development and manufacturing of recomposed wood products in the PRC.

Assets acquired and liabilities assumed
The fair value of the identifiable assets and liabilities of Homix as at the date of acquisition were:

	Fair value recognized on acquisition $
Assets	
Property, plant and equipment	5,363
Cash and cash equivalents	2,388
Trade and other receivables	242
Prepayments	63
Inventories	3,228
Patents and licences	9,808
	21,092
Liabilities	
Trade and other payables	(10,905)
Interest-bearing loans and borrowings	(1,172)
Income taxes payable	(9)
Deferred tax liability	(1,906)
	(13,992)
Total identifiable net assets at fair value and purchase consideration transferred	**7,100**

Homix contributed $8,026,000 of revenue and $1,345,000 from the date of acquisition of January 4, 2010 to December 31, 2010 to the loss before tax from continuing operations of the Company. If the combination had taken place at the beginning of 2010, revenue from continuing operations would have

been $1,923,536,000 and the profit from continuing operations for the Company would have been $318,979,000.

Analysis of cash flows on acquisition	$
Transaction costs of the acquisition (included in cash flows from operating activities)	(200)
Net cash acquired with the subsidiaries (included in cash flows from investing activities)	2,388
Net cash flow on acquisition	**2,188**

Transaction costs of $200,000 have been expensed and are included in selling and administrative expenses.

[b] **Acquisition of Mandra**

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. The Company recognized a loss of $1,500 in the income statement on the remeasurement of the previously held equity interests to fair value at the acquisition date. Mandra is principally engaged in the operation of forest plantations in the PRC.

The Company paid an initial consideration of $2,000,000 on February 5, 2010 and an additional fixed amount of $2,000,000 on August 5, 2010. As part of the purchase agreement with the previous owner of Mandra, additional contingent consideration was payable to the previous owner of Mandra of up to $5,000,000 (the "First Supplemental Payment") and $5,000,000 (the "Second Supplemental Payment) based on the achievement of certain agreed milestones.

As at the acquisition date, the fair value of the contingent consideration was estimated at $6,899,000.

In August 2010, upon completion of the First Supplemental Payment, the fair value of the contingent consideration was remeasured at $8,929,000, recognizing a loss of $2,030,000 in the income statement.

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, 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 10.25% guaranteed senior notes due 2014 (the "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 was redeemed pursuant to the terms of the indenture governing the Mandra Notes on June 2, 2010.

On June 10, 2010, the Company acquired the remaining 0.01% equity interest in Mandra for a consideration of $160. On June 29, 2010, the Company acquired the remaining 3.3% of the warrants issued by Mandra for a consideration of $132,000.

On August 5, 2010, the Company issued 147,908 common shares representing 50% of the First Supplemental Payment at an issuance price of Cdn.$15.60 per common share.

On April 28, 2011, the Company issued 355,037 common shares as the remaining 50% of the First Supplemental Payment and the Second Supplemental Payment at an issuance price of Cdn.$15.60 and Cdn.$23.53 per common share, respectively.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Mandra as at the date of acquisition were:

	Fair value recognized on acquisition $
Assets	
Property, plant and equipment	797
Investment properties	496
Cash and cash equivalents	6,022
Trade and other receivables	1,472
Inventories	486
Timber holdings	120,440
Prepaid lease payments	1,958
Other assets	64,606
Favourable operating leases relative to market terms	35,163
	231,440
Liabilities	
Trade and other payables	(50,566)
Income taxes payable	(377)
Interest-bearing loans and borrowings	(198,849)
Deferred tax liability	(17,289)
	(267,081)
Total identifiable net liabilities at fair value	**(35,641)**
Non-controlling interest measured at proportionate share of identifiable net assets	(4,855)
Goodwill arising on acquisition	51,300
Purchase consideration transferred	**10,804**

The fair value of the operating lease contracts of $35,163,000 was derived from an independent valuation for the operating leases of the plantation land at the acquisition date. The fair value of the timber holdings and other assets of $120,440,000 and $64,606,000, respectively were derived from a preliminary estimate of value from an independent valuator as at the acquisition date. The goodwill amount recognized on the acquisition primarily reflects the Company's assessment of additional value to be generated by applying its own business model and strategies to the acquired assets.

Mandra contributed $1,363,000 of revenue and loss of $8,629,000 from the date of acquisition of February 5, 2010 to December 31, 2010 to the profit before tax from continuing operations of the Company. If the combination had taken place at the beginning of 2010, revenue from continuing operations would have been $1,923,536,000 and the profit from continuing operations for the Company would have been $306,988,000.

Purchase consideration	$
Cash paid and payable	3,905
Contingent consideration liability	6,899
Total consideration	**10,804**

Analysis of cash flows on acquisition	$
Transaction costs of the acquisition (included in cash flows from operating activities)	(2,196)
Net cash acquired with the subsidiaries (included in cash flows from investing activities)	6,022
Net cash flow on acquisition	**3,826**

Transaction costs of $2,196,000 have been expensed and are included in selling and administrative expenses.

[c] **Acquisition of Greenheart Group**

The Company acquired control over Greenheart Group Limited (formerly known as Omnicorp Limited) ("Greenheart Group") and Greenheart Resources Holdings Limited ("Greenheart Resources") during 2010.

Prior to May 2010, the Company held non-controlling interests in both Greenheart Resources and Greenheart Group, acquired through various transactions. On June 1, 2010, the Company acquired 2,638,469,000 ordinary shares in Greenheart Resources, representing approximately 34.4% of its issued share capital and increasing the Company's total holdings to approximately 39.6%. Total consideration was approximately $33,269,000, paid by issuing 1,990,566 common shares of the Company at an issuance price of Cdn.$17.49 per common share. The remaining 60.4% equity interest in Greenheart Resources was and continues to be held by Greenheart Group.

The Company derecognized its available-for-sale interest in Greenheart Group, recognizing the accumulated increase in fair value of $10,606,000 in the income statement for the year ended December 31, 2010. The Company also recognized a gain of $14,694,000 in the income statement for the year ended December 31, 2010 on remeasuring its previously held equity interests in Greenheart Group and Greenheart Resources to fair value at the acquisition date.

On August 3, 2010, the Company acquired 230,000,000 ordinary shares in Greenheart Group, increasing its voting interest to approximately 53.5% of the enlarged issued share capital. Total cash consideration, at a price per share of HK$1.82, was HK$418,600,000 or approximately $53,846,000. At the same time the Company obtained control over Greenheart Group, it obtained control over Greenheart Resources.

The Company also held an aggregate principal amount of HK$212,328,000 4% convertible bonds of Greenheart Group which were convertible into ordinary shares of Greenheart Group at a conversion price of HK$2.00 per share. On September 27, 2010, the Company converted all of the convertible bonds, increasing its controlling equity interest in Greenheart Group to approximately 59.1%.

Assets acquired and liabilities assumed
As the Company acquired control over Greenheart Resources at the same time as it acquired control over Greenheart Group, it has aggregated the two transactions for purposes of accounting and disclosure. The fair values of the identifiable assets and liabilities of Greenheart Group as at the date of acquisition were:

	$
Assets	
Cash and cash balances	55,419
Trade and other receivables	409
Inventories	578
Timber concession licenses and cutting rights	143,000
Property, plant and equipment	3,560
Other assets	59
Prepaid lease payments	186
Investment in an associate	1,508
	204,719
Liabilities	
Trade and other payables	(4,916)
Deferred tax liability	(14,181)
Interest-bearing loans and borrowings	(1,799)
	(20,896)
Total identifiable net assets at fair value	183,823
Non-controlling interest measured at proportionate share of identifiable net assets	(55,792)
Goodwill arising on acquisition	24,341
Purchase consideration transferred	**152,372**

Purchase consideration	$
Cash paid	53,912
Fair values of equity interests previously held	68,017
Transfer from convertible bonds	30,443
Total consideration	**152,372**

Analysis of cash flows on acquisition	$
Transaction costs of the acquisition (included in cash flows from operating activities)	(608)
Net cash acquired with the subsidiaries (included in cash flows from investing activities)	55,419
Net cash flow from acquisition	**54,811**

The timber concession licenses and cutting rights are accounted for as intangible assets and amortized on a unit of production basis over the estimated life of the timber concession licenses and cutting rights. The goodwill amount recognized on the acquisition primarily reflects the Company's assessment of additional value to be generated by applying its own business model and strategies to the acquired assets.

