SINO-FOREST CORPORATION

Annual Information Form

for the year ended

December 31, 2010

March 31, 2011

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FORWARD-LOOKING STATEMENTS

This Annual Information Form, and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding Sino-Forest Corporation's ("Sino-Forest") future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are intended to be forward-looking statements under the "safe harbour" provisions of applicable securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest set out under "Description of the Business". These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material which are identified under "Risk Factors," other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. Sino-Forest does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required by law.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Annual Information Form using a number of conventions, which a reader should consider when reading the information contained herein. When we use the terms “we”, “us”, “our” and words of similar import or use the term “Corporation” or “Sino-Forest”, we are referring to Sino-Forest Corporation itself, or to Sino-Forest Corporation and its consolidated subsidiaries, as the context requires.

All references in this Annual Information Form to “U.S. dollars” and “US$” are to United States dollars; all references to “Canadian dollars” and “Cdn.$” are to Canadian dollars; all references to “H.K. dollars” and “HK$” are to Hong Kong dollars; all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China, or the PRC; and all references to “€” or “Euro” are to Euros. Solely for the convenience of the reader, this Annual Information Form contains translations of certain H.K. dollar and Renminbi amounts into U.S. dollars. Unless otherwise indicated, all dollar amounts in this Annual Information Form are expressed in U.S. dollars.

Statistical references to “PRC” and “China” do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region, or Taiwan.

Certain references to PRC laws, regulations and policies in this Annual Information Form include the corresponding Chinese translations.

“PRC government” means the central government of the PRC, including all political subdivisions (such as provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

A hectare is a metric unit of area equal to 10,000 m^2 or approximately 2.471 acres.

“Cooperative joint venture” or “CJV” means a Sino-foreign cooperative joint venture enterprise with limited liability established in the PRC under the relevant PRC laws and regulations which provides, among other things, that the distribution of profit or loss and the control of the joint venture company is entirely based on the joint venture contract and not on the joint venture parties’ contributions to the registered capital of the joint venture.

“Wholly foreign owned enterprise” or “WFOE” means an enterprise established in China in accordance with the relevant PRC laws, with capital provided solely by foreign investors. Such enterprises do not include branches and offices established in China by foreign enterprises and other economic entities.

TOTALS PRESENTED IN THIS ANNUAL INFORMATION FORM MAY NOT TOTAL CORRECTLY DUE TO ROUNDING OF NUMBERS.

THE CORPORATION

Sino-Forest was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to our class A subordinate-voting shares and our class B multiple-voting shares. On June 25, 2002, we filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, we filed articles of amendment whereby our class A subordinate-voting shares were reclassified as common shares ("Common Shares") and our class B multiple-voting shares were eliminated.

We have offices located in Toronto, Hong Kong and the PRC. Our principal executive office is located at 3815-29, 38/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Our registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, L5B 3C3, Canada.

CORPORATE STRUCTURE

The following is a list of certain of the Corporation's subsidiaries as at March 31, 2011, indicating the place of incorporation / registration and showing the percentage equity interest beneficially owned, or controlled or directed (directly or indirectly) by the Corporation in each such entity:

	Place of Incorporation/ Registration	Percentage Equity Interest Held by the Corporation
Sino-Forest Corporation	**Canada**	
Sino-Panel Holdings Limited	British Virgin Islands	100
Sino-Forest Resources Inc.	British Virgin Islands	100
Sino-Panel (Asia) Inc.	British Virgin Islands	100
Dynamic Profit Holdings Limited	British Virgin Islands	100
Suri-Wood Inc.	British Virgin Islands	100
Sino-Capital Global Inc	British Virgin Islands	100
Sino-Panel (Yunnan) Limited	British Virgin Islands	100
Expert Bonus Investment Limited	British Virgin Islands	100
Glory Billion International Limited	British Virgin Islands	100
Amplemax Worldwide Limited	British Virgin Islands	100
Ace Supreme International Limited	British Virgin Islands	100
Trillion Edge Limited	British Virgin Islands	100
Sino-Wood Trading Limited	British Virgin Islands	100
Homix Limited	British Virgin Islands	100
Sino-Panel (Russia) Limited	British Virgin Islands	100
Greenheart Resources Holdings Limited ("Greenheart Resources")	British Virgin Islands	78.02(1)(3)
Greenheart Group Limited ("Greenheart Group")	Bermuda	63.60(1)(2)
Octagon International N.V	Suriname	78.02(1)(3)

	Place of Incorporation/ Registration	Percentage Equity Interest Held by the Corporation
MFV Limited ………………………………………....	New Zealand	63.60(3)
Mangakahia Forest Land Limited…………………….	New Zealand	63.60(3)
Sino-Forest International (Barbados) Corporation………………………………………..	Barbados	100
Sino-Wood Partners, Limited	Hong Kong	100
Sino-Panel (China) Investments Limited.....................	PRC	100
Sino-Wood (Heyuan) Co., Ltd. ………………..…..	PRC	100
Sino-Maple (Shanghai) Co., Ltd.	PRC	100
Sinowin Plantings (Suzhou) Co., Ltd...........................	PRC	100
Sino-Panel (Gengma) Co., Ltd....................................	PRC	100
Heilongjiang Jiamu Panel Co., Ltd.	PRC	100
Shaoyang Jiading Wood Products Co., Ltd.	PRC	100
Jiafeng Wood (Suzhou) Co., Ltd.	PRC	100
Guangdong Jiayao Wood Products Development Co., Ltd.	PRC	100
Sino-Panel (Beihai) Development Co., Ltd.	PRC	100
Sino-Forest (China) Investments Limited....................	PRC	100
Guangxi Guijia Forestry Co., Ltd.	PRC	100
Gaoyao Jiayao Forestry Development Co., Ltd.	PRC	100
Jiangxi Jiachang Forestry Development Co., Ltd.	PRC	100
Sino-Forest (Heyuan) Co., Ltd....................................	PRC	100
Sino-Forest (Suzhou) Trading Co., Ltd.	PRC	100
Hunan Jiayu Wood Products Co., Ltd..........................	PRC	100
Zhangjiagang Free Trade Zone Jiashen International Trading Co., Ltd.	PRC	100
Sino-Panel (Luzhai) Co., Ltd.	PRC	100
Jiangxi Jiawei Panel Co., Ltd.......................................	PRC	100
Sino-Panel (Guangzhou) Trading Co., Ltd.	PRC	100
Guangzhou Pangyu Dacheng Wood Co., Ltd.	PRC	100
Jiangsu Dayang Wood Co., Ltd.	PRC	100
Sino-Panel (Guangxi) Development Co. Ltd. ………..	PRC	100
Sino-Panel (Hezhou) Co. ,Ltd. ……………………….	PRC	100
Sino-Panel (Sanjiang) Co., Ltd.……………………….	PRC	100
Hunan Jiayu Wood Products (Zhijiang) Co., Ltd. ……	PRC	100
Sino-Panel (Yuanling) Co., Ltd. ……………………..	PRC	100
Sino-Panel (Jianghua) Co., Ltd. ………………………	PRC	100
Suzhou City Lvyun Garden Engineering Co., Ltd. …..	PRC	100
Sino-Panel (Fujian) Co., Ltd. …………………………	PRC	100
Sino-Panel (Hunan) Forest Management Co., Ltd. …..	PRC	100
Heilongjiang Jialin Trading Co., Ltd. ………………..	PRC	100

	Place of Incorporation/ Registration	Percentage Equity Interest Held by the Corporation
Sino-Panel (Guangdong) Forest Management Co., Ltd. …………………………………………………	PRC	100
Anqing Mandra Forestry Limited.	PRC	100
Xuancheng Mandra Forestry Limited.	PRC	100
Wuhu Mandra Forestry Limited.	PRC	100
Mandra Forestry (Jiangxi) Limited.	PRC	100
Yihuang Mandra Forestry Limited.	PRC	100
Huanggang Mandra Forestry Limited.	PRC	100
Zixi Mandra Forestry Limited......................................	PRC	92(4)

Notes:

(1) Ownership percentage is based on the outstanding ordinary shares as confirmed by Greenheart Group as at March 31, 2011.

(2) Greenheart Group, a company listed on the Hong Kong Stock Exchange, received its shareholders' approval at a special general meeting held on December 17, 2010 to change its name from "Omnicorp Limited" to "Greenheart Group Limited".

(3) Indirectly owned by Greenheart Group.

(4) A joint venture company.

(5) The above list does not include other subsidiaries of Sino-Forest which, as at December 31, 2010, did not: (i) individually exceed 10% of our total consolidated assets and 10% of our total consolidated sales and operating revenues; and (ii) collectively exceed 20% of our total consolidated assets and 20% of our total consolidated sales and operating revenues.

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Sino-Forest Corporation is a leading commercial forest plantation operator in the PRC. Our principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. As of December 31, 2010, we had approximately 788,700 hectares of forest plantations under management which are located primarily in southern and eastern China. In addition, we hold a majority interest in Greenheart Group which, together with its subsidiaries, owns certain rights and manages approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname, South America ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand as at March 31, 2011. We believe that our ownership in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner. Our offices are located in Hong Kong, Toronto, and in various cities in the PRC. Our Common Shares have traded on the Toronto Stock Exchange (the "TSX") under the symbol TRE since 1995.

Strategic Business Units

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

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

Plantation Fibre

- we acquire, cultivate and sell standing timber or logs from our purchased and planted plantation business models in nine provinces across the PRC.

Trading of Wood Logs

- domestic wood logs – we source logs from the PRC suppliers and sell them in the domestic PRC market; and

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

Manufacturing and Other Operations include:

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

Historical Milestones

The following are important recent historical milestones in the development of our business:

2008

- Closed an offering on July 23, 2008 made on a private placement basis to international investors for US$300 million principal amount of 5% convertible senior notes. The underwriters in connection with the offering exercised an over-allotment option in full and sold an additional US$45 million principal amount of convertible senior notes on August 6, 2008.

- Entered into a master agreement on August 11, 2008 to acquire 200,000 hectares of non-state owned plantation trees of pine, Chinese fir and eucalyptus forest in the Fujian Province over a 10-year period.

2009

- On February 6, 2009, we acquired 55,000,000 ordinary shares and 4% convertible bonds of Greenheart Group with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and the issuance of 2,659,990 Common Shares at a price of Cdn.$10.00 per share.

- Completed a bought deal on June 8, 2009 and raised gross proceeds of approximately Cdn.$379.5 million by issuing 34.5 million Common Shares at Cdn.$11.00 per share. The offering included the exercise in full of the over-allotment option by the underwriters to purchase 4.5 million Common Shares.

- Entered into a master agreement on June 11, 2009 to acquire between 150,000 to 300,000 hectares of non-state owned plantation which includes tree species such as pine, Chinese fir and others in Jiangxi Province over a three-year period.

- Completed an exchange offer on July 27, 2009 pursuant to which US$212.3 million in principal amount of the US$300 million 9.125% guaranteed senior notes due 2011 (the "2011 Senior Notes") was exchanged for an equivalent principal amount of newly issued 10.25% guaranteed senior notes due 2014 (the "2014 Senior Notes"). After completion of such exchange, US$87.7 million in principal amount of the 2011 Senior Notes remains outstanding. Concurrently with the exchange offer, a consent solicitation to amend certain of the provisions of the 2011 Indenture (as defined below under "Material Contracts") was also completed on July 27, 2009.

- Closed an offering on December 17, 2009 made on a private placement basis to international investors for an aggregate of US$460 million principal amount of 4.25% convertible senior notes due 2016 (the "2016 Convertible Senior Notes"), which amount included US$60 million principal amount of notes issued upon the exercise in full of the over-allotment option by the initial purchasers. The 2016 Convertible Senior Notes are convertible into Common Shares at an initial conversion rate of 47.2619 Common Shares per US$1,000 principal amount of notes. Concurrently with the offering of the 2016 Convertible Senior Notes, we also completed an offering of approximately 21.8 million Common Shares at a price of Cdn.$16.80 per Common Share for gross proceeds of approximately Cdn.$367 million, which included the exercise in full of the over-allotment option by the underwriters to purchase 2,850,000 Common Shares.

2010

- On January 4, 2010, we acquired all of the issued and outstanding shares of HOMIX Limited ("HOMIX"), a company engaged in research and development and manufacturing of engineered-wood products in China, for an aggregate consideration of US$7.1 million. The acquisition includes HOMIX's facilities and its patents in China.

- We entered into a master agreement on January 28, 2010 to acquire approximately 150,000 hectares of non-state owned plantations which includes tree species of pine, Chinese fir and others in Guizhou Province over a three-year period.

- On June 1, 2010, we acquired 2,638,469,000 ordinary shares of Greenheart Resources. Total consideration of approximately US$33 million was paid by the issuance of 1,990,566 Common Shares at a price of Cdn.$17.49 per share.

- On June 10, 2010, we completed a series of acquisitions of the outstanding equity securities of Mandra Forestry Holdings Limited ("Mandra Holdings"), which resulted in Mandra Holdings becoming our wholly-owned subsidiary. On February 5, 2010, we completed an exchange with holders of 99.7% of the US$195 million 12% guaranteed senior notes due 2013 issued by Mandra Forestry Finance Limited ("Mandra Finance") (the "Mandra Notes") and 96.7% of warrants issued by Mandra Holdings (the "Mandra Warrants"), for new guaranteed senior notes issued by the Corporation in the aggregate principal amount of US$187,177,375 bearing interest at a rate of 10.25% per annum with a maturity date of July 28, 2014 (the "New 2014 Senior Notes"). On February 11, 2010, the holders of the New 2014 Senior Notes exchanged all such notes for additional 2014 Senior Notes issued by the Corporation in the aggregate principal amount of US$187,187,000.

- On June 22, 2010, we entered into a share subscription agreement with Greenheart Group to purchase a total of 230 million ordinary shares of Greenheart Group at a subscription price of HK$1.82 per share, for a total cash consideration of HK$418.6 million or approximately US$53.9 million. The share acquisition was approved by the independent shareholders of Greenheart Group on July 29, 2010 and the share acquisition was completed on August 3, 2010. On September 27, 2010, we exercised convertible bonds issued by Greenheart Group for 106.2 million ordinary shares of Greenheart Group. As a result of the share acquisition and the conversion, we have increased our voting interest in Greenheart Group from 19.8% to 59.1% of Greenheart Group's enlarged issued share capital.

- On July 2, 2010, we entered into a co-operative framework agreement with China Development Bank Corporation, a financial institution set up by the PRC State Council for the purpose of fostering economic development in various industries throughout the PRC. Pursuant to the terms of this framework agreement, and subject to specific loan agreements to be entered into by the parties on mutually agreeable terms, we may be able to obtain from the China Development Bank Corporation up to RMB10.0 billion (equivalent to approximately US$1.5 billion) of project financing to support one of our wholly-owned subsidiaries' projects in the PRC.

- On October 21, 2010, we completed an offering of an aggregate principal amount of US$600.0 million guaranteed senior notes which bear interest at a rate of 6.25% per annum, payable semi-annually, and shall mature on October 21, 2017 (the "2017 Senior Notes").

- On October 22, 2010, we completed the acquisition of an intensively managed radiata pine plantation in New Zealand (the "Mangakahia Forest") with an area of approximately 13,000 hectares of freehold land that includes a plantation area of approximately 11,000 hectares. Total consideration paid was approximately US$68 million in cash, including the assumption of a US$24 million loan from the vendor of the Mangakahia Forest.

2011

- On January 7, 2011, we entered into a sale and purchase agreement (the "Mangakahia Sale and Purchase Agreement") to dispose of the Mangakahia Forest to Greenheart Group. We also entered into a master sale and purchase agreement with Green Source Holdings Limited ("Green Source"), a wholly-owned subsidiary of Greenheart Group relating to the provision of logs, standing timber, agri-forest, timber-related and agri-related products (collectively, the "Products") by Green Source for a term of three years (the "Greenheart Master Sale and Purchase Agreement"). Pursuant to the terms of the Greenheart Master Sale and Purchase Agreement, the maximum aggregate annual value for the sale and purchase of the Products for the three years ending December 31, 2011, December 31, 2012 and December 31, 2013 has been set at US$30 million, US$80 million and US$100 million, respectively.

  The Mangakahia Sale and Purchase Agreement and the Greenheart Master Sale and Purchase Agreement were approved by the independent shareholders of Greenheart Group at a special general meeting held on March 28, 2011. Pursuant to the terms of the Mangakahia Sale and Purchase Agreement, the sale of the Mangakahia Forest to Greenheart Group was completed on March 31, 2011. Total consideration paid was approximately US$73 million, settled through the issuance of an aggregate of 96,494,952 ordinary shares of Greenheart Group and a US$40 million debt facility.

DESCRIPTION OF THE BUSINESS

Our Vision and Strategy

Our vision is to sustainably manage a geographically diversified portfolio of fast-growing, high-yielding plantations that profitably produces a steady stream of quality fibre and increases China's wood supply independence. We aim to become the leading commercial forest plantation operator and the preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices.