Greenheart Group contributed $965,000 of revenue and loss of $8,565,000 from the date of acquisition of August 3, 2010 to December 31, 2010 to the profit before tax from continuing operations of the Company. If the combination had taken place at the beginning of 2010, revenue from continuing operations would have been $1,924,713,000 and the profit from continuing operations for the Company would have been $310,084,000.

Transaction costs of $608,000 have been expensed and are included in the general and administrative expenses.

[d] **Dilution of Greenheart Group**

During the three months ended March 31, 2011, Greenheart Group issued approximately 98,025,000 ordinary shares under its stock-based compensation plan and acquisition of non-controlling interests. The Company recognized a debit of $6,468,000 in retained earnings, reflecting the difference between the amount by which non-controlling interests were adjusted and the fair value of the consideration received.

6. Segment information

The Company's operating businesses are structured and managed separately, according to the nature of their operations. Each of the Company's operating 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 operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Summary details of the operating segments are as follows:

[a] the plantation fibre segment engages in the sales of standing timber and logs;
[b] the other fibre segment engages in the sales of domestic and imported wood products;
[c] the manufacturing segment engages in the sales of manufacturing operation's products and other;
[d] the Greenheart segment engages in the ownership of concession rights or plantation in Suriname and New Zealand and the sales and export of harvested logs and other wood products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

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

Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Three months ended March 31, 2011

By Operating Segment

	Plantation Fibre $	Other Fibre $	Manufacturing and other $	Greenheart $	Corporate $	Adjustments and eliminations $	Total $
Revenue							
External customer	218,248	106,172	12,854	1,650	—	—	338,924
Inter-segment	259	1,291	87	4,061	—	(5,698)[1]	—
Total revenue	**218,507**	**107,463**	**12,941**	**5,711**	—	(5,698)	**338,924**
Depreciation and amortization	507	139	1,787	533	447	—	3,413
Cost of sales of timber holdings	105,721	—	—	—	—	—	105,721
Finance income	28	30	111	120	1,259	—	1,548
Finance cost	376	571	378	673	42,419	—	44,417
Gain on changes in fair value of timber holdings	9,208	—	—	1,181	—	—	10,389
Loss on changes in fair value of financial instrument	—	—	—	—	53,040	—	53,040
Income tax expense	19,202	286	49	82	167	—	19,786
Results							
Segment profit (loss)	92,406	4,222	(3,494)	(1,017)	(108,803)	(5,698)	(22,384)

1. Inter-segment revenues are eliminated on consolidation.

Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Three months ended March 31, 2010

By Operating Segment

	Plantation Fibre $	Other Fibre $	Manufacturing and other $	Greenheart $	Corporate $	Adjustments and eliminations $	Total $
Revenue							
External customer	156,789	82,938	11,288	—	—	—	251,015
Inter-segment	329	901	—	—	—	(1,230)[1]	—
Total revenue	**157,118**	**83,839**	**11,288**	—	—	**(1,230)**	**251,015**
Depreciation and amortization	366	98	1,393	—	337	—	2,194
Cost of sales of timber holdings	75,664	—	—	—	—	—	75,664
Finance income	19	23	208	—	3,175	—	3,425
Finance cost	234	538	371	—	29,438	—	30,581
Gain on changes in fair value of timber holdings	10,418	—	—	—	—	—	10,418
Loss on changes in fair value of financial instrument	—	—	—	—	21,118	—	21,118
Income tax expense	10,263	381	7	—	8	—	10,659
Results							
Segment profit (loss)	75,595	1,913	(6,350)	—	(53,418)	(1,230)	16,510

1. Inter-segment revenues are eliminated on consolidation.

	Plantation Fibre $	Other Fibre $	Manufacturing and other $	Greenheart $	Corporate $	Adjustments and eliminations $	Total $
Segment assets							
At March 31, 2011	**4,215,567**	**325,025**	**269,379**	**269,947**	**789,562**	—	**5,869,480**
At December 31, 2010	3,876,693	379,684	245,590	333,162	961,827	—	5,796,956
At January 1, 2010	2,539,619	212,861	190,340	—	1,074,517	—	4,017,337

Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

7. Income tax

The major components of income tax expense in the interim consolidated income statement are:

	Three months ended March 31,	
	2011	2010
	$	$
Current income tax		
Current income tax expense [a]	**18,908**	10,387
Deferred income tax		
Origination and reversal of temporary differences	**878**	772
Benefit arising from previously unrecognized tax assets	—	(500)
Change of tax rates and imposition of new legislation	—	—
Income tax expense reported in the income statement	**19,786**	10,659
Income tax recognized in other comprehensive income	—	—
	19,786	10,659

The Company's effective tax rate is different from the Company's domestic statutory income tax rate due to the differences set out below:

	Three months ended March 31,	
	2011	2010
	$	$
(Loss) profit before tax from continuing operations	**(2,598)**	27,169
Expected statutory tax rate of Canada	**28.25%**	31.00%
Expected income tax expense	**(734)**	8,422
Recovery relating to previously unrecognized tax losses	—	(500)
Expenses not deductible for tax purposes: Loss on changes in fair value of financial instruments [b]	**14,984**	6,547
Tax losses for which no deferred income tax asset was recognized	**20,952**	15,141
Income tax at lower rates in foreign jurisdiction [c]	**(15,834)**	(19,796)
Other	**418**	845
Income tax expense reported in the income statement	**19,786**	10,659
Effective rate [b]	**(761.6%)**	39.2%
Income tax expense from continuing operations	**19,786**	10,659
Income tax attributable to discontinued operations	**(277)**	442
	19,509	11,101

[a] Current income tax includes accrual for tax contingency related to PRC tax including surtax on PRC income as outlined in note 21.

[b] The effective rate calculated above is distorted by the fact that the amount of "(loss) profit before tax from continuing operations" included the "loss on changes in fair value of financial instruments" which does not affect the Company's calculation of taxable income and the amount of tax expense. If the "loss on changes in fair value of financial instruments" were excluded from the calculation of "(loss) profit before tax from continuing operations", the effective tax rates for March 31, 2011 and 2010 would be 39.2% and 22.1%, respectively.

Under IFRS, the Company has adopted the use of the probability-weighted average method in determining the accrual for tax contingency related to PRC tax including surtax on PRC income as outlined in note 21. The probability-weighted average method considers various scenarios under which the Company's tax liabilities are determined. The increase in effective tax rate is mainly due to an increase in the probability assigned to the scenarios under which the same deemed profit (i.e. 15%) is used in all provinces in the PRC in which the Company does business for years prior to 2010 and a decrease in the probability assigned to

the scenario under which different deemed profit rates (10% to 15%) are used in different provinces (see note 21).

[c] See note 21 as the lower rate relates to the use of BVI Subsidiaries.

As at December 31, 2010, the Company has income tax losses of approximately $125,188,000 based on US dollar tax reporting for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada.

The losses will expire as follows:

	$
Year of Expiry	
2010	1,031
2014	14,406
2015	21,907
2026	16,743
2028	2,372
2029	21,834
2030	46,895
	125,188

In addition, as at December 31, 2010, the Company's PRC WFOEs (Wholly foreign-owned enterprise) and CJVs (Cooperative joint venture) have incurred tax losses on a legal entity basis in aggregate of approximately $67,417,000 [2009 – $36,576,000]. Losses incurred by the PRC WFOEs and CJVs can be carried forward for a maximum of five years. As of March 31, 2011, benefits in amount of $3,500,000 have been recognized as deferred tax assets from the tax losses incurred by the PRC WFOEs and CJVs.