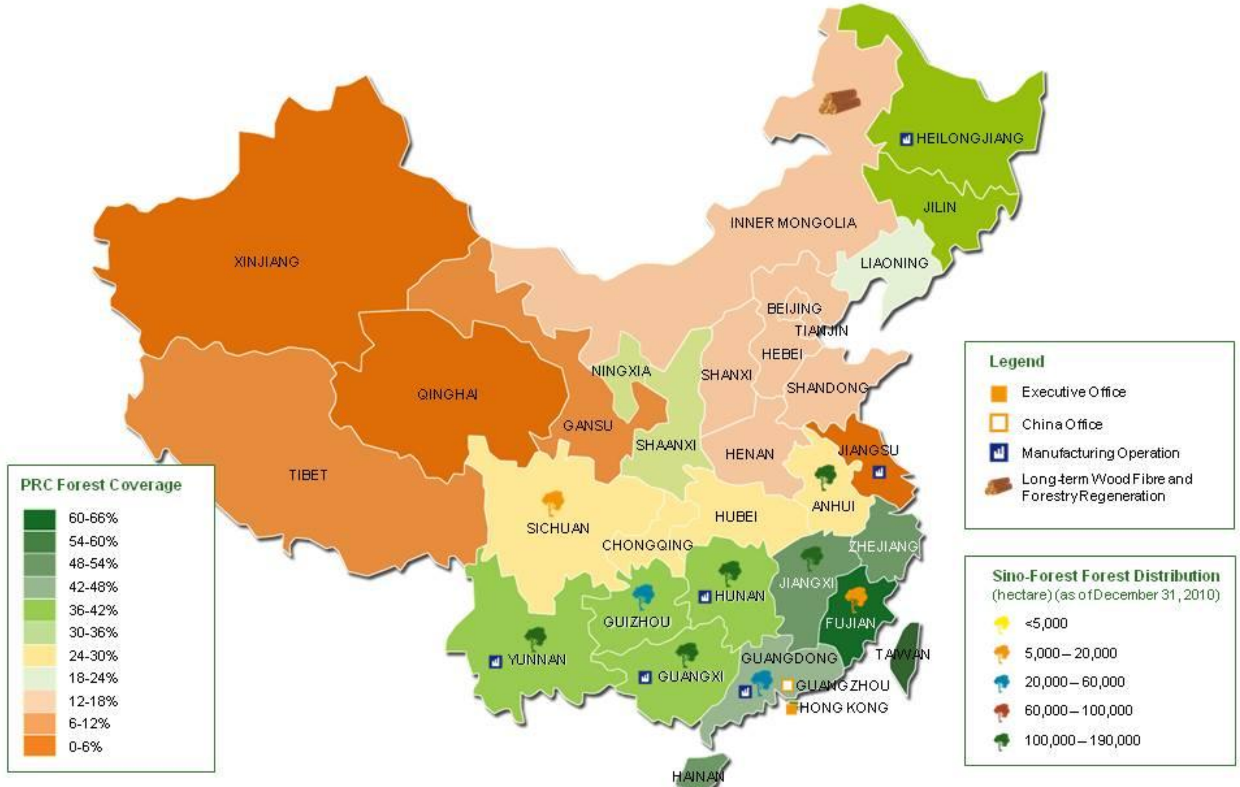
We have a multi-faceted strategy that builds on our competitive strengths and takes advantage of business opportunities throughout the PRC. We are establishing operations in close proximity to key regional markets in order to effectively provide wood fibre products to downstream consumers. Our strategy is to:

- increase our long-term access to quality wood fibre by expanding our portfolio of plantations geographically, and developing regional wood fibre markets where we will integrate the supply of upstream fibre with the manufacturing of value-added downstream products;
- improve the yields of our tree plantations through continual investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing;
- build and acquire complementary operations to manufacture and import wood-based products, which further diversifies our revenue streams; and
- align our strategy with the PRC Government's plans.

Our Wood Fibre Operations

Overview

Our upstream wood fibre operations generate the bulk of our revenue, accounting for 96.4% of our revenue in the year ended December 31, 2010. Our core business is essentially acquiring, growing and cultivating plantation trees in many provinces across China, whereas our downstream manufacturing operations are intended to maximize the usage and value of our fibre. Our goal is to modernize plantation operations and improve the productivity of the wood processing industry in China, thereby helping the country to increase its wood fibre supply independence. Most of the standing timber and logs we sell come from our own tree plantations. Our plantations are located primarily in the southern and eastern regions of the PRC. The following map highlights the locations of our tree plantations in the PRC as of December 31, 2010:



Plantations under management as of Dec 31, 10 were 788,700 ha in the PRC

Tree Plantation Business Models

We operate our plantations using two business models: purchased and planted.

Purchased Plantation Model

At our purchased plantations, we purchase trees from holders of plantation rights or collective landowners. We sell the fibre either as logs or standing timber, or use the logs at our manufacturing facilities. After harvesting, we lease the underlying land long-term and replant it with advanced seedlings. The land is then classified as planted plantations.

The purchase price of the trees takes into account a variety of factors such as tree species, yield, age, size, quality and location of the trees. We also consider soil and weather conditions for replanting, log prices and regional market demand. While we normally do not have to conduct extensive plantation management work with respect to the trees growing on our purchased plantations, we do take measures to ensure that the trees are protected from pests, disease and theft.

As of December 31, 2010, our purchased plantations under management in the PRC consisted of approximately 711,000 hectares, which are primarily located in Guangdong, Guangxi, Jiangxi, Hunan, Yunnan, Sichuan, Guizhou, Fujian and Anhui Provinces. They consist of a diverse mix of tree species, predominantly pine, Chinese fir and some eucalyptus. The advantages of purchasing trees include the ability to quickly expand our plantation portfolio geographically and our inventory of harvestable fibre and leasable land.

Sino-Forest holds a majority interest in Greenheart Group, which owns certain rights and manages approximately 312,000 hectares of hardwood forest concessions in Suriname and 11,000 hectares of a radiata pine plantation in the Mangakahia forest of northern New Zealand as at March 31, 2011. We believe that our ownership interest in Greenheart Group will strengthen our global sourcing network for supplying wood fibre to China in a sustainable and responsible manner.

Planted Plantation Model

At our planted plantations, we lease suitable land on a long-term basis, typically 30 to 50 years, and apply our scientifically advanced seedling technology and silviculture techniques to improve tree growth. We sell the mature trees as standing timber or as harvested logs, and then continuously replant with superior seedlings.

We take pride in having a flexible operating model that allows us to sell fibre either as standing timber or harvested logs, depending on our clients' preferences and market demand.

In the fourth quarter of 2007, we completed the conversion of the legal structure of our four CJVs to WFOEs in accordance with PRC law. Under the WFOE structure, we have overall operational control and management rights of our plantation operations. We have leased and will continue to lease land from the original plantation rights holders and pay for the related land lease. Terms of land leases are between 30 and 50 years, depending on negotiations in various locations. The conversion is expected to provide us with greater control over plantation management through plantation land leasing rather than harvested timber sharing and to obtain higher margins. As of December 31, 2010, our planted plantations in the PRC operated through WFOEs comprised approximately 77,700 hectares. We are still in the process of negotiating with original CJV plantation land use rights holders to enter into plantation land use agreements and pursuing the requisite governmental approval and registration procedures. There is no assurance that we will secure all of these plantation land use rights from the farmers and collective organizations. See "Risk Factors—Risks Related to Our Business."

Our planted plantations now consist primarily of eucalyptus trees in Guangdong, Hunan, Guangxi and Jiangxi Provinces. As of December 31, 2010, our planted plantations under management consisted of approximately 77,700 hectares.

The following table sets forth the location and approximate total hectares of our tree plantations under management as of December 31, 2010:

Tree Plantations Under Management

Location	**Planted plantations (in hectares)**	**Purchased plantations (in hectares)**	**Total hectares (approximate)**
Guangxi, PRC	13,000	90,700	103,700
Guangdong, PRC	38,900	9,200	48,100
Hunan, PRC	18,800	148,700	167,500
Yunnan, PRC	-	186,700	186,700
Fujian, PRC	400	9,600	10,000
Guizhou, PRC	-	42,800	42,800
Sichuan, PRC	-	10,600	10,600
Jiangxi, PRC	6,600	108,700	115,300
Anhui, PRC	-	104,000	104,000
New Zealand	-	11,000	11,000
Total	77,700	722,000	799,700

Access to Future Purchases of Tree Plantations

To execute our strategy of acquiring plantations inland, where forests are denser and the acquisition of trees and leasing of underlying land tends to be more cost effective, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces. These agreements give us the right to acquire up to approximately 1.25 million to 1.40 million hectares of trees, of which approximately 625,500 hectares have been acquired as of December 31, 2010.

Long-term Acquisition Agreement in Hunan

We entered into long-term master agreements in September and December 2006 through Sino-Panel (Asia) Inc. ("Sino-Panel"), one of our wholly-owned subsidiaries, with Hongjiang City Forestry Technology Integrated Development Services Company, which acted as the authorized agent for the original plantation rights holders, to acquire approximately 400,000 hectares of non-state owned plantation trees for between RMB10.4 billion to RMB12.5 billion over 14 years in Hunan Province. The purchase price is not to exceed RMB260 per cubic meter. The plantations under this agreement include mature trees with an estimated yield of 100 to 120 cubic meters per hectare, or an aggregate 40 million to 48 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreements, Sino-Panel has pre-emptive rights to lease the underlying plantation land for up to 50 years. We intend to annually re-plant approximately the same amount of hectares of trees harvested in the previous year over the 14-year period of the agreements. The terms of the lease are to be negotiated with Hongjiang City Forestry Technology Integrated Development Services Company, the counterparty of the master agreements, upon the authorization of the original plantation rights holders and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

As of December 31, 2010, we have acquired approximately 226,300 hectares of plantation trees for US$926.5 million pursuant to the terms of the master agreements.

Long-term Acquisition Agreement in Yunnan

In March 2007, we, through Sino-Panel, entered into a master agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd. ("Gengma Forestry"), which is established in Lincang City, Yunnan Province, and acted as the authorized agent for the original plantation rights holders. Pursuant to the terms of this master agreement, Sino-Panel has the right to acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan Province for between RMB5.5 billion to RMB10.9 billion over a 10-year period. The purchase price is not to exceed RMB260 per cubic meter. The number of hectares to be acquired each year will be determined by our PRC subsidiaries by entering into specific purchase agreements with Gengma Forestry. The plantations under this agreement include mature trees with an estimated wood fibre yield of 105 to 210 cubic meters per hectare, or an aggregate 21 to 42 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has pre-emptive rights to lease the underlying plantation land for up to 50 years. The final terms of the lease are to be further negotiated with Gengma Forestry and the lease is subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

As of December 31, 2010, we have acquired approximately 190,300 hectares of plantation trees for US$925.9 million under the terms of the master agreement.

Long-term Acquisition Agreement in Guangxi

In December 2007, we, through Sino-Panel, entered into a master agreement with Zhanjiang Bo Hu Wood Company Limited ("Bo Hu"), which acted as the authorized agent for the original plantation rights holders, to acquire approximately 150,000 hectares of non-state owned plantation trees in Guangxi Province for between RMB5.7 billion to RMB6.8 billion, at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB380 per cubic meter over a five-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 to 120 cubic meters per hectare, or an aggregate 15.0 million to 18.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has pre-emptive rights to lease land at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB525 per hectare per annum for 30 years. The land lease can be for up to 50 years after harvesting as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are determined following the execution of definitive agreements between our PRC subsidiaries and Bo Hu upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations.

As of December 31, 2010, we have acquired approximately 127,000 hectares of plantation trees for US$646.6 million under the terms of the master agreement.

Long-term Acquisition Agreement in Fujian

On August 11, 2008, we, through Sino-Panel, entered into a master agreement with Zhangzhou Lu Sheng Forestry Development Company Limited ("Lu Sheng") to acquire approximately 200,000 hectares of non-state owned plantation trees in Fujian Province for approximately RMB7.0 billion at a price not to exceed RMB350 per cubic meter over a ten-year period. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The land lease term can be up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between our PRC subsidiaries and Lu Sheng upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The plantations under this agreement include mature trees with an estimated wood fibre yield of approximately 100 cubic meters per hectare, or an aggregate 20.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

As of December 31, 2010, we have not acquired any hectares of plantation trees under the terms of the master agreement.

Long-term Acquisition Agreement in Jiangxi

On June 11, 2009, we, through our wholly-owned subsidiary Sino-Panel (China) Investments Limited ("Sino-Panel China"), entered into a master agreement with Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan") to acquire between 15.0 million and 18.0 million cubic meters of non-state owned wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we currently plan to acquire such amount of wood fibre within an area of between 150,000 and 300,000 hectares of plantation trees. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel China has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The land lease term can be up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The plantations under this agreement include trees with an estimated average wood fibre yield of approximately 100 cubic meters per hectare. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

As of December 31, 2010, we have acquired approximately 59,700 hectares of plantation trees for US$269.1 million under the terms of the master agreement.

Long-term Acquisition Agreement in Guizhou

On January 28, 2010, we, through Sino-Panel China, entered into a master agreement with Guizhou Sen Li Industry Company Limited ("Guizhou Sen Li") to acquire between 10.5 million and 16.5 million cubic meters of non-state owned plantation wood fibre located in plantations in Guizhou Province over a three-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we may acquire such amount of wood fibre within an area of 150,000 hectares of plantation trees, which area has an average yield of 70 to 110 cubic meters per hectare. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel China has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The land lease term can be for up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel China and Guizhou Sen Li upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

As of December 31, 2010, we have acquired approximately 22,200 hectares of plantation trees for US$122.9 million under the terms of the master agreement.

Other Tree Plantation Contractual Arrangements

Acquisition of Mandra Forestry

We completed a series of acquisitions of the outstanding equity securities of Mandra Holdings, which resulted in Mandra Holdings becoming our wholly owned subsidiary in June 2010.

Pursuant to the terms of a contingency payment agreement dated February 5, 2010 (as amended by a deed of amendment dated August 4, 2010), we initially paid US$2.0 million in cash followed by a second US$2.0 million payment in cash on August 5, 2010. Additional contingent consideration amounts of up to $5.0 million (the "First Supplemental Payment") and $5.0 million (the "Second Supplemental Payment") were payable based on achieving certain agreed milestones, with (i) 50% of the First Supplemental Payment (the "Initial First Supplemental Payment") paid on August 5, 2010; and (ii) the remaining 50% of the First Supplemental Payment, together with the Second Supplemental Payment, to be paid in early 2011. On August 5, 2010, we issued 147,908 Common Shares as the Initial First Supplemental Payment at an issuance price of Cdn.$15.60 per Common Share. As of the date hereof, negotiations with the vendor are in process, with the remaining 50% of the First Supplemental Payment and the Second Supplemental Payment to be paid shortly thereafter, subject to reduction in the event that any of the milestones are not met.

Concurrently with the Mandra Holdings acquisition, in February 2010, we completed an exchange with holders of certain notes issued by Mandra Finance for additional 2014 Senior Notes issued by us in the aggregate principal amount of US$187,187,000.

The acquisition of Mandra Holdings has given us access to approximately 147,200 hectares of relatively mature plantation trees located primarily in Anhui and Jiangxi Provinces. As a result of this strategic investment, we have further diversified our portfolio of plantations geographically and reduced our cost per cubic meter to less than half of the capped fibre prices under our master agreements.

Investment in Greenheart Resources and Greenheart Group

We currently hold 63.6% of the voting interest in Greenheart Group, after a series of share acquisitions starting in August 2007, the exercise of convertible bonds issued by Greenheart Group for 106,164,150 shares of Greenheart Group on September 27, 2010, and most recently the sale of the Mangakahia Forest for partial consideration of 96,494,952 shares of Greenheart Group on March 31, 2011.

Greenheart Group became our subsidiary on August 3, 2010, when we increased our voting interest in Greenheart Group from 19.8% to approximately 53.5%.

Directly and indirectly through Greenheart Group, we hold all of the outstanding shares of Greenheart Resources, a natural forest concession owner and operator in Suriname.

Acquisition of the Mangakahia Forest

On October 22, 2010, we completed the acquisition of an intensively managed radiata pine plantation in New Zealand (the "Mangakahia Forest") with an area of approximately 13,000 hectares of freehold land that includes a plantation area of approximately 11,000 hectares. Total consideration paid was approximately US$68 million in cash, including the assumption of a US$24 million loan from the vendor of the Mangakahia Forest.

Recent Developments

Sale of the Mangakahia Forest

On January 7, 2011, we entered into a sale and purchase agreement (the "Mangakahia Sale and Purchase Agreement") to dispose of the Mangakahia Forest to Greenheart Group, which was subsequently completed on March 31, 2011. Total consideration paid was approximately US$73 million, settled through the issuance of an aggregate of 96,494,952 ordinary shares of Greenheart Group and a US$40 million debt facility.

Plantation Management

To optimize the yields on our planted plantations, we engage in intensive silviculture and a variety of advanced plantation management techniques. Our advanced management practices include detailed site assessments, site selection and preparation, terracing, use of improved planting materials, density and spacing control, fertilization, tending, monitoring and preventing damage to the trees. We generally engage third parties to perform the day-to-day management of the plantations.

We have developed a sustainable intensive plantation management system to guide our management practices and environmental policies. This system and our management practices are designed to produce fast-growing, high-quality sustainable forestry resources, optimize yields, improve resistance to disease, frost and fire, enhance environmental conservation and improve aesthetics. In addition, these practices result in more uniform tree plantations, which increase harvesting efficiency and reduce waste through peeling and sawing.

Plantation Service Providers

We engage third parties for all of the field operations of our tree plantations. During the course of the year, we typically engage approximately 10 to 20 third party service providers for our planted plantations and our purchased plantations. The terms of our contracts with these service providers vary and can range from one or two years to one plantation cycle. The services to be provided by the plantation service providers must comply with our plantation management systems and operation guidelines. For areas with trees planted by Sino-Forest, the service providers perform all preparatory work and planting work such as clearance of plantation land, preparation for plowing or terracing, leveling of land, planting, fertilization and applying pesticides and other cultivation activities. We are generally responsible for providing seedlings and fertilizer and inspecting and supervising the work of the service providers. For our purchased plantations, depending on the age profile of the trees, service providers are engaged to manage the trees, such as applying fertilizers and pesticides.

Trading of Wood Logs Operations

Our operation in the trading of wood logs includes the sourcing of wood logs and wood-based products from the PRC and globally and selling them in the domestic PRC market.

The wood-based products consist primarily of large diameter logs, sawn timber, veneer and other wood-based products sourced from the PRC, Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. In these transactions, we purchase wood-based products that correspond to the requirements of wood dealers and sell directly to these dealers. Our customers in these transactions are primarily wood dealers in the PRC. The overseas suppliers generally ship the wood-based products to ports in the PRC designated by the wood dealers.

The purchase contracts and the sales contracts are generally short-term contracts, with delivery within one to two months from the date of the contracts. The sales are usually denominated in U.S. dollars. Payments are usually settled within 45 to 90 days of delivery.

Trading of imported and domestic wood products and logs sales comprised 23.6% of total revenue in the year ended December 31, 2010, compared to 19.2% of total revenue in 2009.

Other Fibre Contractual Arrangements

Inner Mongolia Wood Fibre Supply

On July 31, 2006, we entered into an agreement with Inner Mongolia Forest and Timber Resources Co., Ltd., an equity joint venture company in the PRC, and Erlianhot Lianhe Forestry Bureau in the Inner Mongolia Autonomous Region, to secure a minimum of 1.5 million cubic meters annually of long-term supply of wood fibre over a period of 12 years by managing a program of secondary forests.

On May 25, 2010, we entered into an assignment agreement which assumed the wood fibre acquisition under the former agreement entered on July 31, 2006 to secure a minimum of 1.5 million cubic meters annually of long-term supply of wood fibre up to July 2018.

Provision of timber and timber related products from Greenheart Group

On January 7, 2011, Green Source, as seller, and Sino-Wood Trading Limited (“Sino-Wood”), an indirect wholly-owned subsidiary of the Corporation, as buyer, entered into the Greenheart Master Sale and Purchase Agreement relating to the provision of the Products. Pursuant to the terms of the agreement, the maximum aggregate annual value for the sale and purchase of the Products for the three years ending December 31, 2011, December 31, 2012 and December 31, 2013 has been set at US$30 million, US$80 million and US$100 million, respectively.

The Greenheart Master Sale and Purchase Agreement was approved by the independent shareholders of Greenheart Group at a special general meeting held on March 28, 2011.

Manufacturing and Other Operations

Overview

Our manufacturing operations complement our wood fibre operations by maximizing the usage and value of our upstream fibre. We currently have manufacturing operations in six provinces in the PRC which produce various wood-based products. In addition, we have greenery and nursery operations based in Jiangsu Province, which were established to source, supply and manage landscaping products for property developers and other organizations.

Manufacturing Operations

The products of our manufacturing operations include engineered wood flooring, sawn timber, finger-joint board, blockboard, plywood and engineered veneer. We have established the following facilities in the PRC: an engineered-wood flooring plant in Jiangsu, a blockboard facility in Hunan, a wood and composite flooring facility in Guangxi, plywood facilities in Guangxi and Guangdong, engineered veneer facilities in Jiangsu and Guangdong, finger-joint board facilities in Hunan and Heilongjiang, and sawn timber facilities in Yunnan and Heilongjiang.

Our flooring business was established in 2004 and we have developed the Sino-Maple brand to market our engineering wood products. Sino-Maple flooring products are distributed through more than 300 outlets nationwide, including B&Q's large do-it-yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products for the overseas market. Sino-Maple flooring products are also becoming a popular substitute for solid flooring in the PRC due to their environmentally conscious use of forest plantation logs instead of large diameter natural forest logs.

Greenery and Nursery Operations

According to China's State Forestry Administration, there is a lack of forestation and city landscaping in the country. Major cities, including Beijing, Shanghai and Guangzhou, have been identified among the ten most polluted in the world. The PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts, along city borders, roads and streets, and in parks. Sino-Forest is pursuing opportunities to provide its plantation resources and expertise after establishing greenery and nursery operations in Jiangsu Province to source, supply and manage landscaping products for property developers and other organizations.

Other Information about Operations

Sales and Marketing

Substantially all of our sales are generated in the PRC. In the year ended December 31, 2010, sales to customers in the PRC, were US$1,872.3 million and sales to customers located in other countries were US$51.3 million. In the years ended December 31, 2008, 2009 and 2010, our domestic sales of standing timber, logs and other wood-based products accounted for substantially all of our revenue.

One of our marketing strategies is to develop long-term business relations with wood dealers that will engage in sales transactions and trading activities with Sino-Forest on a continuous basis. These long-term relations enable us to better understand their needs and take advantage of our competitive strengths, including our market insights and foresight and advanced plantation management practices.

We engage in trading of logs and wood-based products both in the PRC and overseas, generally under short-term contracts. We issue invoices to our authorized intermediaries ("AIs") in the PRC on a quarterly basis. Sales are usually denominated in Renminbi, with payments usually settled within 60 days of delivery.

With respect to trading activities involving the export of wood-based products overseas, the delivery period of wood-based products is usually one to two months from the date of the contract. The sales are mainly denominated in U.S. dollars and are consummated pursuant to letter of credit arrangements or through open accounts. Payments are usually settled within 45 to 90 days of delivery. In cases where we purchase imported logs for sale in the PRC, we issue letters of credit for the purchase of the logs. The purchases and sales are denominated in U.S. dollars, with payments usually settled within 45 to 90 days of delivery.

With respect to sales of standing timber, we generally grant buyers a credit period of up to nine months from the date of the contract, with sales generally denominated in Renminbi. We also generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. Pursuant to the sales contract, the buyer is required to harvest the standing timber within 18 months from the date of the contract.

From our wood product manufacturing plants, we sell primarily wood-based panel to distributors, which further process our products before sale to end-user customers, and sell flooring products to distributors, property developers and contractors. These sales are generally under short- to medium-term contracts and are denominated in Renminbi. Payments are usually settled within 120 days.

Suppliers

Logs and wood-based products supplied through our trading activities are sourced primarily from local suppliers in the PRC. We also source these products for our trading activities from overseas, primarily from Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. The credit terms granted by our suppliers of these products generally range from one to three months on open account and by letters of credit.

In the years ended December 31, 2008, 2009 and 2010, our five largest suppliers accounted for approximately 46.1%, 55.6% and 60.6%, respectively, of our total costs of sales from continuing operations. The largest supplier in each of these years accounted for approximately 16.7%, 15.2% and 20.3%, respectively, of our total costs of sales. See "Risk Factors—Risks Related to Our Business."

Transportation

Historically, we have not ourselves transported logs and wood-based products to customers, as we mainly engaged in sales of standing timber from our planted and purchased plantations. For these sales transactions, customers are responsible for harvesting and transporting the logs out of the forested areas.

With respect to our trading activities of logs and wood-based products sourced from overseas, we generally arrange for the shipping of the products to ports in the PRC for our customers, who arrange for the transportation of the products once they are unloaded in ports. These products are generally shipped to ports in the southern region of the PRC.

Customers

Our customers and AIs are mostly wood dealers and panel manufacturers. We intend to expand our customer base to include more end-user customers, such as pulp and panel mills, and for our wood-based product manufacturing plants, large furniture manufacturers.

In the years ended December 31, 2008, 2009 and 2010, our five largest customers (including AIs) accounted for approximately 56.0%, 71.9% and 71.3%, respectively, of our revenue from continuing operations. Our largest customer (including AIs) in each of these years accounted for approximately 14.0%, 15.9% and 17.1%, respectively, of our revenue. See "Risk Factors—Risks Related to Our Business."

Competition

The log and wood-based product industry in the PRC is highly fragmented. While there is a large number of small operators of tree plantations, in recent years, a small number of larger operators of tree plantations have entered into the sector; however, these operators have a shorter operating track record. The operators generally manage their own plantations, and some replant trees and use their plantations as a source of fibre for their downstream operations. These operators may be foreign-owned, state-owned or small and collectively-owned.

The wood-based panel industry in the PRC is also highly fragmented, with a large number of small manufacturers and no dominant manufacturers. We expect that our principal competitors in this manufacturing industry will increasingly be large domestic and foreign manufacturers of wood-based panels and engineered floorings. Domestic and foreign operators have commenced or announced plans to build panel mills, which are expected to increase competition in the panel market in the PRC. We may also face more competition from imports of wood-based panels. The primary competitive factors in the wood-based panels industry are product quality, level of technology in the manufacturing process, product innovation, product mix, price and logistics.

The markets for forest products in the PRC are highly competitive in terms of price and quality. In addition, wood-based products are subject to increasing competition from a variety of substitutes, including non-wood and engineered-wood-based products, as well as imports from other suppliers worldwide. See "Risk Factors—Risks Related to Our Business."

Environmental Matters

Our tree plantation and manufacturing operations are subject to PRC laws and regulations relating to the protection of the environment. We believe that our operations are in substantial compliance with these laws and regulations. We are not currently involved in any significant environmental proceedings.

Tree Plantations

We maintain an Environmental Management System designed to ensure sustainable and responsible resource management. It sets out policies relating to social, ecological and environmental aspects of our tree plantation operations and detailed operating procedures for environmental compliance. Some of our plantation operations are managed in accordance with the major environmental standards. Besides the environmental requirements of International Organization for Standardization (ISO)14001, we have also been working since 2000 to integrate the comprehensive Forest Stewardship Council™ ("FSC™") principles and criteria into our tree plantation management and operations, which cover all recognized environmental and relevant issues such as the control of soil and water erosion, the conservation of biodiversity and special habitats, the improvement of environmental conditions, the maintenance of production continuity, health and protection of forests, local community development, etc. We obtained an ISO14001 certificate in 2002 for one of our plantation companies in Guangxi Province, and an FSC™ Forest Management and Chain-of-Custody ("FM CoC") certificate in 2004 in Gaoyao, Guangdong Province (SW-FM/COC-001146). We aim to gradually expand FSC™ certification to all of our forest plantations.

In the past five years, we have instituted stringent annual assessments and re-assessment by Rainforest Alliance's SmartWood, an FSC™-accredited, US-based certification body for our FSC™ operations. This has involved continuously improving our environmental performance through the recurrence of prescribed operation, monitoring and inspection, technological development and correction of plantation management. Our efforts in addressing all main environmental concerns or issues are well recognized by the independent assessors.

Besides our commitment to managing our forest plantations in an environmental-friendly manner, we are also actively involved in various activities related to environmental protection or enhancement. On July 20, 2007, the PRC launched its first China Green Carbon Foundation, spearheaded by the State Forestry Administration, to develop carbon credit trading, forest bio-fuels and renewable energy through large-scale tree plantation in a sustainable manner, which will also mitigate greenhouse gas emissions. Sino-Forest was one of the founding members and the only member from the forestry sector.

In 2008, we donated approximately US$769,000 to the establishment of the "Applied Research Centre for Pearl River Delta Environment" at Hong Kong Baptist University. A primary goal of the research centre is to develop a competent team to study pollution problems and provide solutions for industries in the Pearl River Delta Region.

We believe that, with our commitment to corporate responsibility, we will steadily and effectively improve our sustainable plantation management, from economic, environmental and social perspectives.

Manufacturing

We began manufacturing engineered-wood products to complement our tree plantation operations in 2000. We currently produce mainly engineered wood flooring, sawn timber, finger-joint board, blockboard, plywood, engineered veneer, which generally cause relatively minor environmental impacts. Environmental impacts may include, but are not limited to, sawdust emissions, air pollution, glue waste, water pollution, toxic chemical content, fire, health & safety and raw material sourcing. We strive to integrate international standards into our product manufacturing by updating our management system and operation procedures in a timely manner.

We are committed to fully utilizing certified and legal raw wood material in our manufacturing, which is considered to be a significant way of protecting regional and global environments from deforestation. We have obtained FSC™ Chain-of-Custody ("FSC™ CoC") certification (GFA-COC-001561) in Heilongjiang for our main factory that produces OSB, veneer, etc. We intend on making our wood product manufacturing subject to the CoC certification system, which involves regular stringent inspections carried out by an FSC™-accredited certification body. Wood products with an FSC™ 100% label must be made exclusively from FSC™-certified raw materials.

We have acquired advanced facilities and equipment that fully meet the demands of environmental protection, to keep hazardous substance emissions under acceptable levels. We have various procedures in place for controlling environmental impacts.

With our wood product manufacturing, some environmental accidents may still occur from daily operation or at old facilities. As with most other labor-intensive companies in China, we often have inexperienced or outsourced workers in our labor force, who may inadvertently cause environmental and safety accidents, even though they are initially provided with professional training. We strive to implement an integrated training and monitoring system to avoid or minimize accidents. In addition, old inefficient facilities or equipment may emit hazardous chemicals or contaminated materials and as a consequence, timely replacement and effective maintenance of outdated facilities, equipment or their parts are necessary to control environmental accidents in manufacturing operations.

Environmental Regulation

As disclosed under "Risk Factors—Risks Related to the PRC", our tree plantations and manufacturing plants are subject to certain environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations that apply to our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect our business, financial condition and results of operations.

Research and Development

Research and development (R&D) is an important function of our tree plantation operations. The goal of our R&D efforts is to improve tree plantation yields and the quality of the trees grown on our tree plantations. We have developed a sustainable intensive plantation management system in order to optimize investment efficiency. The system comprises standardized plantation management operation procedures, genetic improvements, cultivation techniques and inspection and monitoring.

We perform R&D on a wide range of activities, including:

- genetic breeding research;
- vegetative propagation technology;
- site and nutrition management and fertilizer application for different soil types and developing methods to optimize fertilizer application;
- improved silviculture practices;
- development of sustainable management system of commercial plantation ecosystems, merging timber production, environmental conservation and social care;
- wood properties and processing and value-added products; and
- ecological and environmental technology, including the monitoring and evaluation of ecological and environmental conditions in short-rotation eucalyptus plantations.

While performing our R&D activities, from time to time we also collaborate with, and receive assistance from, research and academic institutions in the PRC.

In order to maximize all aspects of the forest product supply chain, we invest in R&D activities. On January 4, 2010, we acquired HOMIX to enhance our R&D portfolio. HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangdong and Jiangsu Provinces, covering eastern and southern China wood product markets. It develops a number of new technologies suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered-wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environmentally-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue.

In the years ended December 31, 2008, 2009 and 2010, we spent approximately US$1,071,000, US$2,726,000 and US$4,043,000, respectively, on R&D activities.

Insurance

We maintain insurance policies to cover the risks of loss of our tree plantations. These policies cover all our planted plantations and the indemnity will apply to the actual insured value of the hectares of damaged plantation after netting any deductible. As for purchased plantations, the coverage of our insurance policy is subject to an annual loss limit of maximum RMB10 million for any one accident and 15% of the declared value of our total purchased plantation in aggregate for loss other than loss caused by frost, hailstorm and snow and an annual loss limit of maximum RMB10 million for any one accident and RMB20 million in aggregate for loss caused by frost, hailstorm and snow after netting deductible. We believe that our insurance coverage is consistent with the practice of other PRC tree plantation operators. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our tree plantations are located in different provinces in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our tree plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

We also maintain property all risks and public liability insurance policies for our manufacturing facilities. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

Intellectual Property

We have registered the “Sino-Forest” trademark in certain classes in the PRC, the United Kingdom and Japan, and we have also registered several other trademarks, including, inter alia, “三月楓” (San Yue Feng) and “北美楓情” (Sino-Maple), for our wood products in the PRC.

Employees

As of December 31, 2010, we had approximately 3,949 full-time employees in Canada, Hong Kong, PRC and Suriname, including 163 employees from the Greenheart Group.

We believe that our relations with our employees are generally good. We have not experienced any significant problems with the recruitment or retention of employees, nor suffered from any material disruption of our business operations as a result of any labor dispute or strike.

Legal Proceedings and Inquiry

From time to time we are involved in litigation arising out of the ordinary course of our business. We are not currently involved, and have not recently been involved, in any legal or arbitration proceedings that we believe would be likely to have a material effect on our financial condition or results of operations.

GOVERNMENT REGULATIONS

Plantation Industry

Development of the Plantation Industry

The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated The Notice on the Decision to Speed Up the Development of Plantation Industry (Zhong Fa (2003) No. 9) (中共中央國務院關於加快林業發展的決定). The Key Elements of the Policies in Forestry Industry (林業產業政策要點) were jointly promulgated by the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission on August 10, 2007 for implementing this notice.

The notice records the decisions of the PRC central government to pursue the following main goals:

- to develop the non-state owned plantation industry and to encourage the participation of foreign investors in the plantation industry, either solely or jointly with others;
- to strengthen plantation infrastructure in order to ensure the continued development of the economy of the PRC;
- to expedite and reform the development of the plantation industry;
- to emphasize the importance of the plantation industry in the development and preservation of the ecological environment;
- to increase forest resources and the supply of forest products;
- to promote the infrastructure development of the ecological environment;
- to further improve the system of plantation rights in respect of the plantation land and plantation trees;
- to assist in the processing of transfers, leases, mortgages and pledges and making investments in joint ventures for plantations; and
- to strengthen financial support of the development of the plantation industry by continuing to provide long-term and low interest rate credit facilities and encouraging plantation operators to raise funds from the public.

The Key Elements of the Policies in Forestry Industry describe the following main goals:

- to insist on the consistency of the foreign investment policy, *i.e.*, to favor allocation of foreign investments in areas identified in the Catalog of Foreign-invested Industry Guidance (外商投資產業指導目錄) and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region (中西部地區外商投資優勢產業目錄);

- to encourage and facilitate development and use of critical technologies, equipment and products that favor the upgrade of industrial structure of forestry;
- to gradually establish the Timber Industrial Zone composed of the Southeast Coastal Area, Southern Timberland and Huang-Huai-Hai Plain;
- to encourage the development of non-public-owned forestry, eliminate institutional obstacles to such development and introduce advanced international technologies and management experiences;
- to establish a sound product quality inspection and monitoring system; and encourage forestry corporations to obtain forestry certifications;
- to strictly follow the released tax policy and provide insurance and financial services to companies and individuals in the forestry industry;
- to establish a platform for transactions of plantation land use rights;
- to improve forest harvesting management and facilitate harvesting of artificial commercial plantations, in particular at plantations supplying industrial raw materials, and to strengthen the operators' rights to cultivate the plantations; and
- to create a favorable environment for development of the forestry industry.

On July 14, 2008, the PRC State Council promulgated the Opinions on Comprehensively Promoting the Reform of the Collectively Owned Plantation Right System (中共中央國務院關於全面推進集體林權制度改革的意見) dated June 8, 2008 in order to further liberalize and modernize the forestry industry, develop the productivity of the forestry industry, increase farmers' income and develop the ecological system in the PRC. Such opinions provide that, among others, in accordance with applicable laws and regulations, the farmers with contractual rights over the collectively-owned PRC commercial plantations may, without change of the plantation usage, dispose of such rights relating to plantation operations and plantation tree ownership rights through sub-contracts, leases, transfers, mortgages, or as contributions in capital or under cooperative structures.