The Company's balances of recognized deferred tax assets and liabilities are:

	March 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Deferred income tax asset	**3,500**	3,500	2,900
Deferred income tax liability	**(49,923)**	(48,934)	(14,842)
Total net deferred income tax liability	**(46,423)**	(45,434)	(11,942)

Deferred income tax liabilities as at March 31, 2011, December 31, 2010 and January 1, 2010 relate to the following:

	March 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Timber holdings, measured at fair value	**(16,846)**	(15,514)	(14,842)
Future tax liability on fair market value increments on acquisitions	**(33,077)**	(33,420)	—
Tax losses carried forward	**3,500**	3,500	2,900
Net deferred income tax liability	**(46,423)**	(45,434)	(11,942)

8. (Loss) earnings per share

Basic (loss) earnings per share amounts are calculated by dividing net (loss) profit for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted (loss) earnings per share amounts are calculated by dividing the net (loss) profit attributable to equity holders of the parent (after adjusting for interest on the convertible notes, if assessed as dilutive) by the weighted average number of common shares outstanding during the period plus the weighted average number of common

shares that would be issued on conversion of all the dilutive potential common shares into common shares.

The following reflects the (loss) income and share data used in the basic and diluted (loss) earnings per share computations:

	Three months ended March 31,	
	2011	2010
	$	$
Net (loss) profit attributable to equity holders of the parent from continuing operations	**(20,977)**	16,512
Profit (loss) attributable to equity holders of the parent from discontinued operations	**277**	(595)
Net (loss) profit attributable to equity holders of the parent for basic (loss) earnings	**(20,700)**	15,917

	Three months ended March 31,	
	2011	2010
	'000	'000
Weighted average number of common shares for basic (loss) earnings per share	**245,741**	242,190
Effect of dilution:		
Share options	**—**	1,972
Weighted average number of common shares adjusted for the effect of dilution	**245,741**	244,162

In respect of the diluted (loss) earnings per share amounts, the impact of the Company's outstanding Convertible Notes is not adjusted in the calculation of weighted number of common shares for the effect of dilution and net loss (profit) attributable to equity holders of the parent as they are assessed as anti-dilutive for the three months ended March 31, 2011 and 2010. In addition, the effect of the dilution of share options is anti-dilutive for the three months ended March 31, 2011.

On April 25, 2011, the Company issued 355,037 common shares as the final payment of the contingent consideration in respect of the acquisition of Mandra.

To calculate earnings (loss) per share amounts for the discontinued operation, the weighted average number of common shares for both basic and diluted amounts is as per the table above. The following table provides the earnings (loss) amount used:

	Three months ended March 31,	
	2011	2010
	$	$
Net profit (loss) from discontinued operation for basic and diluted earnings (loss) per share calculations	**277**	(595)

9. Trade and other receivables (current)

	March 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade receivables	**410,325**	636,626	282,318
Other receivables	**37,579**	62,767	40,200
	447,904	699,393	322,518

The Company reviews outstanding trade receivable and records an allowance for doubtful accounts when the

collections are in doubt. Trade receivable are substantially from companies located in the PRC and are denominated in Renminbi. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi.

10. Prepayments

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Prepayment	**86,879**	62,278	16,292
Prepaid lease payments	**5,623**	5,861	3,302
	92,502	68,139	19,594

11. Timber holdings

11.1 The Company's timber holdings consist of the following:

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Timber holdings measured at lower of cost and net realizable value	**3,302,124**	2,888,556	2,074,732
Timber holdings measured at fair value less estimated point-of-sale cost	**260,119**	249,090	167,990
	3,562,243	3,137,646	2,242,722

The amount of timber holdings stated at lower of cost and net realizable value recognized as expenses and included in cost of sales for the three months ended March 31, 2011 was $103,441,000 [2010 – $64,568,000].

11.2 Timber holdings measured at fair value less estimated point-of-sale cost:

	Planted Plantations $	**Nursery $**	**Total $**
At January 1, 2010	160,983	7,007	167,990
Additions	27,806	6,015	33,821
Acquisition of subsidiaries	58,860	—	58,860
Harvested as agricultural produce	(132)	—	(132)
Depletion of timber holdings	(44,924)	(4,650)	(49,574)
Gains (losses) arising from changes in fair value less estimated point-of-sale cost	32,324	—	32,324
Exchange translation difference	3,125	2,676	5,801
At December 31, 2010	238,042	11,048	249,090
Additions	5,573	1,254	6,827
Harvested as agricultural produce	(1,089)	—	(1,089)
Depletion of timber holdings	(5,851)	(191)	(6,042)
Gains (losses) arising from changes in fair value less estimated point-of-sale cost	10,389	—	10,389
Exchange translation difference	813	131	944
At March 31, 2011	**247,877**	**12,242**	**260,119**

The fair values at the end of each period represent the net present value of the cash flows expected to arise from the management and harvest of the existing plantations over their current rotation, after applying a pre-tax discount rate of 11.5%. The valuation methodology also refers to market transactions in other similar properties.

In the opinion of management, the fair value of plantations of age of two years or below and the fair value of nursery approximate cost at the end of each period.

During the three months ended March 31, 2010 and 2011, the Company sold approximately 1,142 hectares [2010 – 2,249 hectares] of plantations, with a fair value less estimated point-of-sale costs of $3,805,000 [2010 – $7,997,000].

The carrying amount of timber holdings pledged as collateral for the Company's interest-bearing loans and borrowings was $36,541,000, $38,758,000 and $45,005,000 as at January 1, 2010, December 31, 2010 and March 31, 2011, respectively.

12. Inventories

The amount of inventories recognized as an expense and included in cost of sales for the three months ended March 31, 2011 was $114,030,000 [2010 – $87,555,000].

The amount charged to the consolidated income statement and included in cost of sales for the three months ended March 31, 2011 for the reversal of previously-recognized write-downs of inventories was $84,000 [2010 – reversal of write-down of $369,000].

13. Prepaid lease payments

These represent amounts prepaid for plantation and factory land use rights in the PRC.

14. Financial assets and financial liabilities

14.1 Other financial assets

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Financial instruments at fair value through profit or loss			
Derivatives not designated as hedges			
Embedded derivatives of convertible bonds of Greenheart	—	—	8,459
Total financial instruments at fair value	—	—	8,459
Loans and receivables			
Convertible bonds of Greenheart	—	—	20,987
Subordinated loan and interest receivable from Mandra	—	—	20,566
Trade receivables, non-current	**5,182**	5,464	3,537
Other receivables, non-current	**5,689**	5,689	5,475
Total loans and receivables	**10,871**	11,153	50,565
Available for sale investments			
Quoted equity shares in Greenheart Group	—	—	14,672
Unquoted equity shares in Greenheart Resources	—	—	2,385
Unquoted equity shares in Mandra	—	—	2
Total available for sale investments	—	—	17,059
Total other financial assets	**10,871**	11,153	76,083
Total current	—	—	29,446
Total non-current	**10,871**	11,153	46,637

14.2 Derivative financial instrument

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedges			
Embedded derivatives of convertible notes	**501,366**	448,326	371,962
Total derivative financial instruments at fair value through profit or loss	**501,366**	448,326	371,962

14.3 Interest-bearing loans and borrowings

	Notes	**March 31, 2011 $**	December 31, 2010 $	January 1, 2010 $
Current				
Trust receipt loans	a	**102,279**	106,865	44,469
Bank loans	a	**52,912**	47,094	59,522
2011 Senior Notes		**87,670**	87,670	—
		242,861	241,629	103,991
Non-current				
2011 Senior Notes		—	—	87,670
2013 Convertible Notes		**285,054**	279,711	259,945
2014 Senior Notes		**399,518**	399,518	212,330
2015 Convertible Notes		**24,695**	24,334	—
2016 Convertible Notes		**286,032**	281,080	262,834
2017 Senior Notes		**600,000**	600,000	—
Unamortized deferred financing costs		**(41,550)**	(43,550)	(29,248)
		1,553,749	1,541,093	793,531

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

(i) charges over certain of the Company's prepaid land leases, buildings and timber holdings measured at fair value which have an aggregate net book value at March 31, 2011 of $51,037,000 [December 31, 2010 - $38,758,000]; and

(ii) certain short-term deposits at March 31, 2011 of $13,970,000 [December 31, 2010 – $12,996,000].

(b) The terms of the Company's interest-bearing loans and borrowings were disclosed in note 12 to the Company's annual financial statements for the year ended December 31, 2010. As noted therein, the terms of the 2013 and 2016 Convertible Notes provide that they are convertible into common shares of the Company, at the option of the holder, at a defined conversion rate; however, the Company may elect to deliver, in lieu of its common shares, cash or a combination of cash and common shares. The Company's option to deliver cash on the conversion date in lieu of common shares gives rise to an embedded derivative financial liability, measured separately at fair value through profit or loss because it is not closely related to the underlying Convertible Notes. On initial recognition, for each series of the Convertible Notes, the Company measured the derivative financial liability at fair value, and measured the carrying value of the underlying Convertible Notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, the Company measures the derivative financial liability at fair value at each reporting date, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method.

As discussed in note 22[a], on June 13, 2011, the Board of Directors approved amendments to the indentures governing the Convertible Notes to eliminate the Company's option to settle the Convertible Notes by delivering cash or a combination of cash and common shares. The elimination of this option will change the treatment of the embedded derivative liability, removing the requirement to measure that derivative financial liability at fair value at the end of each reporting period. Instead, the Convertible

Notes will be treated as consisting of a liability portion amortized over the loan period, and an equity portion classified as equity.

The loss on changes in fair value of the derivative liability for the three months ended March 31, 2011 is $53,040,000 [2010 – $20,409,000]

The significant assumptions used in applying the Black-Scholes valuation model are as follows:

2016 Convertible Notes	March 31, 2011	December 31, 2010	March 31, 2010	January 1, 2010	December 17, 2009
Date of expiry	December 15, 2016	December 15, 2016	December 15, 2016	December 15, 2016	December 15, 2016
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Volatility	55.4%	55.6%	59.2%	59.1%	59.1%
Risk-free interest rate	3.04%	2.86%	3.09%	2.83%	2.83%
Expected life (in years)	5.72	5.96	6.72	6.96	7.00

2013 Convertible Notes	March 31, 2011	December 31, 2010	March 31, 2010	January 1, 2010	July 17, 2008
Date of expiry	August 1, 2013	August 1, 2013	August 1, 2013	August 1, 2013	August 1, 2013
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Volatility	53.1%	59.5%	61.8%	62.3%	55.8%
Risk-free interest rate	1.69%	1.70%	2.26%	2.12%	3.62%
Expected life (in years)	2.34	2.58	3.34	3.58	5.00

14.4 The following is an analysis of the contractual maturities of the Company's financial liabilities as at March 31, 2011:

	Payment Due by Period				
	Within one year $	In the second and third year $	In the fourth and fifth year $	After the fifth year $	Total $
Interest-bearing loans and borrowings	**242,861**	**345,000**	**424,517**	**1,060,000**	**2,072,378**
Trade and other payables [(1)]	**278,555**	—	—	—	**278,555**
Interest obligations of non-current interest bearing loans and borrowings	**119,544**	**221,548**	**129,249**	**72,286**	**542,627**
	640,960	**566,548**	**553,766**	**1,132,286**	**2,893,560**

(1) Excluding the tax provision for tax related contingency.

15. Property, plant and equipment, intangible assets and goodwill

	Property, plant and equipment $	Intangible assets and goodwill $
Opening net book value at January 1, 2010	47,299	850
Additions	31,161	—
Acquisition of subsidiaries	9,720	263,612
Disposals	(1,614)	—
Depreciation and amortization	(6,617)	(2,976)
Change in fair value	640	—
Exchange adjustment	1,936	2,731
Closing net book value at December 31, 2010	82,525	264,217
Additions	5,041	8,409
Disposals	(392)	—
Depreciation and amortization	(2,162)	(977)
Exchange adjustment	668	913
Closing net book value at March 31, 2011	**85,680**	**272,562**

16. Other assets

The Company's other assets consist of the following:

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Wood logs deposit	**48,300**	22,500	—
Deposit paid for acquisition of property, plant and equipment	**2,446**	2,283	115
Prepaid plantation costs	**81,353**	80,361	286
Deposit paid for business acquisition	—	—	6,326
Others	**6,828**	5,096	266
	138,927	110,240	6,993

17. Issued capital

	March 31, 2011		December 31, 2010	
	Number of Common Shares	**Issued Capital** $	Number of Common Shares	Issued Capital $
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of period/year	**245,740,889**	**1,261,086**	242,129,062	1,213,483
Issue of shares	—	—	2,138,474	35,501
Exercise of options	—	—	1,473,353	8,353
Transfer from contributed surplus	—	—	—	3,749
Balance, end of period/year	**245,740,889**	**1,261,086**	245,740,889	1,261,086

During the three months ended March 31, 2011, no common shares were issued upon the exercise of stock options.

As at March 31, 2011, options to purchase 610,196 common shares remain available to be granted.

During the three months ended March 31, 2011, options to acquire up to 180,702 [2010 – Nil] common shares were granted to executives and employees at an exercise price of Cdn.$21.67. The options granted will vest over three years and expire in five years. The total fair value of the stock options granted was estimated to be $1,838,000 on the respective dates of grant using the Black Scholes option-pricing model in respect of the three vesting with the following input:

	March 17, 2011
Number of options (in number)	**180,702**
Exercise price (in Cdn.$)	**$21.67**
Date of expiry	**March 17, 2016**
Dividend Yield	**0.0%**
Volatility	**57.0%, 55.8%. 56.6%**
Risk-free interest rate	**2.36%**
Option's expected life (in years)	**3.85, 4.15, 4.58**

For the three months ended March 31, 2011, $118,000 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, 2011, there were an aggregate of 25,156 DSUs with a market value of $655,000 recognized and outstanding.

18. Related party disclosures

18.1 Transactions with related parties

During the period, the Company has entered into transactions with related parties as follows:

[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 such executive officers. The consultancy fees incurred for the period ended March 31, 2011 amounted to $152,000 [2010 – $153,000], and were recorded at an exchange amount as agreed by the related parties.

[b] In addition, as at March 31, 2011, the Company had an aggregate amount of $7,632,000 [December 31, 2010 – $7,632,000, January 1, 2010 – $6,958,000] accrued for consultancy fees payable to these related companies. The amount was included in trade and other payables as at March 31, 2011 and was subsequently paid in April 2011.

18.2 Compensation of key management personnel of the Company

	Three months ended March 31,	
	2011	2010
	$	$
Short-term employee benefits	**3,400**	3,025
Equity compensation benefits	**1,478**	—
	4,878	3,025

19. Commitments

Operating lease commitments – Company as lessee

The Company has entered into commercial leases on certain land and buildings. These leases have an average life of between 1 and 45 years with (no) renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rental payable under non-cancellable operating leases are as follows:

	March 31, 2011 **$**	December 31, 2010 $
Within one year	16,078	28,491
After one year but not more than five years	39,954	38,045
More than five years	175,192	177,260
	231,224	243,796

Operating lease commitments – Company as lessor

The Company has entered into commercial property leases on its investment property portfolio, consisting of the Company's surplus office and land and buildings. These non-cancellable leases have remaining terms of between 1 and 3 years.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	March 31, 2011 **$**	December 31, 2010 $
Within one year	935	1,059
After one year but not more than five years	1,594	1,042
More than five years	—	—
	2,529	2,101

Capital commitments

Capital commitments outstanding at the end of the reporting period and not provided for in the financial statements were as follows:

	March 31, 2011 **$**	December 31, 2010 $
Contracted for	155,675	146,825
Authorized but not contracted for	—	—
	155,675	146,825

The capital commitments contracted for were in respect to buildings and plant and machinery.