On October 29, 2009, the PRC State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce and State Administration of Taxation jointly promulgated the Plan of Revitalizing Forestry Industry (2010-2012) (林業產業振興規劃(2010-2012 年)) as guidance to confront the global financial crisis, which sets forth targets such as, among others, increasing domestic demand and supporting the exportation of forestry products, improving quality of wood products, upgrading forestry technology, promoting international cooperation and developing industrial material plantations. The Plan of Revitalizing Forestry Industry also provides a series of policies and measures to develop the forestry industry, including strengthening financial support to the forestry industry and lowering the standard of reforestation fund from 20% of the forestry products sales income to 10%, commencing from July 1, 2009.

Permits and Approvals Necessary for the Operation of our Plantation Business

We are required to obtain the following permits and approvals for the operation of our tree plantation business:

- Plantation Rights Certificates in respect of the plantation land use rights and the ownership of our planted trees for our planted plantations;
- Plantation Rights Certificates in respect of the ownership of our purchased trees for our purchased plantations;
- timber logging permits; and
- timber transportation permits.

Plantation Rights Certificates for Our Planted Plantations

The PRC Forestry Law (中華人民共和國森林法) and the Implementation Regulations of the PRC Forestry Law (中華人民共和國森林法實施條例) implement the system of plantation rights registration and issuance of certificates. Pursuant to the Implementation Regulations, all entities should apply to the forestry bureau of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above is responsible for issuing the plantation rights certificates. Applicants for plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry bureau.

Plantation Rights Certificates for Our Purchased Plantations

For our purchased plantations, we have applied for the corresponding Plantation Rights Certificates with the relevant local forestry bureaus. As the relevant locations where we purchased our purchased plantations have not fully implemented the new form of Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our purchased plantations. Instead, we obtained confirmation of our ownership of our purchased plantations from the relevant forestry bureaus. Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations.

Timber Logging Permits and Logging Quotas

The Implementation Regulations stipulate that for foreign invested plantation projects, the logging quota will be allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. The WFOEs with planted tree operations will be able to obtain the logging permits within the timber logging quota allocated by the provincial forestry departments.

The logging quota of our purchased plantations have been confirmed by the relevant forestry bureaus where the purchased plantations are located.

Timber Transportation Permits

Upon obtaining the timber logging permit and provision of certain supporting documents required by the local forestry bureaus, such as the quarantine certification, there should not be any legal constraints for the WFOEs to obtain timber transportation permits.

Manufacturing

Engaging in the Timber Business

The Implementation Regulations stipulate that any entity engaged in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau of the local PRC government at the county level or above. Certain PRC provinces impose further requirements for granting permission to engage in the timber business, which means that any entity engaged in the timber operations and processing business within the relevant provinces must also apply for a timber business permit from the forestry bureau of the appropriate jurisdiction.

Regulations that Apply Nationwide

The Implementation Regulations provide that corporations that engage in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau at the county level or above. Any violation of this regulation will result in confiscation of the timber and any illegal gains and payment of a fine of up to twice the amount of the illegal gain.

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council (國務院辦公廳關於加強森林資源保護管理工作的通知) implemented on May 16, 1994, provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant forestry bureaus, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and complying with the business objectives as stated on the license.

The Administration of Standardization of Forestry Regulations (林業標準化管理辦法) implemented on September 1, 2003, provides that the technical requirements of forestry products, quality of timber saplings, safety, hygiene standards, testing, packaging, storing and transportation practices and inspection methods, must be standardized.

In October 2006, the PRC State Forestry Administration promulgated the Notice for Further Strengthening the Administration and Supervision of the Timber Operation and Processing (關於進一步加強木材經營加工監督管理的通知) and adopted a series of rules for the administration and supervision of the timber processing and operating business.

Twelfth Five-Year Plan

China’s Twelfth Five-Year Plan (2011-2015) was approved at the National People’s Congress held in March 2011. It aims to address geographic income inequality and create conditions for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption and improved public infrastructure and social safety nets. The plan sets out China's intentions to rebalance its economy by shifting emphasis from exports and investment to a more domestic consumption driven economy, and shifting growth from urban and coastal development to rural and inland development. The Central Government is aiming to increase urbanization from 47% in 2009 to 52% by 2015. To support rural region urbanization, the Central Government announced in late February 2011 that China will construct 36 million units of public housing over the next five years. We anticipate that the building of infrastructure and housing will further stimulate demand for wood-based materials for construction and residential products.

In the forestry sector, the State Forestry Administration ("SFA") will continue to promote sustainable commercial forests by supporting the development of fast-growing, high-yielding ("FGHY") plantations. Moreover, the SFA is aiming to reduce the logging of natural forests for environmental and other reasons, and to increase China's forest coverage from 20.36% at the end of 2008 to 21.7% by 2015. To encourage development of FGHY plantations and the modernization of commercial plantations, the SFA is conducting pilot programs to determine appropriate reforms to state-owned tree farms which will be rolled out across the country.

RISK FACTORS

Risks Related to Our Business

The cyclical nature of the forest products industry and price fluctuations could adversely affect our results of operations

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

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

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

Expanding our tree plantations and manufacturing operations requires substantial future capital expenditures and we may be unable to obtain adequate financing to fund our capital and other requirements

Expanding our tree plantations and manufacturing operations requires intensive capital investment. During the years ended December 31, 2008, 2009 and 2010, we incurred approximately US$672.5 million, US$1,052.7 million and US$1,370.7 million, respectively, in capital expenditures to acquire tree plantations. In recent years, we have expanded our manufacturing operations through investments in an engineered-wood flooring plant in Jiangsu, a blockboard facility in Hunan, a wood and composite flooring facility in Guangxi, plywood facilities in Guangxi and Guangdong, engineered veneer facilities in Jiangsu and Guangdong, finger-joint board facilities in Hunan and Heilongjiang and sawn timber facilities in Yunnan and Heilongjiang. We have financed our expansion of tree plantations and manufacturing operations primarily from internal cash flows and debt and equity financing and, if we require additional debt or equity financing for future capital expenditures, we can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, we currently have substantial indebtedness, including the following principal amounts of indebtedness outstanding: US$87.7 million of 2011 Senior Notes, US$399.5 million of 2014 Senior Notes, US$345 million of 5% convertible senior notes due 2013 (the “2013 Convertible Senior Notes”), US$460 million of 2016 Convertible Senior Notes and US$600 million of 2017 Senior Notes, the terms of which restrict our ability to raise additional debt financing. Such restrictions could affect our ability to raise financing in the future. In addition, Greenheart Group has US$25 million principal amount of indebtedness outstanding in the form of 5% convertible notes due 2015. We may incur additional indebtedness from domestic PRC lenders to supplement the funding of our proposed investments with SOPs. See “General Development of the Business—Historical Milestones”. If we are not able to obtain financing for expanding our tree plantations and/or manufacturing operations and/or other capital requirements, our business, financial condition and results of operations may be materially and adversely affected.

Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights

Our ability to further expand and develop our tree plantations and successfully implement our tree plantation models depends on, among other things, our ability to purchase trees with respect to which we have certain contractual rights and to lease the underlying plantation land on which the trees are located or to find other suitable plantation land. Under the purchase agreements for most of our purchased plantations, we have a pre-emptive right to lease the underlying plantation land for a maximum period of up to 30 to 50 years, subject to negotiation of the definitive land use right transfer agreement, obtaining the requisite governmental approval and completing the requisite registration procedures. Our decision and ability to purchase the trees and exercise our contractual rights with respect to our tree plantations will depend on, among other factors, our business strategy and the availability of future financing, our ability to negotiate a final price, whether the area is desirable for tree plantations and the availability of tree plantations for expansion.

Should we be unable to purchase the trees, exercise our right to acquire the underlying plantation land use rights and complete the requisite governmental approval and registration procedures, or should we be unable to locate available and suitable plantation land for expansion, our business, financial condition and results of operations could be materially and adversely affected.

We may be unable to continue acquiring standing timber under the long term acquisition agreements

We may be unable to continue to acquire standing timber under the long-term acquisition agreements due to factors such as (i) risks of disagreement with counterparties and/or original plantation rights holders in the provinces regarding entering into specific agreements for the implementation of our plantation acquisition plan, (ii) the failure of any such counterparty to obtain any requisite consents from the original plantation rights holders, and (iii) risks of the counterparties failing to coordinate with us to obtain the requisite governmental approvals and complete the related registration procedures.

Our expansion in new regions may pose certain implementation risks

We are exposed to certain risks relating to our ability to successfully operate our plantations in new regions like Suriname and New Zealand and new provinces such as Anhui and Guizhou Provinces, primarily because we have no operating history in such regions or provinces, and also because we do not have extensive experience interacting with local governments, business counterparties and original plantation rights holders in these regions or provinces. With respect to Greenheart Group's operations in Suriname, forest concessions in Suriname do not convey exclusive rights to the land and it is therefore possible to have geographically overlapping rights to different resources with a resulting potential for future land use conflict. In addition, Greenheart Group's concession rights may be adversely affected by changes in policies of the Suriname government.

We are subject to risks presented by fluctuations in exchange rates

We publish our financial statements and incur substantially all of our indebtedness in U.S. dollars, while substantially all of our revenue is denominated in Renminbi.

Since 1994, the conversion of Renminbi into U.S. dollars has been based on rates set by the People's Bank of China ("PBOC"), which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The relative value and rate of exchange of the Renminbi against the U.S. dollar is affected by, among other things, changes in the PRC's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 19, 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime and increase the Chinese currency's exchange rate flexibility, which will likely result in an appreciation of the Renminbi against the U.S. dollar. The PRC government may decide to further liberalize its currency policy in the future, which could result in a further and more significant appreciation or depreciation of the Renminbi against the U.S. dollar.

Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because we have substantial US dollar -denominated indebtedness, expenses and other requirements, while most of our revenues are denominated in Renminbi. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors. To the extent the Renminbi appreciates against the U.S. dollar or other currencies, it will make it more expensive for us to finance the expansion of our plantations in the PRC through equity or non-Renminbi borrowings.

As at December 31, 2010, our total long-term debt, including current portion, was US$1,747.4 million, all of which was denominated in U.S. dollars. We do not currently hedge exchange rate fluctuations between the Renminbi and other currencies.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the U.S. dollar, Canadian dollar, New Zealand dollar, Euro and H.K. dollar, or in the U.S. dollar against the Renminbi, Canadian dollar, New Zealand dollar, Euro or H.K. dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into U.S. dollars, Canadian dollars or otherwise, of our revenue and net income. In addition, fluctuations resulting in a devaluation of the Renminbi against the U.S. dollar could adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our debt obligations.

The forestry industry is susceptible to weather conditions, changes in climate, timber growth cycles and natural disasters outside of our control

Our business, financial condition and results of operations depend to a significant extent on our ability to harvest trees or engage in trading activities at adequate levels. The following factors, which are outside of our control, may affect the prices of logs and wood-based products, and our ability to harvest the trees on our tree plantations or engage in our trading activities:

- unfavorable local and global weather conditions, such as prolonged drought, flooding, hailstorms, windstorms, typhoons, frost and winter freezing; and

- the occurrence of natural disasters, such as damage by fire, insect infestation, crop pests, and earthquakes.

In recent years, certain areas of the PRC have been adversely affected by severe earthquakes, flooding droughts and landslides. For example, the heavy rainfall in the second quarter of 2010 caused severe flooding in many provinces across China, which has affected the ability of certain of our customers to harvest plantation trees that we sold to them. This resulted in a build-up of our receivables and reduced our cash flows in the second quarter of 2010. In addition, the southern coastal areas of the PRC suffer a number of typhoons each season, which lasts from June to September and occasionally results in significant damage. Further, there have been several incidences of forest fires in Guangdong Province. In February 2008, snow and freezing rain storms damaged plantations in certain provinces. Similar conditions may recur in the future.

We also hold a majority interest in Greenheart Group, which owns certain rights and manages approximately 312,000 hectares of hardwood forest concessions in Suriname. Suriname is located south of the hurricane belt which affects the southern part of the United States and the Caribbean. While the risks of major catastrophic damage are therefore lower than in some other tropical areas, losses due to storms may still occur. In addition, although the risk of damage caused by fire exists, it is somewhat mitigated by the high levels of rainfall in Suriname. Our operations are also subject to long term periodic climate events, such as weather patterns affected by the El Niño and La Niña weather pattern, and could be adversely affected by other climate changes. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC, Suriname or New Zealand where our tree plantations are located, or otherwise disrupt our trading activities, which may adversely affect our business, financial condition and results of operations.

We may not be able to meet our expectations for the yields of our tree plantations

The success of our business depends upon the productivity of our tree plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our eucalyptus trees ranges from approximately 100 to 150 cubic meters per hectare per six-year cycle. Tree plantation yields depend on a number of factors, many of which may be beyond our control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that we may obtain in the future.

Our ability to improve or maintain our yields will depend on the factors described above as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus tree plantations. As a result, we cannot provide any assurance that we will be able to realize the historical or future yields we expected. If we cannot achieve yields at expected levels, our business, financial condition and results of operations would be materially and adversely affected.

We may not be able to effectively manage our tree plantations if we do not hire additional employees and improve our management systems and internal controls

As of December 31, 2010, we had 3,949 permanent employees, including 163 employees from the Greenheart Group based in Canada, Hong Kong, PRC and Suriname to manage our operations. We also engage third parties to perform the day-to-day operations of our tree plantations. However, as we expand the area of our tree plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our tree plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary to strengthen our internal controls and corporate governance as we continue to build our business. Should we fail to take the measures described in this paragraph, we may not be able to implement our expansion strategy or to manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected.

The forest products industry is highly competitive

The forest products industry is highly competitive in terms of pricing and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered-wood products. Lumber and log suppliers in the PRC experience competition from worldwide suppliers. With respect to our tree plantations and standing timber and wood-based products trading activities, we are subject to increasing competition from other large domestic and foreign-owned tree plantation operators in the PRC, as well as from wood dealers and local forestry companies that sell logs and wood-based products in the PRC. We also compete indirectly with many foreign forestry companies which import logs and wood-based products into the PRC.

Our manufacturing plants face competition from other large domestic and foreign-owned wood panel manufacturers in the PRC, as well as from manufacturers in other countries importing into the PRC. In this regard, other manufacturers of wood panels are currently constructing new mills in the PRC that will substantially increase the production capacity of wood panels. We may not be able to compete effectively against these and other potential competitors. If we are not able to compete effectively in our various business lines, or if competition significantly increases, our business, results of operations and financial results could be materially and adversely affected.

We rely on our relationships with local plantation landowners and/or plantation land use rights holders

The conversion of the legal structure of all four of our CJVs into WFOEs was completed in the fourth quarter of 2007 and after the conversion, one of the converted WFOEs merged with another WFOE and was deregistered. Negotiations with local farmers, collective organizations or other land use rights holders for entering into new plantation land use agreements are in progress for the remaining WFOEs. There can be no assurance that through the WFOEs we will be able to secure all the plantation land use rights that we would expect them to secure, or secure such rights on satisfactory terms, from the farmers, collective organizations or other land use rights holders, or that we will be able to enter into any plantation land use agreements with relevant farmers, collective organizations or other land use rights holders to maintain the use of the tree plantations originally operated by our former CJVs or to obtain additional tree plantations.

In addition, we rely on our relationships with local plantation landowners and/or plantation land use rights holders to enter into any plantation land use agreements on commercially acceptable terms for our purchased plantations. We cannot give any assurance that we will be able to enter into any such agreements on commercially acceptable terms.

The loss of business from a major customer could reduce our sales and harm our business and prospects

A few large customers account for a significant percentage of our total revenue. During the years ended December 31, 2008, 2009 and 2010, our five largest customers accounted for approximately 56.0%, 71.9% and 71.3%, respectively, of our revenue from continuing operations. For the same periods, our largest customer accounted for approximately 14.0%, 15.9% and 17.1%, respectively, of our revenue from continuing operations. These major customers are all wood dealers and our AIs who sell logs and wood-based products to end-user customers of these products. As a result, we expect that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a significant percentage of our total revenue. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

Disruptions in our supply of raw timber could adversely affect our business, financial condition and results of operations

A few large suppliers account for a significant percentage of our timber supply. For the years ended December 31, 2008, 2009 and 2010, our five largest timber suppliers accounted for approximately 46.1%, 55.6% and 60.6%, respectively, of our total costs of sales from continuing operations. For the same periods, our largest supplier of timber accounted for approximately 16.7%, 15.2% and 20.3%, respectively, of our total costs of sales from continuing operations. These major suppliers are all wood dealers and our AIs. We have not entered into any long-term supply contract for the supply of raw timber. Dependence on a limited number of suppliers exposes us to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on our business, financial condition and results of operations.

We depend on services provided by third party service providers

We rely to a significant extent on third party service providers for day-to-day operation of our tree plantations. The operations performed by third party service providers include: site preparation, planting, plantation management, fertilization and harvesting. We occasionally experience seasonal labor shortages in May and September as farmers become fully engaged in the planting and harvesting of rice. If we are unable to obtain services from these third party service providers, at economical rates or at all, or if any of the services they provide are inadequately performed, our business, financial condition and results of operations would be materially adversely affected.

If we lose any of our key personnel, our operations and business may suffer

We are heavily dependent upon our senior management in relation to their expertise in the forestry industry and R&D in forest plantation management practices and wood-based products manufacturing production processes, and the relationships cultivated by them with our major customers and others. We have no long-term contracts with any of our senior management. We do, however, have key person life insurance policies for two of our executive officers. In addition, we have life insurance policies covering many of our employees, including senior management. The departure, or otherwise loss of service, of any of our senior management could materially and adversely affect our business, financial condition and results of operations.