Capital contributions

As at March 31, 2011, the Company has capital commitments in respect of capital contributions to our WFOEs of $101,600,000 [December 31, 2010 – $51,600,000].

Purchase commitments

As at March 31, 2011, the Company has purchase commitments mainly regarding logs of $264,819,000 [December 31, 2010 – $193,987,000].

Other commitments

Under the assignment agreement entered in May 2010, of which the former agreement was entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually in Inner Mongolia up to July 2018, the Company has acquired approximately 1,109,414 m^3 of wood fibre as at March 31, 2011.

Under the agreement entered in July 2010 to secure at least 600,000 m^3 of wood fibre annually for a period not longer than 10 years in Russia, the Company has acquired approximately 234,400 m^3 of wood fibre as at March 31, 2011.

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 226,300 hectares of plantation trees for $926,507,000 as at March 31, 2011.

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 actually acquired 230,200 hectares of plantation trees for $1,193,459,000 as at March 31, 2011.

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 137,100 hectares of plantation trees for $690,598,000 as at March 31, 2011.

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, 2011.

Under the master agreement entered in June 2009 to acquire between 150,000 and 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired 69,100 hectares of plantation trees for $309,614,000 as at March 31, 2011.

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 acquired 38,200 hectares of plantation trees for $201,438,000 as at March 31, 2011.

20. Capital Management

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

In the management of capital, the Company includes interest-bearing loans and borrowing (including short-term position) of $1,796,610,000 and equity attributable to equity holders of the parent of $2,933,923,000. 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 interest-bearing loans and borrowing 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, 2011, the Company has retained earnings of approximately $1.5 billion which may be restricted.

21. Provision and contingencies for tax related liabilities

The provision for income taxes and tax related liabilities and whether tax filings are required in a particular jurisdiction is subject to a number of different factors, estimates and judgments made by management. A change in the facts or in these estimates and judgments 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 that 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, 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.

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and in earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with

the current 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 probably subject to enterprise income tax on a deemed profit basis and they are probably expected to be taxed on this basis for the current year end plus three prior years instead of current year plus five prior years.

Under the terms of the agreements, relevant sales contracts and commission agreements made with the AI (collectively, the "AI Agreements"), the AI are responsible for withholding and 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 also subject to enterprise income tax because of the Authorized Sales Activities. 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 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 triple amount of the tax underpaid.

Management has concluded that based on all available evidence it is appropriate to recognize in these financial statements a provision representing management's estimate, based upon a probability-weighted average, of the amounts the PRC tax authorities might seek to recover under various scenarios. As at March 31, 2011, this provision is $189,604,000 [December 31, 2010 – $168,914,000], which amount mainly relates to the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current three-months and in the four preceding years including discontinued operations, and is included in trade and other payables.

The PRC tax authorities issued Circular 19 in February 2010 (the "Circular") stating that the deemed profit percentage for certain activities should be a minimum of 15%. The activities subject to this minimum percentage appear to include sales of plantation fibre. The Company has been assessing the effect of the Circular on the BVI Subsidiaries and monitoring its interpretation and its application by the PRC tax authorities. Based upon the Company's analysis to date, the Company has recorded income tax based on a probability-weighted average method which considers various scenarios under which the Company's tax liabilities are determined.

Management applies significant estimates and judgment to determine the appropriate amount of tax related liabilities, and contingencies for such liabilities, to be recognized and disclosed in the financial statements respectively. The amount recognized as a provision is the best estimate of the consideration required to settle the liabilities at the end of the reporting period, calculated by weighting the possible outcomes flowing from the matters described above by their associated probabilities, taking into account the surrounding risks and uncertainties. The Company actively revisits and adjusts its measurement of this provision as it updates its analysis. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of related contingencies in a period.

22. First-time adoption of IFRS

The condensed interim consolidated financial statements are the Company's first financial statements prepared under IFRS. The date of transition to IFRS is January 1, 2010 (the "Transition Date").

The Company's IFRS accounting policies presented in note 3 have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information and the statement of financial position at the Transition Date.

The Company has applied IFRS 1 in preparing these first condensed interim consolidated financial statements.

22.1 First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The following items are relevant to these financial statements:

(a) Share-based payments – IFRS 2, *Share-based Payments* ("IFRS 2"), encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to

equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

(b) Leases – IFRIC 4, *Determining whether an arrangement contains a lease* ("IFRIC 4"), contains specific transitional relief to first-time adopters of IFRS from going back potentially many years and making a meaningful assessment of whether the arrangement satisfied the criteria at the time. The Company elected to avail itself of the IFRS 1 exemption and apply IFRIC 4 to arrangements existing at the date of transition on the basis of facts and circumstances existing at that date.

(c) Currency translation differences – Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Company elected to reset all cumulative translation gains and losses to zero.

(d) Business combinations – IFRS 1 provides the option to apply IFRS 3, *Business Combinations* ("IFRS 3"), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date. As a result of this election, the classification and accounting treatment of business combinations prior to the Transition Date have not been restated.

(e) Fair value as deemed cost – The Company has not elected to measure any item of property, plant and equipment at its fair value at the Transition Date; property, plant and equipment have been measured at cost in accordance with IFRS which approximates costs in accordance with Canadian GAAP.

Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

22.2 Reconciliation of equity

The Company's equity as at the Transition Date and as at December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

		January 1, 2010				December 31, 2010			
	Notes	Canadian GAAP $	IFRS Adjustments $	IFRS reclassifications $	IFRS $	Canadian GAAP $	IFRS Adjustments $	IFRS reclassifications $	IFRS $
Current assets									
Cash and cash equivalents		1,102,366	—	—	1,102,366	1,223,352	—	—	1,223,352
Short-term deposits		70,387	—	—	70,387	32,101	—	—	32,101
Accounts receivable		282,306	—	(282,306)	—	636,626	—	(636,626)	—
Trade and other receivables	b	—	—	322,518	322,518	—	—	699,393	699,393
Prepayments		—	227	19,367	19,594	—	(193)	68,332	68,139
Timber holdings, measured at cost	a	—	(8,607)	2,083,339	2,074,732	—	(59,982)	2,948,538	2,888,556
Inventories	a, d	45,978	—	(7,007)	38,971	61,978	47	(11,048)	50,977
Prepaid expenses and others		54,747	—	(54,747)	—	125,238	—	(125,238)	—
Convertible bonds		29,446	—	(29,446)	—	—	—	—	—
Other current financial assets		—	—	29,446	29,446	—	—	—	—
Assets of discontinued operations		1,531	—	(1,531)	—	—	—	—	—
		1,586,761	(8,380)	2,079,633	3,658,014	2,079,295	(60,128)	2,943,351	4,962,518
Non-current assets									
Timber holdings	a	2,183,489	—	(2,183,489)	—	3,122,517	—	(3,122,517)	—
Timber holdings, measured at fair value	a	—	60,834	107,156	167,990	—	64,064	185,026	249,090
Property, plant and equipment	b, c	77,377	992	(31,070)	47,299	113,150	1,549	(32,174)	82,525
Investment properties	c	—	—	22,653	22,653	—	—	23,498	23,498
Prepaid lease payments, non-current portion	b	—	—	64,001	64,001	—	—	90,215	90,215

22.2 Reconciliation of equity (cont'd)

		January 1, 2010				December 31, 2010			
	Notes	Canadian GAAP $	IFRS Adjustments $	IFRS reclassifications $	IFRS $	Canadian GAAP $	IFRS Adjustments $	IFRS reclassifications $	IFRS $
Other non-current financial assets		—	(2,956)	49,593	46,637	—	(2,987)	14,140	11,153
Intangible assets and goodwill		—	48	802	850	139,910	124,140	167	264,217
Other assets	b	116,272	—	(109,279)	6,993	274,161	(62,215)	(101,706)	110,240
Deferred tax assets	i	—	2,900	—	2,900	—	3,500	—	3,500
		2,377,138	61,818	(2,079,633)	359,323	3,649,738	128,051	(2,943,351)	834,438
Total assets		3,963,899	53,438	—	4,017,337	5,729,033	67,923	—	5,796,956
Current liabilities									
Current portion of long-term debt	e	—	—	—	—	87,670	—	(87,670)	—
Interest-bearing loans and borrowings	e	103,991	—	—	103,991	153,959	—	87,670	241,629
Trade and other payables		250,287	17,660	12,156	280,103	499,854	19,040	3,699	522,593
Income tax payable		7,346	—	—	7,346	10,602	377	—	10,979
Liabilities of discontinued operations		12,156	—	(12,156)	—	3,699	—	(3,699)	—
		373,780	17,660	—	391,440	755,784	19,417	—	775,201
Non-current liabilities									
Interest-bearing loans and borrowings	e	925,466	(131,935)	—	793,531	1,659,682	(118,589)	—	1,541,093
Derivative financial instruments	e	—	371,962	—	371,962	—	448,326	—	448,326
Deferred tax liability	i	—	14,842	—	14,842	63,906	(14,972)	—	48,934
		925,466	254,869	—	1,180,335	1,723,588	314,765	—	2,038,353
Total liabilities		1,299,246	272,529	—	1,571,775	2,479,372	334,182	—	2,813,554

22.2 Reconciliation of equity (cont'd)

	Notes	January 1, 2010 Canadian GAAP $	January 1, 2010 IFRS Adjustments $	January 1, 2010 IFRS reclassifications $	January 1, 2010 IFRS $	December 31, 2010 Canadian GAAP $	December 31, 2010 IFRS Adjustments $	December 31, 2010 IFRS reclassifications $	December 31, 2010 IFRS $
Shareholders' equity									
Equity portion of convertible notes	e	158,883	(158,883)	—	—	158,883	(158,883)	—	—
Share capital		1,213,495	—	(1,213,495)	—	1,261,300	—	(1,261,300)	—
Issued capital	f	—	(12)	1,213,495	1,213,483	—	(214)	1,261,300	1,261,086
Contributed surplus		12,200	—	(12,200)	—	11,673	—	(11,673)	—
Accumulated other comprehensive income		224,148	—	(224,148)	—	314,912	—	(314,912)	—
Statutory reserve		1,670	—	(1,670)	—	1,988	—	(1,988)	—
Retained earnings	f, g	1,054,257	156,953	—	1,211,210	1,449,365	95,595	—	1,544,960
Other reserves		—	(217,149)	238,018	20,869	—	(213,141)	328,573	115,432
Equity attributable to equity holders of parent		2,664,653	(219,091)	—	2,445,562	3,198,121	(276,643)	—	2,921,478
Non-controlling interests		—	—	—	—	51,540	10,384	—	61,924
Total shareholders' equity		2,664,653	(219,091)	—	2,445,562	3,249,661	(266,259)	—	2,983,402
Total liabilities and equity		3,963,899	53,438	—	4,017,337	5,729,033	67,923	—	5,796,956

22.2 Reconciliation of equity (cont'd)

The Company's equity as at March 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

		March 31, 2010			
	Notes	Canadian GAAP $	IFRS Adjustments $	IFRS reclassifications $	IFRS $
Current assets					
Cash and cash equivalents		980,373	—	—	980,373
Short-term deposits		63,070	—	—	63,070
Accounts receivable		273,666	—	(273,666)	—
Trade and other receivables		—	—	310,905	310,905
Prepayments	b	—	227	30,490	30,717
Timber holdings, measured at cost	a	—	23,043	2,292,552	2,315,595
Inventories	d	66,422	109	(8,382)	58,149
Prepaid expenses and others		64,397	—	(64,397)	—
Convertible bonds		30,566	—	(30,566)	—
Other current financial assets		—	—	30,566	30,566
Assets of discontinued operations		9	—	(9)	—
		1,478,503	23,379	2,287,493	3,789,375
Non-current assets					
Timber holdings	a	2,589,362	(191,120)	(2,398,242)	—
Timber holdings, measured at fair value	a	—	61,603	112,115	173,718
Property, plant and equipment	b, c	83,760	973	(31,576)	53,157
Investment properties	c	—	—	23,107	23,107
Prepaid lease payments, non-current portion		—	—	64,269	64,269
Other non-current financial assets		—	(3,098)	30,412	27,314
Intangible assets and goodwill		8,647	87,874	165	96,686
Other assets	b	108,243	51,725	(87,743)	72,225
Deferred tax assets	i	—	3,400	—	3,400
		2,790,012	11,357	(2,287,493)	513,876
Total assets		4,268,515	34,736	—	4,303,251

22.2 Reconciliation of equity (cont'd)

		March 31, 2010			
	Notes	Canadian GAAP $	IFRS Adjustments $	IFRS reclassifications $	IFRS $
Current liabilities					
Current portion of long-term debt		530	—	(530)	—
Interest-bearing loans and borrowings	e	124,906	—	530	125,436
Trade and other payables		257,432	21,523	12,300	291,255
Income tax payable		7,225	377	—	7,602
Liabilities of discontinued operations		12,300	—	(12,300)	—
		402,393	21,900	—	424,293
Non-current liabilities					
Interest-bearing loans and borrowings	e	1,113,927	(128,821)	—	985,106
Derivative financial instruments	e	—	392,371	—	392,371
Deferred tax liability	i	39,222	(4,459)	—	34,763
		1,153,149	259,091	—	1,412,240
Total liabilities		1,555,542	280,991	—	1,836,533
Shareholders' equity					
Equity portion of convertible notes	e	158,883	(158,883)	—	—
Share capital		1,216,178	—	(1,216,178)	—
Issued capital	f	—	(64)	1,216,178	1,216,114
Contributed surplus		12,503	—	(12,503)	—
Accumulated other comprehensive income		225,475	—	(225,475)	—
Statutory reserve		1,672	—	(1,672)	—
Retained earnings		1,097,053	130,072	—	1,227,125
Other reserves	f, g	—	(217,024)	239,650	22,626
Equity attributable to equity holders of parent		2,711,764	(245,899)	—	2,465,865
Non-controlling interests		1,209	(356)	—	853
Total shareholders' equity		2,712,973	(246,255)	—	2,466,718
Total liabilities and equity		4,268,515	34,736	—	4,303,251

22.3 Reconciliation of total comprehensive income

The Company's comprehensive income for the year ended December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

Continuing operations	Notes	Canadian GAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Revenue		1,923,536	—	—	1,923,536
Cost of sales	a	(1,252,023)	(11,869)	—	(1,263,892)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost	a	—	32,324	—	32,324
Other operating income		2,932	25,104	—	28,036
Selling and administrative expenses		(89,712)	(17,378)	(3,529)	(110,619)
Other operating expenses		—	(2,560)	(4,702)	(7,262)
Loss on changes in fair value of financial instruments	e	(4,419)	(76,364)	—	(80,783)
Depreciation and amortization		(5,145)	—	5,145	—
Exchange gains (losses)		(3,086)	—	3,086	—
Finance income		10,609	—	—	10,609
Finance costs		(128,124)	(13,798)	—	(141,922)
Provision for income taxes	i	(70,644)	(404)	—	(71,048)
Profit from continuing operations		383,924	(64,945)	—	318,979
Discontinued operations					
Profit (loss) after tax for the year from discontinued operations		8,179	3,152	—	11,331
Non-controlling interest		3,323	435	—	3,758
Profit for the year		395,426	(61,358)	—	334,068
Other comprehensive income					
Unrealized losses on financial assets designated as available-for-sale, net of tax of nil		(6,266)	—	—	(6,266)
Currency translation differences		97,030	4,285	—	101,315
		90,764	4,285	—	95,049
Total comprehensive income		486,190	(57,073)	—	429,117