We may face difficulties during the transitional stages of our expansion; we may experience difficulties in managing future growth and potential acquisitions

Our organic growth, as well as growth arising from acquisitions or joint ventures, could place a significant strain on our managerial, operational and financial resources. Our ability to manage our future growth will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to train, motivate and manage an enlarged workforce and our ability to integrate our existing workforce with that of any businesses that we may acquire. Failure to effectively manage our expansion may lead to increased costs, a decline in sales and reduced profitability.

We may also seek to achieve our growth targets through joint ventures, long term wood fibre supply agreements or acquisitions of local businesses providing access to new markets and/or creating synergies with our existing business. We may not be able to identify appropriate targets, complete the acquisitions on satisfactory terms (particularly as to price) or efficiently integrate the acquired companies or activities and achieve the expected benefits in terms of cost and synergies, which could adversely affect our business, financial condition and results of operations. There can be no assurance that we will be able to achieve our growth objectives.

Our manufacturing plants are in an early stage of development and have a short operating history. The manufacturing plants may not be profitable or successful

Our manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures. Our ability to conduct and expand our manufacturing plants will depend upon our ability to, among other things:

- produce and develop high quality wood-based products that will be acceptable to customers;
- recruit and retain technical and management personnel with requisite expertise and experience in the wood-based products manufacturing industry; and
- raise working capital and fund capital expenditures for the expansion of the manufacturing plants.

We can give no assurance that these facilities will operate at their planned operating capacity.

Our ability to develop and operate investments with state-owned plantation entities in the PRC is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate such entities successfully or at all or without significant delays

We are currently exploring opportunities to fund forestry investments in the PRC in cooperation with SOPs. We anticipate making such investments into Co-op Entities. The purpose of these investments would be to develop the economic value of state-owned plantation farms by investing in advanced breeding, planting and silviculture technology and introducing modern plantation management know-how and practices to the Co-op Entities.

However, we do not currently have agreements in place with respect to the structure or timing of any such investments. Our ability to successfully fund, develop and operate these forestry investments in cooperation with SOPs depends on various factors and uncertainties, including the time required for the PRC government to formalize a forestry commercialization policy, our limited operating history with SOPs, implementing a capital and ownership structure for the investments with the SOPs that permits us to exercise the requisite level of control and oversight, availability of additional debt or equity funding as necessary on acceptable terms to effect these investments, and receipt of requisite government approvals. We have not previously entered into such arrangements with SOPs, and there can be no assurance that we will actually develop and operate such entities successfully or at all or without significant delays.

Our insurance coverage may be insufficient to cover losses

Consistent with PRC forestry industry practice, we have a policy of obtaining external insurance coverage for key insurable risks relating to our tree plantations and the operation of our manufacturing facilities. As a general matter, most of our insurance policies include a coverage limit that applies either per claim or per claim and per year, in particular for the purchased plantations. See "Business—Insurance."

We insure our planted and purchased plantations in various locations in the PRC against certain accident and disaster related losses such as fires, lightning, explosion, flooding and windstorm. We do not, however, insure our plantations against losses from all natural and other disasters, such as pest and disease, and we do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on our tree plantations. If we were to suffer an uninsured loss or a loss in excess of our insurance coverage to the tree plantations, our business, financial condition and results of operations could be materially and adversely affected. We also maintain property all risk and public liability insurance policies for our manufacturing facilities. We maintain a level of fire insurance in amounts that we consider to be appropriate for such risks. Such insurance is subject to deductibles that we consider reasonable and not excessive given the current insurance market environment. The occurrence of a loss at our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business, financial condition and results of operations.

Our manufacturing plants are subject to operational risks for which we may not be adequately insured

The operation of manufacturing plants involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards, and industrial accidents. In addition, the costs of repairing or replacing our production equipment and the associated downtime of the affected production line may not be totally reimbursed, or the level of insurance may not be adequate. The occurrence of material operational problems could have a material adverse effect on our business, financial condition and results of operations.

We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts that we have estimated and for which we have provisioned

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 our tax expense.

We have 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 we operate. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

In particular, our 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 AIs 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 more-likely-than-not subject to enterprise income tax on a deemed profit basis based on a deemed profit rate and are more-likely-than-not 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 master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AIs, the AIs are responsible for withholding and remitting relevant PRC taxes that arise from the Authorized Sales Activities for the BVI Subsidiaries. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax 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 our financial statements a provision representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover. As at December 31, 2010, this provision is $156,941,000 [2009 – $98,863,000], which amount relates to the profits of the Authorized Sales Activities earned by the BVI Subsidiaries during 2010 and in the three preceding years including discontinued operations, and is included in accounts payable and accrued liabilities.

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. We have 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 our analysis to date, we have recorded income tax based on a deemed profit rate of 15% for 2010. We have also applied the 15% rate in computing taxable income for operations in certain provinces where we do business for the 2007, 2008 and 2009 years. The rate applied in other provinces varies from 10% to 15%.

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. We record our best estimate based upon the information available to us at each reporting date and actively revisit and adjust this estimate if required as we update our 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. In particular, if, as a result of administrative practices of the PRC tax authorities, we were to determine in future periods that the 15% rate should be applied for all of the provinces for the 2005, 2006, 2007, 2008 and 2009 years (five prior years), this would represent a further provision of $96,605,000. In addition, if we were to conclude that the deemed profit percentage should exceed 15%, management estimates each additional percentage point increase would represent an additional $3,378,000 in the provision as at December 31, 2010 for activities during 2010 and an additional $7,574,000 in the provision for the 2007, 2008 and 2009 taxation years.

Increases in the export tax on logs in Russia may have an impact on our business of imported logs from Russia

The Russian government significantly increased its export tariffs on logs from 6.5% to 25% in April 2008. According to industry reports, Russia was scheduled to increase its export log tariff to 80% on January 1, 2011. However, it is understood that the Russian government may again postpone the proposed increase until 2012, according to industry news and reports. Our revenue from sales of imported wood products increased by 93.3% in the year ended December 31, 2010 compared to the previous year ended December 31, 2009. However, the previous tariff increases did have an impact on our revenue from sales of imported wood products in the year ended December 31, 2008, which decreased by 7.3% compared to 2007.

If the Russian government continues to increase export tariffs, the higher costs will be passed on to our customers and may have an adverse effect on our operating and financial results of our imported logs business. In the time being, Sino-Forest may benefit from tariff increases as even a small Russian log export tax increase could lead to fewer exports from Russia, which combined with the growing log supply deficit in China, would place upward pressure on Chinese domestic log prices.

We will be obliged to adopt new accounting standards under IFRS for the years beginning on or after January 1, 2011, which could materially impact our financial statements

Prior to January 1, 2011, we have prepared our financial statements in accordance with Canadian GAAP. All companies that are Canadian reporting issuers will have to use the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for their financial reporting for the years beginning on or after January 1, 2011. As such issuers are required to produce comparative consolidated financial statements, the transition to IFRS will have to be reflected in their balance sheets as at January 1, 2010, in order to provide comparable balance sheet, income statement and statement of cash flows data for financial years 2011 and 2010. Applying these standards to our financial statements may have a considerable impact on a number of important areas. The preparation of our financial statements in accordance with IFRS could result in significantly different results from those obtained from financial statements prepared in accordance with Canadian GAAP. In particular, the valuation of our assets, especially our plantations, may be substantially affected by the application of IFRS to our financial statements.

Our tree plantations and wood-based products trading activities are subject to extensive laws and regulations in the PRC and other jurisdictions in which we may operate

We are subject to regulations under a variety of PRC national and local laws and regulations, including, among others, the PRC Forestry Law and its Implementation Regulations, the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures, the Environmental Protection Law of the PRC and various rules and regulations enforced by local governmental authorities. We are also subject to such other laws and regulations as may be applicable to us in other jurisdictions in which we may operate, including Suriname and New Zealand. Violations of any of the wide range of laws and regulations that we may be subject to in the PRC or elsewhere, including environmental policies and programs that apply to our tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage in the following activities that are subject to regulation:

- tree plantation activities, including planting, plantation use and maintenance, logging and transportation of logs;
- marketing, sale and trading of standing timber, logs and wood-based products; and
- timber processing and manufacturing and sale of wood panels.

For further details on these regulations and risks relating to them with respect to the PRC specifically, see "Risks Related to the PRC."

Any outbreak of severe communicable diseases may materially affect our operations and business

An outbreak of influenza A (H1N1), a communicable disease that is potentially lethal, or other contagious diseases such as severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect our operations at one or more of our facilities. We cannot predict at this time the impact that the current or any future outbreak could have on our business, financial condition and results of operations.

The Pöyry Reports are subject to significant assumptions and limitations and actual values realized by us may differ

We have engaged Pöyry Forest Industry Pte. Ltd. ("Pöyry") to prepare a report and provide its opinion annually since 2006 and four reports have been produced thus far on the value of our plantation forest crop assets as at December 31, 2006, 2007, 2008 and 2009 (the "Pöyry Reports"). The Pöyry Reports contain a discussion of the principal assumptions, limitations and other considerations utilized in their preparation, which prospective investors should review carefully, including, without limitation, that Pöyry assumes that the forests visited by Pöyry in the field inspection represent the full range of conditions that exist for the species seen, that for species not assessed as part of the valuation, Pöyry has applied yield estimates that it has previously derived and that Pöyry made assumptions with respect to future costs and market prices.

As a result of the foregoing and other limitations to the Pöyry Reports, actual conditions of our forestry plantations may be substantially different than those set forth in the Pöyry Reports, and, as a result, you should not place undue reliance on the reports. Accordingly, the valuations set forth in the Pöyry Reports are not necessarily indicative of the actual values that can be realized by us. If actual values realized by us are less favourable than those shown in the Pöyry Reports or the assumptions used in deriving the valuation included in the Pöyry Reports prove to be incorrect, our business, financial condition or results of operation could be adversely affected.

We have further engaged Pöyry to prepare a report on the value of our plantation forest crop assets as at December 31, 2010. However, based upon an internal risk assessment conducted through Pöyry's management consulting business group in 2010, Pöyry has changed its disclosure policy such that clients, including Sino-Forest, are no longer able to make its detailed valuation reports publicly available. Although we have reached a separate agreement with Pöyry upon the manner in which parts of Pöyry's valuation report may, on a non-reliance basis, be communicated to our stakeholders, the full contents of the 2010 report will not be publicly available.

Our ability to pay dividends to our shareholders is subject to restrictive covenants under the indentures pertaining to the 2011 Senior Notes, the 2014 Senior Notes and the 2017 Senior Notes

The indentures pertaining to the 2011 Senior Notes, 2014 Senior Notes and the 2017 Senior Notes contain restrictive covenants limiting our ability and the ability of our subsidiaries to make certain restricted payments, including dividends. Such covenants in the indentures relating to the 2011 Senior Notes, the 2014 Senior Notes and the 2017 Senior Notes prevent us and our subsidiaries from making dividend payments, except under certain circumstances, unless our restricted payments under the indentures (including such dividends) shall not exceed a certain threshold based on financial aggregates such as our consolidated net income, net cash proceeds from asset sales or issuance or sale of equity securities, and net reductions in our consolidated investments due to, among other things, specific payments by us or certain of our subsidiaries. No assurance can be given that we will be able to make dividend payments from our Common Shares under these covenants should we ever decide to do so in the future.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries

As a holding company, we currently depend upon the repayment of intercompany loans and interest or advances from our subsidiaries and affiliates to satisfy our obligations, including the majority of our debt obligations. The ability of our direct and indirect subsidiaries to pay dividends and repay intercompany loans or advances to their shareholders (including us) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws, foreign exchange restrictions and restrictions contained in debt instruments of such subsidiaries. Covenants in the debt instruments of certain of our direct and indirect subsidiaries limit their ability to pay dividends. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the debt obligations. These restrictions could reduce the amounts that we receive from our subsidiaries, which could restrict our ability to meet our payment under the debt obligations. Our ability to utilize cash resources we have from our subsidiaries to finance the needs of other subsidiaries, to a significant extent, is subject to the same restrictions.

To date, the large majority of our revenue and profits in the PRC are generated in our BVI Subsidiaries with most of the remainder of our revenue and profits being generated in our WFOEs. According to relevant PRC laws and regulations, including the tax and foreign exchange regulations, the BVI Subsidiaries´ ability to remit foreign currency outside the PRC is limited. As a result, in order to provide accessible cash to cover any of our holding companies´ obligations, including debt obligations, we currently do not rely upon the repatriation of earnings of the BVI Subsidiaries. We are expanding our investments in the PRC through our WFOEs. Currently, approximately 317,600 hectares of tree plantations are managed by our WFOEs. We intend to increase the hectares managed by our WFOEs in the future as we continue to invest our cash, held in treasury, in our WFOEs. As the plantations held by our WFOEs are sold, income generated and associated cash flow should be available for repatriation from the PRC, subject to relevant procedures for approval from SAFE and other relevant requirements being satisfied. However, there can be no assurance as to when these planned changes may be implemented.

In addition, for our PRC subsidiaries, PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations including tax and foreign exchange regulations. Our WFOEs are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Furthermore, under prevailing PRC income tax laws, there is a 10% withholding tax imposed on dividend payments made by our WFOEs to a foreign-invested holding company. If the foreign investor is a Hong Kong resident who holds more than 25% equity interest in the PRC subsidiaries and is the beneficial owner of the dividend, such withholding tax rate, after obtaining approval from the competent tax authorities, may be lowered to 5% pursuant to the tax arrangement between Hong Kong and the PRC.

Most of our operations in the PRC are conducted through WFOEs. Under their articles of association adopted in accordance with PRC regulations, the WFOEs are only allowed to declare dividends once a year at the end of each financial year although such dividends may be distributed multiple times each year. As a result of such limitations, there could be timing limitations on payments from our WFOEs to meet our payment obligations under the debt obligations and there could be restrictions on payments required to pay off the debt obligations at maturity or upon conversion or for repurchase or redemption.

Furthermore, in practice, the market interest rate that our WFOEs can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. Our WFOEs are also required to pay a 10% (which may be lowered to 7% after obtaining approval from the competent tax authorities, if the interest is paid to a Hong Kong resident and if it is the beneficial owner of the interest) withholding tax as well as a 5% business tax on our behalf on the interest paid under any shareholders' loans. Prior to payment of interest and principal on such shareholder loan, the WFOEs must present evidence of payment of the required withholding tax on the interest payable under any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, there can be no assurance that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our WFOEs to satisfy our debt obligations. However, for the foreseeable future, we intend to satisfy our debt obligations and other debt owed by entities outside the PRC from our existing cash reserves which are primarily in Hong Kong, from future earnings generated by our WFOEs and from the proceeds of future debt and equity offerings made by non-operating entities outside the PRC.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect our financial health and ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We have a substantial amount of indebtedness. As of December 31, 2010, the principal amount of our short and long-term debt was approximately US$2,071.1 million.

Our substantial indebtedness could have important consequences. For example, it could:

- limit our ability to satisfy our obligations under existing debt;

- limit our ability to make dividends or other distributions to our shareholders;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the forestry industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; or
- increase the cost of additional financing.

In particular, the indentures governing the 2011 Senior Notes, the 2014 Senior Notes and the 2017 Senior Notes include restrictive covenants limiting our ability to incur additional debt. Such debt covenants in the foregoing indentures proscribe us from incurring new debt, except under certain circumstances, unless we meet a specified financial ratio. Further, the indentures governing the 2013 Convertible Senior Notes and the 2016 Convertible Senior Notes provide, in certain cases, restrictions against some of our subsidiaries providing additional guarantees.

In the future, we may from time to time incur substantial additional indebtedness. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance and ability to repatriate cash out of the PRC, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow should be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, certain of our financing arrangements from time to time may impose operating and financial restrictions on our business. These provisions currently include a requirement for us to maintain a net gearing ratio below a certain specified level. Our ability to meet such ratio and other ratio requirements, which may be imposed by future indebtedness incurred by us, may be affected by events beyond our control. We cannot assure that we will be able to meet these ratios. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, significantly increase R&D expenditures, or withstand a continuing or future downturn in our business. Any of these could materially and adversely affect our ability to satisfy our debt obligations.

If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could cause payment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements contain cross- acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, or result in a default under our other debt agreements. If any of these events occur, we cannot assure that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure that it would be on terms that are favorable or acceptable to us.

Risks Related to the PRC

PRC economic, political and social conditions as well as government policies could adversely affect our business

Our tree plantations are primarily located in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, government control of foreign exchange, allocation of resources and balance of payment position.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on us.

Our business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the forestry industry and downstream industries;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- changes in interpretation of tax laws and regulations by provincial or regional tax authorities in the PRC;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

In addition, the level of demand in the PRC for forestry products depends heavily on economic growth. According to the National Bureau of Statistics of China, between 1994 and 2010, the PRC's GDP, based on current prices, increased from approximately RMB4.82 trillion to approximately RMB39.79 trillion. The annual per capita GDP, based on current prices, also rose between 1994 and 2008, from RMB4,044 to RMB22,698. This growth, however, has been uneven both geographically and among various sectors of the economy. From time to time, the central government of the PRC has taken corrective measures and actions to stabilize the country's economy and any possible social unrest, and has implemented various measures in strengthening and improving macroeconomic regulation. We cannot assure that such growth will be sustained in the future.

More recently, the global financial system has experienced significant difficulties and disruptions since the second half of 2007, leading to reduced liquidity, greater volatility, widening credit spreads and a lack of price transparency in the United States and global credit and financial markets. The difficulties in global credit and financial markets have also resulted in widening global economic downturn. In 2009, the PRC central government launched an RMB4.0 trillion economic stimulus plan which was earmarked for infrastructure development, Sichuan earthquake rebuilding, construction of low-income housing and other projects, which seems to have significantly helped the country´s economic growth with GDP growth of 8.7% per annum, according to the National Bureau of Statistics of China. As such, demand for wood fibre rebounded and log prices have increased. Since the beginning of 2010, the PRC government launched a number of measures to stabilize the country's economy and curtail potential property speculation, stabilize inflationary pressures and slow down investment. Although we have not so far been significantly affected by these corrective measures, as our operations are focused on emerging markets within China and as the PRC's wood fibre deficit continues to grow, there can be no assurance that these corrective measures will not, directly or indirectly, affect us in the future or that there would not be additional corrective measures that could have a negative impact on the growth of our industry or the PRC economy as a whole.

However, other countries with which the PRC has maintained significant trade relationships, such as the United States and certain members of the European Union, may not have fully recovered from the financial crisis and this may affect economic growth in the PRC.

Our operations are subject to the uncertainty of the PRC legal system

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, interpretation of many laws, regulations and rules has not always been uniform, and enforcement of these laws and regulations involve significant uncertainties, which may limit or otherwise adversely affect legal protections available to us. Moreover, the PRC legal system is based partly on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of any violation of these policies or rules until some time after such violation. In addition, litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This may result in the outcome of dispute resolutions not being as consistent or predictable as compared with more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction.

At present, the legal framework for the tree plantation industry in the PRC is at an early stage of development. For example, the laws and regulations relating to the ownership, licensing and rights over forestry areas are not well developed. As these laws and regulations may not be comprehensive, and due to the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve a certain extent of uncertainty. Such uncertainty may make it difficult for us to enforce our plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, we cannot be certain that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our business, financial condition and results of operations.

In recent years, the reform of the collectively owned plantation rights system has been ongoing in the PRC in order to enhance the rural land contract relationship and ensure that farmers have proper legal plantation rights. Farmers and rural collective organizations are currently permitted to transfer their plantation rights to third parties pursuant to existing PRC laws and regulations by means of bidding, public auction or competitive negotiation, as recognized by certain local practices. We cannot assure that the PRC government will not promulgate new rules and regulations that may be more detailed and complex than existing ones for regulating the transfer of plantation rights. Such rules may restrict or delay the acquisition of any new plantation rights from original plantation rights holders. Moreover, we cannot assure that the enforcement of such rules and regulations will not have a material adverse effect on our business, financial condition and results of operations.

Restrictions on foreign currency exchange may limit our ability to obtain foreign currency or to utilize our revenue effectively

We receive most of our revenues in Renminbi. As a result, any restrictions on currency exchange may limit our ability to use revenue generated in Renminbi to:

- purchase timber imported from other countries;
- fund other business activities outside the PRC, such as the purchase of equipment for our manufacturing plants;
- service and repay our indebtedness, including but not limited to the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Senior Notes, the 2016 Convertible Senior Notes and the 2017 Senior Notes; and
- pay out dividends to our shareholders.

Our WFOEs in the PRC do not require prior approval from SAFE before undertaking current account foreign exchange transactions. Current account transactions refer to those international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, and the declaration of and payment of dividends out of after tax retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions must be processed through banks in the PRC licensed to engage in foreign exchange.

Foreign exchange transactions under the capital account, however, will be subject to the registration requirements and approval of SAFE. Capital account transactions refer to international revenues and expenditures, that, being inflows and outflows of capital, produce increases or reductions in debt and equity, including direct investment, various types of borrowings and investment in securities. In addition, for either current or capital account transactions, our WFOEs must purchase foreign currency from one of the PRC banks licensed to conduct foreign exchange.

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi, including the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Senior Notes, the 2016 Convertible Senior Notes and the 2017 Senior Notes, or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay us dividends, repay intercompany loans or to satisfy their other foreign currency requirements. Our capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at December 31, 2010, we had retained earnings of US$1.4 billion in the PRC which may be restricted. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from SAFE, this could affect our subsidiaries' ability to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

Our BVI Subsidiaries' retained earnings and equity are subject to PRC foreign currency exchange controls, which may limit their ability to repatriate funds. Should we decide to repatriate earnings of the BVI Subsidiaries out of the PRC, there may be a significant amount of cash tax payable. As of December 31, 2010, we had retained earnings of US$1.4 billion in the PRC which are restricted. Since foreign exchange transactions are subject to limitations and require approval from SAFE, this affects our BVI Subsidiaries´ ability to obtain foreign exchange from PRC operations which could be used to satisfy our obligations. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

Certain PRC regulations governing PRC companies are less developed than those applicable to companies incorporated in more developed countries

Our WFOEs are subject to PRC laws and regulations applicable to foreign investment companies, and other applicable laws and regulations in the PRC. These laws and regulations may not afford investors the same legal protections available to them in the United States, Canada or elsewhere, and may be less developed than those applicable to companies incorporated in the United States, Canada and other developed countries or regions.

Operational licenses and permits

Currently, PRC laws and regulations require tree plantation companies to obtain licenses and permits to operate tree plantations, harvest logs on the tree plantations and transport the logs out of the forest areas. The tree plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forestry bureaus for the logging permits and transportation permits for plantations that are to be harvested. We currently have the relevant business licenses for our subsidiaries in the PRC to engage in forestry activities and have received the requisite logging permits and transportation permits for our completed logging and transportation activities. In this regard, the PRC State Council reviews and approves the annual logging quota every five years. This annual logging quota is allocated by the local forestry bureaus within their administrative regions. For foreign invested plantations, the logging quota is allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. There is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation activities, or that the PRC government will not enact laws and regulations that would add requirements for tree plantation companies to conduct these activities in the PRC.

Further, PRC laws and regulations require manufacturers to obtain licenses and permits to operate timber manufacturing plants. The timber manufacturing companies must apply to the relevant Administration for Industry and Commerce of the PRC for a business license, and those established in the forestry areas must apply for the Timber Operation (Processing) Permit required by the relevant forestry regulatory authorities in the PRC. We currently have the requisite business licenses and the Timber Operation (Processing) Permits for our subsidiary companies in the PRC to engage in timber manufacturing activities. However, there is no assurance that we will continue to maintain the business licenses or the Timber Operation (Processing) Permits for our manufacturing plants, or that the PRC government will not pass laws and regulations that would place additional requirements on companies conducting these activities in the PRC.

Environmental regulations

Laws and regulations protecting the environment have generally become stricter in the PRC in recent years and could become more stringent in the future. On December 26, 1989, the Standing Committee of the National People’s Congress of the PRC adopted the Environmental Protection Law of the PRC. This law contains, and future legislation with respect to protection of the environment, whether relating to forests, protected animal species, or water conservation, could contain, restrictions on tree planting, timber harvesting, and other forest practices. Our tree plantations and manufacturing plants will also be subject to environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect our business, financial condition and results of operations.

Implementation and Issuance of new form of Plantation Rights Certificate

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership and use rights and of issuing certificates to the persons having such plantation rights (the “Plantation Rights Certificates”). In April 2000, the PRC State Forestry Administration issued a notice, which provided that a new form of Plantation Rights Certificate was to be used from the date of the notice. The PRC government is in the process of gradually implementing the issuance of the new form of certificates on a nationwide scale. However, the registration and issuance of the new form plantation rights certificates by the PRC State Forestry Administration have not been fully implemented in a timely manner in certain parts of the PRC. We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates.

We can give no assurance when the official Plantation Rights Certificates will be issued by the relevant local PRC governments to all the purchased plantations and planted plantations acquired and under our management and cultivation. Until official new form Plantation Rights Certificates are issued, there can be no assurance that our rights to our tree plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if our rights to any of our tree plantation lands are subject to dispute or challenge, our business, financial condition and results of operations could be materially adversely affected.

Agricultural Taxes and Other Related Forestry Fees

Prior to February 2006, agricultural taxes on forestry companies were levied by the PRC government and generally amounted to approximately 8% of the selling prices or government standardized prices, depending upon the entity and the province in which it operates. The agricultural taxes and other forestry-related fees are levied at the time trees are harvested or sold. In certain provinces where our tree plantations are located, the agricultural taxes have been exempted or reduced. On February 17, 2006, the agricultural taxes were abolished by the PRC State Council. The forestry-related fees include the reforestation fund and maintenance fees, which are generally charged at 10% to 20% of sales and, under a new rule effective from July 1, 2009, the reforestation fund shall be charged at no more than 10% of sales, but the fees actually charged vary from place to place. There is also a forest protection fee of RMB5 per cubic meter of wood harvested, which has been cancelled by a notice issued by the Ministry of Finance, the National Development and Reform Commission and the PRC State Forestry Administration on August 4, 2003. However, the cancellation of the forestry protection fee has not yet been fully implemented in the provinces where our tree plantations are located. No assurance can be given that other forestry-related taxes will not be levied and such forestry-related fees will not be increased in the future.

DIVIDEND RECORD AND POLICY

We have never declared nor paid dividends on our Common Shares. Currently, we intend to retain our future earnings, if any, to fund the development and growth of our business, and we do not anticipate declaring or paying any dividends on our Common Shares in the near future, although we reserve the right to pay dividends if and when it is determined to be advisable by our board of directors. As a result, shareholders will have to rely on capital appreciation, if any, to earn a return on investment in our Common Shares in the foreseeable future.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preference shares issuable in series. Each holder of Common Shares is entitled to one vote at meetings of our shareholders other than meetings of the holders of another class of shares. Each holder of Common Shares is also entitled to receive dividends if, as and when declared by our board of directors. Holders of Common Shares are entitled to participate in any distribution of our net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to the Common Shares.

Ratings

In August 2004, we issued the 2011 Senior Notes with a maturity date of August 17, 2011. In July and August 2008, we issued the 2013 Convertible Senior Notes with a maturity date of August 1, 2013. In July 2009, we completed the offer to eligible holders of the 2011 Senior Notes to exchange, subject to certain conditions, any and all of the outstanding 2011 Senior Notes for up to US$300,000,000 10.25% new guaranteed senior notes due 2014 and consent solicitation from holders of the 2011 Senior Notes to amend certain of the provisions of the indenture governing the 2011 Senior Notes. Accordingly, we issued the 2014 Senior Notes with a maturity date of July 28, 2014, representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes. The remaining principal amount of approximately US$87,670,000 of the 2011 Senior Notes will be repaid upon maturity in 2011. We received the requisite consents from holders of the 2011 Senior Notes and, as a result, the outstanding 2011 Senior Notes are subject to amended provisions of the indenture governing the 2011 Senior Notes. In December 2009, we issued the 2016 Senior Notes with a maturity date of December 15, 2016. In February 2010, we issued an additional US$187,187,000 principal amount of 2014 Senior Notes in connection with the Mandra Holdings acquisition (see "General Development of the Business – Historical Milestones"). In October 2010, we issued the 2017 Senior Notes with a maturity date of October 21, 2017.

The following table highlights our credit ratings and assigned outlooks with Moody's Investor Services, Inc. ("Moody's"), Standard & Poor's Rating Services ("S&P") and Fitch Ratings Ltd. ("Fitch Ratings") as of December 31, 2010, 2009 and 2008:

	December 31,		
	2010	**2009**	**2008**
Moody's			
Outlook	Stable	Stable	Stable
Corporate Family rating	Ba2	Ba2	Ba2
2011 Senior Notes	Ba2	Ba2	Ba2
2013 Convertible Senior Notes	Ba2	Ba2	Ba2
2014 Senior Notes	Ba2	Ba2	N/A
2016 Convertible Senior Notes	Ba2	N/A	N/A
2017 Senior Notes	Ba2	N/A	N/A
Standard & Poor's			
Outlook	Stable	Stable	Stable
Corporate Family rating	BB	BB	BB
2011 Senior Notes	BB	BB	BB
2013 Convertible Senior Notes	BB	BB	BB
2014 Senior Notes	BB	BB	N/A
2016 Convertible Senior Notes	BB	BB	N/A
2017 Senior Notes	BB	N/A	N/A
Fitch Ratings			
Outlook	Stable	Stable	Stable
Corporate Family rating	BB+	BB+	BB
2011 Senior Notes	N/A	N/A	N/A
2013 Convertible Senior Notes	N/A	N/A	N/A
2014 Senior Notes	N/A	N/A	N/A
2016 Convertible Senior Notes	BB+	BB+	N/A
2017 Senior Notes	BB+	N/A	N/A

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, obligations rated 'Ba' are judged to have speculative elements and are subject to substantial credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from AA through CAA in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Standard & Poor's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P's rating system, an obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The rates from AA to CCC may be modified by the addition of a + or – sign to show relative standing with the major rating categories.

Fitch's rating categories are on a relative rank order scale, from AAA, AA, A, BBB, BB... to D. There are modifiers "+" or "-" which may be appended to a rating to denote relative status within major rating categories (e.g. BB+, BB, BB-), except for the AAA category as well as CCC and below categories.

According to Fitch's rating system, an obligation rated 'BB' category indicates that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade and are one category below the minimum investment grade category of BBB.

An Outlook indicates the direction a rating is likely to move over a one to two-year period. Thus, the assignment of a Stable Outlook indicates that the rating is not likely to move over a one- to two-year period. However, if circumstances change and warrant a rating action, ratings for which outlooks are 'stable' could be upgraded or downgraded.

A rating is not a recommendation to buy, hold or sell securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the 2011 Senior Notes, 2013 Convertible Senior Notes, 2014 Senior Notes, 2016 Convertible Senior Notes and 2017 Senior Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the aforementioned senior notes and convertible senior notes may adversely affect the market price of such senior notes and convertible senior notes, respectively.

MARKET FOR SECURITIES

Trading Price and Volume

Our Common Shares are listed on the TSX and trade under the stock symbol “TRE”. The following table sets forth, for the periods indicated, the reported high and low prices and the trading volume of our Common Shares on the TSX:

Calendar Period	High (Cdn$)	Low (Cdn$)	Trading Volume
January 2010	21.53	17.51	22,184,612
February 2010	20.47	18.19	12,525,964
March 2010	21.74	18.89	34,712,487
April 2010	20.98	17.51	20,288,612
May 2010	18.68	15.25	20,644,094
June 2010	18.15	15.13	17,056,345
July 2010	17.26	15.10	17,440,195
August 2010	18.99	16.04	17,742,945
September 2010	19.38	16.70	18,536,909
October 2010	21.68	16.97	27,453,975
November 2010	22.74	20.17	22,040,266
December 2010	24.68	22.35	12,354,711

Prior Sales

On February 11, 2010, we issued an aggregate principal amount of US$187,187,000 of additional 2014 Senior Notes to holders of certain notes issued by Mandra Finance.

On October 21, 2010, we issued an aggregate principal amount of US$600,000,000 of 2017 Senior Notes.

DIRECTORS AND EXECUTIVE OFFICERS

The table presented below provides the names of our current directors and executive officers, the offices held by them and the date of their first appointment, as of March 31, 2011:

Name and Place of Residence	Position(s) Held	Principal Occupation	Director Since[1]
Allen T.Y. Chan Hong Kong	Chairman, Chief Executive Officer and Director	Officer of the Corporation	1994
William E. Ardell[2][3][4][5] Ontario, Canada	Lead Director	Consultant	2010
James Bowland[2][3] Ontario, Canada	Director	Consultant	2011
James M.E. Hyde[2][3][4] Ontario, Canada	Director	Consultant	2004
Edmund Mak [4] British Columbia, Canada	Director	Manages own investment fund Associate broker, Royal Pacific Realty Corporation, a real estate agency	1994
Judson Martin Hong Kong	Vice Chairman and Director President and Chief Executive Officer, Greenheart Group	Officer of Greenheart Group	2006
Simon Murray Hong Kong	Director	Chairman, General Enterprises Management Services (International) Limited, a private equity fund management company	1999
Peter D. H. Wang PRC	Director	General Manager, Hong Kong Resource Power Development Limited, a company importing machinery equipments into China.	2007
Garry West[2][4] Ontario, Canada	Director	Consultant	2011
Kai Kit Poon Hong Kong	President	Officer of the Corporation	-
David J. Horsley Ontario, Canada	Senior Vice President and Chief Financial Officer	Officer of the Corporation	-
Albert Ip Hong Kong	Senior Vice President, Development and Operations, North East and South West China	Officer of the Corporation	-
Chen Hua PRC	Senior Vice President, China Operations and Finance	Officer of the Corporation	-
Zhao Wei Mao PRC	Senior Vice President, Development and Operations, South and East China	Officer of the Corporation	-
Thomas M. Maradin Ontario, Canada	Vice President, Finance (Corporate)	Officer of the Corporation	-

Name and Place of Residence	Position(s) Held	Principal Occupation	Director Since(1)
Xu Ni Hong Kong	Vice President, Legal Affairs	Officer of the Corporation	-
Alfred Hung Hong Kong	Vice President, Corporate Planning and Banking	Officer of the Corporation	-
George Ho Hong Kong	Vice President, Finance, China.	Officer of the Corporation	-
Richard M. Kimel Ontario, Canada	Corporate Secretary	Partner, Aird & Berlis LLP Barristers & Solicitors	-

Notes:

(1) All of our directors serve until the next annual meeting of shareholders or until such director's successor is duly elected or appointed.

(2) Member of the Audit Committee.

(3) Member of the Compensation and Nominating Committee.

(4) Member of the Corporate Governance Committee.

(5) Lead Director.

A description of the business experience and present position of each director and executive officer of the Corporation is provided below:

Allen T.Y. Chan co-founded our company in 1992 and has been the Chairman, Chief Executive Officer and a director since 1994. Mr. Chan is responsible for our overall strategic planning and management. Mr. Chan is a recognized leader in the field of sustainable development. Prior to co-founding our company, he worked for 12 years as a management consultant and project manager in China. He has also worked for the Hong Kong government in new town development and management programs. He spearheaded the Sustainable Development Leadership Program jointly organized by the School of Forestry and Environmental Studies at Yale University and the Nanjing Forestry University in the PRC. Mr. Chan is a well known writer, under the name of "管仲連", on culture, history and business issues and has published books in Hong Kong and the PRC. He regularly speaks at Hong Kong and Chinese universities. He graduated from the Sociology Department at the Hong Kong Baptist College (currently the Hong Kong Baptist University) in 1979 and was awarded with an Honorary University Fellowship from the Hong Kong Baptist University in 2008. In 2007, Mr. Chan joined the Jiangxi Committee of the Tenth Session of the Chinese People's Political Consultative Conference. Mr. Chan has also been appointed as Executive Director of Renmin University of China, also known as the People's University of China, for a three-year term effective from October 2007. In August 2010, Mr. Chan was appointed as Chairman and a non-executive director of Greenheart Group. In December 2010, Mr. Chan was appointed as a Vice President of the China National Forestry Industry Federation.