22.3 Reconciliation of total comprehensive income (cont'd)

The Company's comprehensive income for the three months ended March 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	Notes	Canadian GAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Continuing operations					
Revenue		251,015	—	—	251,015
Cost of sales	a	(155,811)	(7,408)	—	(163,219)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost	a	—	10,418	—	10,418
Other operating income		318	(7)	—	311
Selling and administrative expenses		(17,416)	(4,961)	(633)	(23,010)
Other operating expenses		—	446	(518)	(72)
Loss on fair value changes of financial instruments	e	(709)	(20,409)	—	(21,118)
Depreciation and amortization		(1,223)	—	1,223	—
Exchange gains (losses)		72	—	(72)	—
Finance income		3,425	—	—	3,425
Finance costs		(27,694)	(2,887)	—	(30,581)
Income tax expenses	i	(8,784)	(1,875)	—	(10,659)
Profit from continuing operations		43,193	(26,683)	—	16,510
Discontinued operations					
Loss after tax for the year from discontinued operations		(419)	(176)	—	(595)
Non-controlling interest		24	(22)	—	2
Profit for the period		42,798	(26,881)	—	15,917
Other comprehensive income					
Unrealized gains on financial assets designated as available-for-sale, net of tax of nil		1,539	—	—	1,539
Currency translation differences		(212)	594	—	382
		1,327	594	—	1,921
Total comprehensive income		44,125	(26,287)	—	17,838

22.4 Notes to the reconciliations

(a) Timber holdings

Under Canadian GAAP, purchased plantations and planted plantations were disclosed as a single item measured at cost and classified as a non-current asset. Certain nursery biological assets were classified as inventories and measured at the lower of cost and net realizable value.

Under IFRS, purchased plantations are analyzed as inventories (because the Company does not manage their biological transformation). They are accordingly classified as current assets and measured at the lower of cost and net realizable value. However, the determination of the cost of inventories under IFRS excludes certain expenses, in particular relating to property maintenance, which were included in this measure under Canadian GAAP.

Planted plantations are analyzed as biological assets because the Company manages their biological transformation. They are classified as non-current assets and measured at fair value less costs to sell at the end of each reporting period, recognizing changes in fair value less costs to sell in the income statement.

The effect at the Transition Date of measuring planted plantations at fair value less costs to sell is an increase in the carrying amount of timber holdings of $60,834,000 [December 31, 2010 – $32,324,000, March 31, 2010 – $10,418,000]. The effect on total comprehensive income for the three months ended March 31, 2011 is a gain of $10,389,000 [March 31, 2010 – gain of $10,418,000] and $32,324,000 for the year ended December 31, 2010.

The effect of the reclassification of nursery biological assets was an increase in timber holdings measured at cost and a corresponding decrease in other inventories of $7,007,000 [December 31, 2010 – $11,048,000, March 31, 2010 – $8,382,000] at the Transition Date.

The effect at the Transition Date of the changes to the determination of cost for the purchased plantations was a decrease of $8,607,000 [December 31, 2010 – $11,879,000, March 31, 2010 – $10,092,000]. The effect of reclassifying purchased plantations as current assets was to increase current assets and reduce non-current assets by $2,074,732,000 at the Transition Date [December 31, 2010 – $2,888,556,000, March 31, 2010 – $2,315,595,000].

(b) Property, plant and equipment / Other assets / Capital assets

Under Canadian GAAP, the prepaid land leases in respect of land-use-rights in the PRC and prepaid land leases in respect of plantation land leases were classified as capital assets and other assets, respectively. Under IFRS, the prepaid land leases of both the land-use-rights in the PRC and plantation land leases are classified as prepaid lease payments, broken into a current portion in prepayment and a non-current portion in non-current assets. The effect is an increase in the non-current portion of prepaid lease payments of $64,001,000 [December 31, 2010 – $90,215,000, March 31, 2010 – $64,269,000], an increase in prepayment of $3,302,000 [December 31, 2010 – $5,861,000, March 31, 2010 – $3,324,000] included in current assets, a decrease of $8,418,000 [December 31, 2010 – $8,677,000, March 31, 2010 – $8,470,000] of capital assets and a decrease of $58,886,000 [December 31, 2010 – $87,399,000, March 31, 2010 – $57,164,000] of other assets at the Transition Date.

Under Canadian GAAP, any impairment loss recognized for property, plant and equipment assessed as impaired is not reversed even if the recoverable amount is subsequently assessed to be above the carrying amount of the impaired assets. Under IFRS, a previously recognized impairment loss is reversed if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. As a result of this difference, the Company reversed a previously recognized impairment loss on transition to IFRS, resulting in an increase of the carrying amount of property, plant and equipment of $992,000 [December 31, 2010 – $909,000, March 31, 2010 – $965,000] at the Transition Date and a loss of $29,000 [March 31, 2010 – loss of $27,000] on the total comprehensive income for the three months ended March 31, 2011 and 2010 and $84,000 for the twelve months ended December 31, 2010.

(c) Investment properties

Under Canadian GAAP, investment properties were presented under capital assets and measured at cost net of accumulated depreciation and accumulated impairment losses. Under IFRS, investment properties are presented separately and measured either at fair value or at cost less accumulated depreciation and impairment losses. The Company has elected to measure investment properties at cost less accumulated depreciation and impairment losses. The effect is a decrease in the carrying amount of property, plant and equipment of $22,653,000 [December 31, 2010 – $23,498,000, March 31, 2010 – $23,107,000] and corresponding increase in investment properties at the Transition Date.

(d) Inventories

Under Canadian GAAP, the nursery biological assets are presented under inventories and stated at lower of cost and net realizable value. Under IFRS, the nursery biological assets are presented under timber holdings and measured at fair value. The effect is a decrease in inventories of $7,007,000 [December 31, 2010 – $11,048,000, March 31, 2010 – $8,382,000] and an increase of corresponding amount in timber holdings measured in fair value at the Transition Date.

(e) Interest bearing loans and borrowings / Derivative financial instrument / Equity portion of convertible notes / Loss on changes in fair value of financial instruments

The 2013 and 2016 Convertible Notes are convertible into common shares of the Company, at the option of the holder, at a defined conversion rate; however, the Company may elect to deliver, in lieu of its common shares, cash or a combination of cash and common shares. Under Canadian GAAP, the conversion feature was analyzed as equity, based on the Company's unconditional ability to settle the instrument on conversion by issuing its own shares. Under IFRS however, the feature is analyzed as an embedded derivative liability, measured separately at fair value through profit or loss because it is not closely related to the underlying Convertible Notes. On initial recognition, for each series of Convertible Notes, the Company measured the derivative liability at fair value, and measured the carrying value of the underlying Convertible Notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, it measures the derivative liability at fair value, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method. The effect is a decrease in the equity portion of convertible notes at the Transition Date of $158,883,000 [December 31, 2010 – $158,883,000, March 31, 2010 – $158,883,000], a decrease in the non-current interest-bearing loans and borrowings of $131,935,000 [December 31, 2010 – $118,589,000, March 31, 2010 – $128,821,000] and an increase in the derivative financial instrument of $371,962,000 [December 31, 2010 – $448,326,000, March 31, 2010 – $392,371,000]. This reduces total comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010 by $23,570,000 and $89,710,000 respectively. Retained earnings is reduced at the Transition Date by $81,113,000 [December 31, 2010 – $170,823,000, March 31, 2010 – $104,684,000].

(f) Issued capital / Contributed surplus

Under IFRS, the Company elected to apply IFRS 2 to account for the equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The effect was a decrease in issued capital of $12,000 [December 31, 2010 – $214,000, March 31, 2010 – $64,000], an increase in contributed surplus of $733,000 [December 31, 2010 – a decrease of $184,000, March 31, 2010 – an increase of $264,000] at the Transition Date. This increases total comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010 by $521,000 and $1,118,000 respectively. Retained earnings is reduced at the Transition Date by $721,000 [December 31, 2010 – increased by $397,000, March 31, 2010 – decreased by $200,000].