William Ardell has been a director since January 2010 and lead director since June 2010. He was President, Chief Executive Officer and a director of Southam Inc. from January 1992 to September 1996. Subsequent to his departure from Southam Inc. he has sat on a number of public and private sector boards as well as not for profit organizations, serving in varying capacities as Chairman, Senior Director and Director and as the Chair and/or member of many board committees. From 2005 to 2006, Mr. Ardell was the President and Chief Executive Officer of Spellread Inc., a start-up learning system company. During his career, Mr. Ardell has had experience in capital markets, acquisitions and divestures as well as strategic planning and implementation.

James Bowland has been a director since 2011. Mr. Bowland was Managing Director, Investment and Corporate Banking at BMO Capital Markets, where he advised public companies for 24 years. He has extensive experience in mergers and acquisitions and in the equity, debt and corporate banking markets. Mr. Bowland currently serves on the board of easyhome Ltd., MEGA Brands Inc. and SMC Man AHL Alpha Fund, and a number of not-for-profit organizations. He is a Chartered Accountant and holds the Institute of Corporate Directors designation.

James M.E. Hyde has been a director since 2004. From January 2007 to November 2008, Mr. Hyde was the Executive Vice President and Chief Financial Officer of Resolve Business Outsourcing Income Fund, a TSX-listed income trust fund. Prior to joining our board of directors, Mr. Hyde was the Vice President, Finance and Chief Financial Officer of the TSX-listed company GSW Inc., a manufacturer and distributor of consumer durable products, from October 2002 until April 2006 when GSW Inc. was acquired by A.O. Smith Corporation. From April to December 2006, Mr. Hyde was a consultant to A.O. Smith Corporation. Before October 2002, Mr. Hyde, a Chartered Accountant, was with Ernst & Young LLP for 24 years, including 12 years as a Partner.

Edmund Mak has been a director since 1994. Mr. Mak has over 35 years of business and management experience with several multinational and private corporations in North America and Hong Kong in a variety of industries: real estate, computer and high technology equipment, transportation, construction, oil and gas, textile and trade in the PRC. Mr. Mak currently manages his own investment fund and is an associate broker of Royal Pacific Realty Corporation in Vancouver, Canada. He was an associate broker of Re/Max Select Properties from January 1999 to October 2008. Mr. Mak is a graduate of the University of Toronto with an M.B.A. degree and the University of Alberta with an M.A. in Economics.

Judson Martin is currently the Vice Chairman and has been a director since 2006 . Prior to joining our board of directors, Mr. Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis") from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the board of directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 until June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is also Chairman of SWEF Terrawinds Resources Corporation and Chair of its Audit Committee. In August 2010, Mr. Martin was appointed President and Chief Executive Officer and an executive director of Greenheart Group.

Simon Murray, CBE has been a director since 1999. Mr. Murray is the Chairman of General Enterprise Management Services International Limited, a private equity fund management company. Prior to this position, Mr. Murray was the Executive Chairman of Asia Pacific for the Deutsche Bank Group. He is an independent non-executive director of a number of listed companies in Hong Kong including Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited, Wing Tai Properties Limited, and IRC Limited (appointed on November 16, 2010). Mr. Murray is also a non-executive director of Essar Energy Plc (whose shares are listed on the London Stock Exchange) and Compagnie Financière Richemont SA (whose shares are listed on SWX Swiss Exchange). Mr. Murray retired as non-executive director of Vodafone Group Plc in July 2010 and resigned as independent non-executive director of Arnhold Holdings Limited on March 25, 2011 . In August 2010, Mr. Murray was appointed a non-executive director of Greenheart Group.

Peter D.H. Wang has been a director since 2007. Mr. Wang also served as Senior Commercial Consultant of Zijin Copper, a subsidiary of Zijin Mining Group, a Hong Kong listed company, and China Far East International Trading Company, Shanghai, one of PRC's major state-owned tendering companies. Mr. Wang has over 30 years' experience in Sino-foreign projects and business affairs, predominantly related to the petrochemical and mining industries, as well as wood-based panel industries. He was involved in a number of pioneering projects when the PRC first opened up its foreign markets in the late 1970s. He was a member of the Formulation Committee of Chinese-Foreign Contract, Guangdong Province and was also a member of the delegation team travelling with the PRC Premier Wen Jiabao to India in 2005 to execute contracts and projects related to highway and power stations, and to expand Sino-Indian bilateral trade and economic cooperative ties.

Garry West has been a director since 2011. Mr. West, a Fellow Chartered Accountant, was with Ernst & Young LLP for 35 years where he provided audit, accounting and related services to clients in the fields of technology, communications, manufacturing and service businesses. He worked extensively in developing strategic plans for entrepreneurial clients, assisting clients to negotiate acquisition or divestiture transactions, and assisting international clients of the firm to start up Canadian subsidiary operations. From 2007 to 2008, he served as Interim Chief Financial Officer of ATS Automation Tooling Systems Inc. Mr. West also serves as a director and chair of the audit committee of ARISE Technologies Corporation, a TSX-listed company, and BSM Technologies Inc., a TSX Venture Exchange-listed company.

Kai Kit Poon has been the President of our company since 1994. Mr. Poon was also a director of our company from 1994 to May 2009. Mr. Poon is responsible for liaising and coordinating with various PRC provincial government authorities for us. Mr. Poon has more than 20 years of experience in the forestry industry. He is one of our founders and joined us in January 1994.

David J. Horsley is currently the Senior Vice President and Chief Financial Officer of our company. Prior to joining our company in 2005, Mr. Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent an 11-year career with Canadian General Capital Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

Albert Ip is currently the Senior Vice President, Development and Operations, North East and South West China, of our company. Prior to joining our company in 1997, Mr. Ip was involved in the marketing, production management, project management and corporate business development and operations in the garment, electronics and wood-related industries for several corporations.

Chen Hua is currently the Senior Vice President, China Operations and Finance, of our company. Prior to joining our company in 2002, Ms. Chen was board chair of Suzhou New-Development Area Economic Development Group. Ms. Chen has been part of the management of several large corporations.

Zhao Wei Mao is currently the Senior Vice President, Development and Operations, South and East China, of our company. Prior to joining our company in 2002, Mr. Zhao was General Manager of Everbright Group Corp., where he received extensive experience in wood product manufacturing and knowledge of international wood material markets.

Thomas M. Maradin is currently the Vice President, Finance (Corporate) of our Company and was previously Vice President, Risk Management since 2005. Prior to joining our company, Mr. Maradin was a senior consultant to several multinational companies from January 1, 2001 until September 1, 2005, where his responsibilities included strategic planning, system implementations, restructuring of business units, financial reporting and internal control and regulatory compliance; he spent a 15-year career with Ernst & Young LLP, where, most recently, he served as Principal managing a professional services practice.

Xu Ni is currently the Vice President, Legal Affairs, of our company. From January 2007 to March 2009, Ms. Xu was the Assistant Vice President, Legal Affairs of our company. From April 2003 to December 2006, she was the Senior Manager, Legal Affairs of our company. Prior to joining our company, Ms. Xu was involved in PRC legal advising in connection with investments in the PRC market and worked for several international law firms based in Singapore.

Alfred Hung is currently the Vice President, Corporate Planning and Banking, of our company. Prior to joining our company in 1999, Mr. Hung was involved in investment research and management operations for several international firms.

George Ho is currently the Vice President, Finance, China of our company and the Chief Financial Officer of Sino Panel (Asia), Inc. Prior to joining our company in October 2007, Mr. Ho was a Senior Manager in BDO McCabe Lo Limited, Certified Public Accountants, an international accounting and audit firm from October 2006 to October 2007. Mr. Ho also served as the Chief Financial Officer, China Operations of a NASDAQ listed merchant bank from January 2004 until September 2006, managing a portfolio of investments in the PRC including joint ventures with PRC hospitals, wind energy development, commodities trading and various merger and acquisition activities, including a potential merger with a major State-owned equipment manufacturing enterprise. Before January 2004, Mr. Ho spent 10 years providing professional services in a Canadian accounting and audit firm and most recently served in the capacity as a principal. The firm is involved in the audit of publicly listed companies on the TSX and TSX Venture Exchange as well as those listed on NASDAQ and quoted on the OTC board.

Richard M. Kimel is currently the Corporate Secretary of our Company. Mr. Kimel is also a partner of Aird & Berlis LLP, Barristers and Solicitors, and a member of its Corporate/Commercial and Corporate Finance Groups and Mergers & Acquisitions and Venture Capital Teams. Mr. Kimel practices in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, mergers and acquisitions and ongoing general corporate and commercial activities. Mr. Kimel also acts as corporate counsel for numerous companies listed on the TSX and the TSX Venture Exchange.

Shareholdings

As of March 31, 2011, our directors and executive officers as a group beneficially owned, or controlled or directed, directly or indirectly 7,354,091 Common Shares, representing approximately 2.99% of the issued and outstanding Common Shares.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of our directors or executive officers, or persons or companies that beneficially own, or control or direct, directly or indirectly, more than 10% of our outstanding Common Shares, or any associate or affiliate of any of the foregoing, has any material interest, direct or indirect, in any transactions in which we have participated during the three financial years ending December 31, 2010 which has materially affected or is reasonably expected to materially affect the Corporation.

CONFLICTS OF INTEREST

On February 6, 2009, we acquired 55,000,000 ordinary shares of Greenheart Group and 4% convertible bonds with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and the issuance of 2,659,990 Common Shares at a price of Cdn.$10.00 per share. The acquisition was completed in the secondary market from various third parties, as well as from Mr. Simon Murray, a director of the Corporation, and Forest Operations Limited, an entity he controls. The value of the Greenheart Group ordinary shares and Greenheart Group convertible bonds sold by Mr. Murray and the entity he controls to the Corporation represented approximately 5.5% of the aggregate value of the overall transaction.

In addition, among the vendors of the ordinary shares of Greenheart Resources we acquired in June 2010 was Forest Operations Limited, an entity beneficially owned by Mr. Simon Murray which owns approximately 5.3% of the ordinary shares we acquired.

On August 17, 2010, Greenheart Group issued an aggregate principal amount of US$25,000,000 convertible notes for gross proceeds of US$24,750,000. The sole subscriber of these convertible notes was Greater Sino Holdings Limited, an entity in which Mr. Simon Murray has an indirect interest.

On August 24, 2010 and December 28, 2010, Greenheart Group granted options to purchase shares to its directors, including Mr. Allen Chan (5,480,000 options at an exercise price of HK$2.18 per share; 1,331,490 options at an exercise price of HK$2.50 per share); Mr. Judson Martin (5,480,000 options at an exercise price of HK$2.18 per share; 1,331,490 options at an exercise price of HK$2.50 per share) and Mr. Simon Murray (1,096,000 options at an exercise price of HK$2.18 per share). The options are exercisable for a five-year term.

As at March 31, 2011, General Enterprise Management Services International Limited, a company in which Mr. Simon Murray has an indirect interest, holds 7,000,000 shares of Greenheart Group, being 0.9% of the total issued and outstanding shares of Greenheart Group.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Common Shares is Valiant Trust Company at its principal offices in the city of Toronto, Ontario.

MATERIAL CONTRACTS

The following are the contracts that are material to the Corporation that were entered into either (i) during the year ended December 31, 2010; or (ii) prior to January 1, 2010 that are still in effect, other than contracts entered into in the ordinary course of business:

1. Trust Indenture dated as of August 17, 2004 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$300,000,000 2011 Senior Notes, as amended and supplemented from time to time (the "2011 Indenture").

2. Purchase Agreement dated July 17, 2008 between the Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC in connection with the issuance of the US$345,000,000 2013 Convertible Senior Notes.

3. Trust Indenture dated as of July 23, 2008 between the Corporation, The Bank of New York Mellon, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$345,000,000 2013 Convertible Senior Notes.

4. Underwriting Agreement dated May 22, 2009 between the Corporation and a syndicate of underwriters co-led by Credit Suisse Securities (Canada) Inc. and Dundee Securities Corporation, and including Merrill Lynch Canada Inc., Scotia Capital Inc. and TD Securities Inc., whereby the Corporation issued an aggregate of 34,500,000 Common Shares at a price of Cdn$11.00 per share for gross proceeds of approximately Cdn$379.5 million.

5. Dealer Manager Agreement date June 24, 2009 between the Corporation and Credit Suisse Securities (USA) LLC in connection with an exchange offer pursuant to which we issued US$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes.

6. Solicitation Agent Agreement dated June 24, 2009 between the Corporation and Credit Suisse Securities (USA) LLC in connection with a consent solicitation with respect to the 2011 Senior Notes to amend the terms of such notes and the 2011 Indenture.

7. Trust Indenture dated as of July 27, 2009 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of US$212,330,000 2014 Senior Notes, as amended and supplemented from time to time (the "2014 Indenture").

8. Supplemental Indenture to the 2011 Indenture dated as of July 27, 2009 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation.

9. Memorandum of Understanding dated December 1, 2009, as amended, between the Corporation, Mandra Finance, Mandra Holdings and certain holders of the Mandra Notes and Mandra Warrants.

10. Underwriting Agreement dated December 10, 2009 between the Corporation and a syndicate of underwriters co-led by Credit Suisse Securities (Canada), Inc. and TD Securities Inc. and including Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd. and Maison Placements Canada Inc., pursuant to which the Corporation issued an aggregate of 21,850,000 Common Shares at a price of Cdn.$16.80 per share for gross proceeds of approximately Cdn.$367 million.

11. Purchase Agreement dated December 10, 2009 between the Corporation, Credit Suisse Securities (USA) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and TD Securities Inc. in connection with the issuance of the US$460,000,000 2016 Convertible Senior Notes.

12. Trust Indenture dated as of December 17, 2009 between the Corporation, The Bank of New York Mellon, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$460,000,000 2016 Convertible Senior Notes.

13. Purchase Agreement dated October 14, 2010 between the Corporation, Banc of America Securities LLC and Credit Suisse Securities (USA) LLC in connection with the issuance of the US$600,000,000 2017 Senior Notes.

14. Trust Indenture dated as of October 21, 2010 between the Corporation, Law Debenture Trust Company of New York, as trustee, and certain subsidiaries of the Corporation in connection with the issuance of the US$600,000,000 2017 Senior Notes.

INTERESTS OF EXPERTS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants. The Corporation's consolidated financial statements as of December 31, 2010 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, Chartered Accountants, given their authority as experts in auditing and accounting. We have been advised that, as of the date hereof, Ernst & Young LLP, Chartered Accountants, is independent in accordance with the rules of professional conduct which govern its professional activities in the Province of Ontario.

AUDIT COMMITTEE

Audit Committee's Charter

The charter (the "Charter") of our Audit Committee is reproduced as Exhibit "A".

Composition of Audit Committee

The Audit Committee is comprised of Mr. William Ardell, Mr. James Bowland, Mr. James Hyde and Mr. Garry West. Each member of the Audit Committee is "independent" and "financially literate" (as such terms are defined in National Instrument 52-110 - Audit Committees ("NI 52-110")).

Relevant Education and Experience

In addition to the general business experience of each member of the Audit Committee, the relevant education and experience of each member is as follows:

- Mr. Ardell holds a Bachelor of Commerce degree from Sir George Williams University and is a graduate of Harvard University's Advanced Management Program. His career began in the accounting field and he has served in a number of public, non-profit and private sector board and audit committee capacities.

- Mr. Bowland holds a Bachelor of Commerce degree from Queen's University and is a Chartered Accountant. He spent 24 years at BMO Capital Markets and has extensive experience in mergers and acquisitions and in the equity, debt and corporate banking markets. He serves on the board of a number of listed issuers and not-for-profit organizations. Mr. Bowland also holds the Institute of Corporate Directors designation.

- Mr. Hyde holds a Bachelor of Business Administration degree from the University of New Brunswick and is a Chartered Accountant. He spent 24 years of his career at Ernst & Young LLP and has extensive experience in finance and accounting related positions with private and public companies. Mr. Hyde has obtained the Chartered Director designation from The Directors College.

- Mr. West has a Bachelor of Arts degree from the University of Toronto and is a Fellow of the Institute of Chartered Accountants of Ontario. He spent 35 years of his career at Ernst & Young LLP providing audit, accounting and related services to clients. Mr. West also acts as chair of the audit committee of two other listed issuers.

Reliance on Certain Exemptions

At no time since the commencement of our most recently completed financial year have we relied on any exemption described in items 4, 5 and 6 of Form 52-110F1 under NI 52-110.

Audit Committee Oversight

At no time since the commencement of our most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of our external auditors not been adopted by our board of directors.

Pre-Approval Policies and Procedures

The terms of the Charter state that all non-audit services to be provided by our external auditor to us or any of our subsidiaries must be pre-approved by our Audit Committee or by any of its members, if so delegated by the Audit Committee.

External Auditor Service Fees (By Category)

Audit Fees - Our external auditors billed us approximately Cdn.$1,025,000 and Cdn.$1,470,000 during the financial years ended December 31, 2009 and 2010, respectively, for audit fees.

Audit-Related Fees - Our external auditors billed us approximately Cdn.$883,000 and Cdn.$571,000 during the financial years ended December 31, 2009 and 2010, respectively for audit-related fees.

Tax Fees - Our external auditors billed us approximately Cdn.$342,000 and Cdn.$421,000 during the financial years ended December 31, 2009 and 2010, respectively for tax fees.

All Other Fees – We did not pay any other fees during the financial years ended December 31, 2009 and 2010, respectively, for services other than those reported above.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Additional information relating to the Corporation, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in our management information circular for our most recent annual meeting of shareholders.

Additional financial information is provided in our consolidated financial statements and MD&A for our most recently completed year ended December 31, 2010.

Exhibit “A”

SINO-FOREST CORPORATION

(the “Corporation”)

AUDIT COMMITTEE CHARTER

STATEMENT OF PURPOSE

The Audit Committee (the “**Committee”**) will assist the Board of Directors of the Corporation (the “**Board”**) in fulfilling its stewardship responsibilities through the oversight of:

(a) the accounting and financial reporting processes of the Corporation, its subsidiaries and any other business entity controlled in fact by the Corporation (each an “**affiliate**”) and their appropriateness in view of the Corporation’s operations and current GAAP in Canada and other applicable jurisdictions;

(b) the adequacy and effectiveness of management’s system of internal controls and procedures in the Corporation, its subsidiaries and affiliates;

(c) the quality and integrity of the Corporation’s, its subsidiaries and affiliates’ financial reporting and disclosure;

(d) the relationship with the external auditor (the “**Auditor**”), including the audit of the financial statements and any other audit and permitted non-audit services provided by the Auditor; and

(e) the compliance with laws, regulations and guidelines affecting the Corporation which relate to the duties and functions of the Audit Committee.

MEMBERSHIP

1. Number

The Board will appoint not fewer than three members to the Committee.

2. Composition

All members of the Committee must be members of the Board and “Independent” of management as that term is defined from time to time in relevant securities authorities governing the Corporation. The current independence definition for audit committee members is reproduced in Appendix I.

3. Qualifications

All Committee members must be “Financially Literate” as that term is defined in National Instrument 52-110 (and reproduced in Appendix I).

In addition to the foregoing, the composition of the Committee, and qualifications of its members, will comply with such additional requirements as may be imposed by those regulating bodies having jurisdiction over the Corporation.

4. **Training**

Committee members will participate in such training and orientation as may be determined by the Board or the Corporate Governance Committee to be necessary or appropriate in the circumstances.

5. **Chair**

The Board will appoint the chair of the Committee (the "**Committee Chair**") annually, to be selected from the members of the Committee. If, in any year, the Board does not make an appointment of the Committee Chair, the incumbent Committee Chair will continue in office until that Committee Chair's successor is appointed. In the Committee Chair's absence, or if the position is vacant, the Committee may select another member as Committee Chair.

6. **Director Attendance**

All Directors will be entitled to attend Committee meetings. Notice of the time and place of each meeting of the Committee will be given to each Director by telephone not less than 48 hours before the time of the meeting or by written notice (email or otherwise) not less than four days before the day of the meeting, and, subject to the requirements of any applicable law, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the Committee may be held at any time without notice if all the members have waived or are deemed to have waived notice of the meeting.

7. **Removal and Vacancies**

Any member of the Committee may be removed and replaced at any time by the Board and will automatically cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies in the Committee by election from among the members of the Board. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains in office.

8. **Tenure**

The Board will appoint members of the Committee annually following the Corporation's annual general meeting and may make such appointments pursuant to any recommendations (if any) from the Compensation and Nominating Committee. Each member of the Committee will hold office until the following annual general meeting or until his or her term as a member of the Board is terminated or until his or her successor is appointed.

9. **Residency**

At least 66 2/3% of the members of the Committee shall be resident Canadians, provided that the only exchange the Corporation is listed on is the Toronto Stock Exchange (TSX).

10. **Compensation**

Compensation to members of the Committee shall be limited to Directors' fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the Corporation (other than as members of the Board and Board committee members).

MEETINGS

1. **Notice of Meetings**

(a) The Committee Chair may call meetings of the Committee periodically and will do so at the request of any member of the Committee, the Auditor, or at the request of any of the Lead Director, Chairman of the Board, Chief Executive Officer (the "**CEO**"), the Chief Financial Officer (the "**CFO**") or any other Director of the Corporation. If any Director of the Corporation requests the Committee Chair to call a meeting of the Committee, that Director may attend such meeting to inform the Committee of a specific matter of concern that Director has, and may participate in such meeting to the extent permitted by the Committee Chair.

(b) The Auditor will be given notice of every meeting of the Committee and will be permitted to attend and be heard at such meeting on such matters relating to the Auditor's duties as Auditor.

(c) The Lead Director (if not a Committee member) will be given notice of every meeting.

(d) Notice of the time and place of each meeting of the Committee will be given to each member by telephone not less than 48 hours before the time of the meeting or by written notice (email or otherwise) not less than four days before the day of the meeting, and, subject to the requirements of any applicable law, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the Committee may be held at any time without notice if all the members have waived or are deemed to have waived notice of the meeting.

2. **Times and Places of Meetings**

The Committee will ordinarily meet at least quarterly each fiscal year, and at other times as necessary, at times and places to be determined by the Committee.

3. **Agenda**

The Committee Chair will, in consultation with management and the Auditor, establish the agenda of the meetings and, where possible, circulate materials in advance to provide sufficient time for study prior to the meeting.

4. **Quorum**

A quorum at any meeting will be a simple majority.

5. **Procedure**

The procedure at meetings will be determined by the Committee unless otherwise determined by the by-laws of the Corporation or by a resolution of the Board.

6. **Secretary**

The Secretary of the Corporation will, subject to any contrary direction of the Committee, act as secretary of the Committee.

7. **Minutes of Meetings**

The Committee will keep regular minutes of its proceedings and will report to the Board at each meeting of the Board. Minutes will be circulated to all Directors on a timely basis.

8. **Transaction of Business**

The powers of the Committee may be exercised at a meeting where quorum is present or by resolution in writing signed by all members of the Committee entitled to vote on that resolution at a meeting of the Committee.

9. **Exercise of Power Between Meetings**

Between meetings, the Committee Chair, or any member of the Committee designated for the purpose by the Committee Chair, may exercise any power delegated by the Committee.

DUTIES AND RESPONSIBILITIES

1. **Relations With the Auditor**

The Auditor will report directly to the Committee. The Committee shall be directly responsible for overseeing the work of the Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation, and in carrying out such oversight the Committee will:

(a) recommend to the Board, the appointment, compensation and retention of the Auditor;

(b) recommend to shareholders the appointment of the Auditor;

(c) review the Auditor's engagement letter, both for audit and non-audit services;

(d) review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor;

(e) review the audit plan of the Auditor with management and Auditor so that the Committee, can satisfy itself regarding the appropriate coverage of risks, understand the audit approach, including areas of reliance on internal controls, and understand how changes in the accounting policies of the Corporation might impact the audit approach;

(f) oversee the work the Auditor performs quarterly (whether review or specified procedures, as determined by the Committee), including resolution of disagreements with the Corporation's management;

(g) pre-approve all audit, review and attest services;

(h) approve on an annual basis, the pre-approval policy for audit, audit-related and non audit services that are permitted to be provided by the Auditor and satisfy itself that the

Committee receives regular updates of the services and fees being provided by the Auditor under this framework;

(i) consider whether any non-audit services performed for the Corporation by the Auditor could detract from the firm's independence in carrying out the audit function. The Committee may pre-approve the appointment of the Auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the Auditor for non-audit services;

(j) review the basis and amount of the Auditor fees in light of the number and nature of reports issued by the Auditor, the quality of the internal controls, the size, complexity and financial condition of the Corporation and the extent of other non-prohibited support provided to the Corporation by the Auditor;

(k) review all other non-audit fees and services of the Auditor or other accounting firms;

(l) review post-audit or management letters, containing recommendations of the Auditor and management's response, and oversee their implementation or resolution;

(m) provide the Auditor with the opportunity to meet with the Committee or the Board without management present, at each quarterly meeting of the Committee, for the purpose of discussing any issues which have arisen during that fiscal quarter or any previous fiscal quarter;

(n) meet regularly with the Auditor without management present to receive reports of any significant disagreements between management and the Auditor regarding financial reporting, the resolution of any such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the Auditor;

(o) approve the Corporation's hiring of current and former partners and employees of the present and former Auditor;

(p) satisfy itself that the rotation of the staff of the Auditor is in accordance with applicable laws and professional standards;

(q) meet with senior management not less than quarterly without the Auditor present for the purpose of discussing, among other things, the performance of the Auditor and any issues that may have arisen during the quarter;

(r) annually review the expertise, resources and overall performance of the Auditor and, if necessary, recommend to the Board the termination of the Auditor or the rotation of the audit partner in charge. In the case of a recommendation to terminate the Auditor, the Committee will enquire as to the qualifications and independence of the newly proposed Auditor before making its recommendations to the Board;

(s) at least annually, and in any event before the Auditor issues its report on the annual financial statements, obtain a formal written statement from the Auditor describing all of its relationships with the Corporation and discussing and resolving with the Auditor any relationships that may affect its objectivity and independence;

(t) have authority to satisfy itself that adequate provisions are made to fund the compensation to be paid to the Auditor;

(u) review, where there is to be a change of Auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, and the planned steps for an orderly transition; and

(v) review all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, on a routine basis, whether or not there is to be a change of Auditor.

2. **Audit and Financial Reporting**

The Committee will be primarily responsible for satisfying itself and on behalf of the Board, that the Corporation (including its subsidiaries) fulfils all of its audit and financial reporting obligations, and will:

(a) review all financial statements and the related MD&A which require approval by the Board, including, without limitation, interim statements, year end audited statements, statements for use in prospectuses or other offering documents and statements required by regulatory authorities; determine whether the financial statements are complete, accurate and are in accordance with GAAP in all material respects; review all variances between comparative reporting periods; and recommend such financial statements and related MD&A for Board approval;

(b) review all earnings press releases and other press releases disclosing financial information prior to their dissemination to the public, as well as financial information and written earnings guidance provided to analysts and rating agencies. No written earnings guidance will be provided to analysts unless the Committee has reviewed and approved such guidance. The Committee will also review the use of "pro forma" or "adjusted" non-GAAP information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

(c) review all public disclosure documents containing audited or unaudited financial information before release including (without limitation) any: Prospectus, Annual Report and or any other documents extracted or derived from the Corporation's financial statements filed with regulatory agencies and satisfy itself that all information is consistent with the financial statements and that such document or statement does not contain any untrue statement of any material fact or omit to state a material fact that is required or necessary to make the document or statement not misleading, in light of the circumstances under which it was made;

(d) review the disclosure in the Annual Information Form regarding details of the Committee's membership; exemptions relied on, if any; instances of the Board not accepting the Committee's recommendations, if any; summary of Auditor fees and services provided; and inclusion of the Audit Committee Terms of Reference;

(e) review the form of the audit report and the scope and quality of the audit work performed;

(f) review the audit results with the Auditor and management's proposed handling of audit adjustments;

(g) review and discuss the Auditor's report and the related MD&A for the audited annual financial statements with management and the Auditor;

(h) review with the Auditor and management any material changes in accounting practices or policies and the financial statement impact thereof, the presentation of the impact of significant risks and uncertainties, and judgments of management that may have a significant effect upon the financial statements;

(i) review with the Auditor, any disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements;

(j) review the co-operation received by the Auditor from the Corporation's personnel during the audit, any problems encountered by the Auditor and any restrictions on the Auditor's work;

(k) review with the Auditor and management;

    (i) critical accounting policies and practices used by the Corporation, including critical accounting estimates, the selection of major accounting policies, reasons why certain policies are not considered critical and how current and future events affect that determination;

    (ii) all alternative material accounting treatments that have been discussed with management, the ramifications of these alternative treatments and the Auditor's preferred method;

    (iii) all material written communications between the Auditor and management that would facilitate Auditor and management oversight by the audit committee such as management representation letters, reports on observations and internal control reports, schedules of material adjustments and proposed reclassifications, schedule of unadjusted audit differences and listings of adjustments and reclassifications not recorded, engagement letters and independence letters;

    (iv) the status of material contingent liabilities and legal matters as reported to the Committee by management;

    (v) the status of taxation matters of the Corporation; and

    (vi) any errors or omissions in the current or prior year's financial statements.

(l) discuss the effect of off-balance-sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;

(m) review with the Auditor and management all material related party transactions and the development of policies and procedures related to those transactions;

(n) review with the Auditor and management, the methods used to account for significant unusual transactions;

(o) establish and administer a "whistleblower" procedure for the receipt, retention and treatment of complaints regarding accounting, auditing matters, internal accounting controls and employees' confidential anonymous submission of concerns regarding accounting and auditing matters; and

(p) consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

3. **Risk Management**

The Vice-President of Finance (Corporate) will report directly to the CEO (with a dotted reporting line to the CFO and the Committee). The Committee will oversee the guidelines and policies to govern the process by which the Corporation undertakes risk assessment and management, and will:

(a) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, auditing matters or internal accounting controls, including the confidential and anonymous submission of complaints by employees including reviewing on an annual basis, the Corporation's Whistleblower Policy;

(b) review with management and bring to the attention of the Auditor any correspondence with regulators or government agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies;

(c) review with management, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of operating results, and the manner in which these matters have been disclosed in the financial statements;

(d) identify, assess and monitor the risks inherent in the business of the Corporation and establish and monitor compliance with policies and procedures necessary to address, as much as is reasonably possible, those identified risks;

(e) in conjunction with management, review on an annual basis all aspects of the Corporation's risk management program, including insurance coverage, foreign exchange exposures, and investments (including its use of financial risk management instruments), disaster recovery and business continuity plans;

(f) review with management the presentation and impact of significant risks and uncertainties associated with the business of the Corporation; and

(g) oversee the investigation of alleged fraud, illegal acts and conflicts of interest.

4. Evaluation of Financial and Accounting Personnel

The Committee may provide comments to the Compensation and Nominating Committee and the Board, concerning the following:

(a) a position description for the CFO, which would include the CFO's authority and responsibilities;

(b) the goals and objectives that are relevant to the CFO's compensation;

(c) the CFO's performance in meeting his or her goals and objectives;

(d) the performance of Corporation's financial and accounting personnel; and

(e) remedial action where necessary.

5. Relations with Management

The Committee will coordinate with management on audit and financial matters, and will:

(a) review decisions of the Corporation's Disclosure Committee in which unanimity was not achieved and in instances where the Disclosure Committee[1] deems appropriate;

(b) meet privately with senior management at least quarterly to discuss any areas of concern to the Committee or management;

(c) review with management and assess the results of instances, if any, where management seeks a second opinion on significant accounting or auditing matters; and

(d) where possible, consult on the appointment of and departure of individuals occupying senior financial positions.

6. Authority to Engage Advisers

The Committee will have the authority to engage and determine the funding for independent counsel and other advisors to assist it in carrying out its duties.

7. Access to Records

The Committee will be permitted access to all records and corporate information that it determines to be required in order to perform its duties.

[1] Provided the Disclosure Policy contemplates other such instances.

8. **Other**

The other duties of the Committee shall include:

(a) reviewing the Directors and Officers insurance policy prior to its renewal each year and reviewing from time to time the indemnification agreements provided to the Directors and Officers of the Corporation;

(b) reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;

(c) reviewing annual operating and capital budgets;

(d) reviewing the funding and administration of the Corporation's compensation and pension plans, if any;

(e) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;

(f) inquiring of management and the Auditor as to any activities that may be or may appear to be illegal or unethical; and

(g) any other questions or matters referred to it by the Board.

9. **Reporting**

The Committee will regularly report to the Board on:

(a) the Auditor's independence, engagement and fees;

(b) the performance of the Auditor and the Committee's recommendations regarding its reappointment or termination;

(c) the adequacy of the Corporation's internal controls and disclosure controls;

(d) the Corporation's risk management procedures;

(e) its recommendations regarding the annual and interim financial statements of the Corporation, including any issues with respect to the quality or integrity of the financial statements;

(f) its review of the annual and interim MD&A;

(g) any validated complaints made under and the effectiveness of the Corporation's Whistleblower Policy;

(h) the Corporation's compliance with legal and regulatory requirements related to financial reporting; and

(i) all other significant matters it has addressed or reviewed and with respect to such other matters that are within its responsibilities, together with any associated recommendations.

APPENDIX I

DEFINITIONS

"**Financially Literate**" shall mean:

An individual who has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues expected to be raised by the issuer's financial statements. A comprehensive knowledge of GAAP and generally accepted auditing standards is not required.

"**Independent**" shall mean:

(a) a director may not, either directly or indirectly, other than in his or her capacity as a member of the Committee, the Board, or any other Board committee, accept any consulting, advisory or other compensatory fee from the Corporation. Indirect acceptance of compensatory payments includes payments to spouses, minor children or step-children and children or step-children sharing a home with the director as well as payments accepted by an entity in which the Committee member is a partner, member, officer such as a managing director occupying a comparable position or executive officer or occupies a similar position and which provides accounting, consulting, legal, investment banking or, financial advisory services to the issuer;

(b) a director may not be an "**affiliated person**" of the Corporation or any subsidiary of the Corporation. A director, who is also an employee of an affiliate, an executive officer of an affiliate or a general partner or managing member of an affiliate would be deemed to be an affiliate. An "**affiliate of**" or person "**affiliated**" with a specified person is defined as "a person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified". "**Control**" means "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise". A person is deemed not to control the issuer if the person is not an executive officer, or a shareholder of more than 10% of any class of voting equity securities of the issuer. Notwithstanding the foregoing, there is an exception to the affiliate prohibition for overlapping board relationships. If a member sits on the Board of the Corporation and on the board of an affiliate of the Corporation, the member is exempt from the "**affiliated person**" prohibition, if except for being on each board, that member otherwise meets the independence criteria.

(c) a Committee member may not have been employed by the Corporation or by any parent or subsidiary or have a family member who is or was an executive officer of the Corporation within the past three years;

(d) a Committee Member may not have been (nor have a family member who has been) employed as an executive officer of another entity where any of the executive officers of the Corporation serve or have served on the compensation committee of such other entity within the past three years; and

(e) a Committee member may not be a former partner or employee of the auditor who worked on the Corporation's audit engagement; have a family member who is a partner of the auditor or is an employee of the auditor and participates in the Corporation's audit, assurance or tax compliance or was within the last three years a partner or employee of the auditor and personally worked on the Corporation's audit.