(g) Foreign currency translation reserve

The Company had applied the exemption in IFRS 1 to reset the foreign currency translation reserve at the Transition Date. The effect is a decrease in foreign currency translation reserve and an increase in retained earnings of $217,930,000.

(h) Business acquisitions

As described in note 5, the Company acquired control during the period over Homix, Mandra, Greenheart Group and Greenheart Resources. The accounting treatment applied to these acquisitions under IFRS differs in numerous respects from the treatment previously applied under Canadian GAAP, the following being the most significant:

Transaction costs totaling $3,004,000 were regarded as part of the purchase consideration under Canadian GAAP but were recognized in profit or loss as incurred under IFRS.

Prior to acquiring control, the Company already held equity interests in Mandra, Greenheart Group and Greenheart Resources. Under Canadian GAAP, the Company measured its interest in Greenheart Group at its fair value as an available-for-sale investment, and measured its interests in Mandra and Greenheart Resources at cost. Upon acquiring control, it did not revalue any of these interests, and eliminated the accumulated changes in the fair value of its interest in Greenheart Group against the investment's carrying amount. Under IFRS, the Company derecognized its available-for-sale interest in Greenheart Group, recognizing the accumulated increase in fair value of $10,606,000 in the income statement for the year ended December 31, 2010. The Company also recognized a gain of $14,694,000 in the income statement for the year ended December 31, 2010 on remeasuring its previously held equity interests in Greenheart Group and Greenheart Resources to fair value at the acquisition date.

The consideration paid to acquire Mandra included a supplemental amount of up to $10,000,000 based on the achievement of certain agreed milestones. Under Canadian GAAP, the Company recognized the supplemental payments as an additional cost of the purchase upon resolving the contingencies and upon the consideration becoming issuable. Under IFRS, the Company reflected the contingent element of purchase consideration in the acquisition equation at its fair value at that date, recognizing any subsequent change in this fair value in the income statement. As at the acquisition date, it estimated the fair value of the contingent consideration at $6,899,000. In August 2010, upon completion of the First Supplemental Payment, the fair value of the contingent consideration was remeasured at $8,929,000, recognizing a loss of $2,030,000 in the income statement.

The Company's voting interest in Greenheart Group following the acquisition (including the conversion of convertible bonds) was approximately 59.1%. Under Canadian GAAP, the Company measured the non-controlling interest with reference to its carrying value in the financial statements of Greenheart Group. Under IFRS, the Company has measured the non-controlling interest in Greenheart Group at the proportionate share of its identifiable net assets. The amount recognized in the acquisition equation under IFRS was $55,792,000, compared to $45,749,000 under Canadian GAAP. For similar reasons, the non-controlling interest in Mandra at the time of acquisition was $4,855,000 under IFRS, compared to $1,211,000 under Canadian GAAP.

In addition to the differences described above, the Company has made subsequent adjustments to the preliminary allocations which were initially disclosed under Canadian GAAP, reflecting the timing of the agreement and the extensive work required to complete the independent valuation of the assets and liabilities acquired. The aggregate impact of these differences and adjustments is as follows:

	Canadian GAAP	IFRS	Increase (decrease)
Homix			
Total purchase price	$7,300,000	$6,913,000	($387,000)
Goodwill on acquisition	Nil	Nil	
Mandra			
Total purchase price	$11,198,000	$10,804,000	($394,000)
Goodwill on acquisition	Nil	$51,300,000	$51,300,000
Greenheart Group and Greenheart Resources			
Total purchase price	$127,681,000	$152,372,000	$24,691,000
Goodwill on acquisition	Nil	$24,341,000	$24,341,000

The combined effect of the differences described above decreased profit for the period ended March 31, 2010 by $2,450,000 and increased profit for the year ended December 31, 2010 by $16,874,000.

(i) Income and deferred taxes

Under Canadian GAAP, the Company evaluated a tax position for uncertainty in income taxes using a two step process. It first determined whether a tax position, based solely on technical merits, had a likelihood of more than 50 percent ("more-likely-than-not") of being sustained upon examination, assuming the appropriate tax authority had full knowledge of all relevant facts. For positions satisfying these criteria, it then measured the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that was more-likely-than-not to be realized upon ultimate settlement. Under IFRS, the Company recognizes a provision for uncertain tax positions where it identifies a present obligation based on a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. It measures the provision at its best estimate of the amount required to settle the obligation at the end of the reporting period, taking all relevant factors into account.

The effect is to increase the amount of provision for contingent tax related liabilities, which is included in trade and other payables, by $14,791,000 at the Transition Date, by $16,106,000 at March 31, 2010 and by $11,973,000 at December 31, 2010.

As described above, timber holdings representing planted plantations, previously measured using the cost method, are now measured at fair value with changes in fair value recognized in profit or loss. Measuring these timber holdings at fair value generates additional temporary differences between their carrying value in the financial statements and their tax bases, and therefore results in recognizing additional deferred tax liabilities.

The effect is to increase the amount of the deferred income tax liability by $14,842,000 at the Transition Date, by $15,691,000 at March 31, 2010 and by $15,514,000 at December 31, 2010.

In addition, under IFRS, the Company has started recognizing benefits on losses incurred by PRC WFOE and CJV. The amount of total benefits that have been recognized is $2,900,000 at the Transition Date, $3,400,000 at March 31, 2010 and $3,500,000 at December 31, 2010.

22.5 Statement of cash flows

Under Canadian GAAP, interest paid and received were classified as operating cash flows. Under IFRS, interest payments and receipts are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the cash flow statement except for changes resulting from the items described above. The components of cash and cash equivalents under Canadian GAAP are similar to those presented under IFRS.

23. Events after the reporting period

(a) Amendments to Convertible Note Indentures

On June 13, 2011, the Board of Directors approved the elimination of the Company's option to settle the Convertible Notes (see note 14.3) by delivering cash or a combination of cash and common shares. The elimination of this option will change the treatment of the embedded derivative liability contained within the Convertible Notes, removing the requirement to measure that derivative financial liability at fair value at the end of each reporting period. Instead, the Convertible Notes will be treated as consisting of a liability portion amortized over the loan period, and an equity portion classified as equity.

The Company has obtained an opinion from legal counsel that the removal of the option does not adversely affect the holders' rights in any material respect pursuant to the indentures governing the Convertible Notes and therefore does not require approval of the holders or their agents. The requisite amendments to such indentures are expected to be completed prior to the end of the second quarter of 2011, and therefore management anticipates the accounting change described above will be implemented in its interim financial statements for that quarter. As of the effective date of the removal of the option, any unrealized gain or loss will be recognized in the income statement. Based upon the closing price of the Company's common shares on June 10, 2011, a gain of

approximately $450 million would be recognized in the financial statements for the three months ended June 30, 2011.

(b) Allegations by Muddy Water, LLC

On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as independent accounting firm Pricewaterhouse Coopers LLP to assist with the examination.

On June 7, 2011, the Company formally requested that the Toronto Stock Exchange and the Investment Industry Regulatory Organization of Canada investigate the trading of the Company's shares by Muddy Waters, LLC and its principal Carson Block and anyone associated with these persons in advance of the issuance of the Report. On June 8, 2011, the Ontario Securities Commission (the "OSC") announced that it had opened an investigation into matters regarding the Company. The Company welcomes the OSC initiative and believes that the issues the OSC will seek to address will be consistent with the examination and review commenced by an Independent Committee. No formal proceedings have been commenced by the OSC against the Company or any of its directors or officers.

On June 8, 2011, a Notice of Action was filed with the Ontario Superior Court of Justice in connection with a proposed securities class action lawsuit against the Company, certain directors and officers of the Company, the Company's current and former auditors, and various underwriters involved in prior equity and debt offerings completed by the Company. Additional law firms in both the United States and Canada have announced that they are investigating the Company and certain officers and directors with respect to potential additional class action lawsuits.